

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

**PERU**

NOVEMBER 2010





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CENTER FOR LATIN AMERICAN MONETARY STUDIES  
INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND  
WORLD BANK

First English edition, 2010

Also published in Spanish

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© Centro de Estudios Monetarios Latinoamericanos, 2010  
Durango 54, México, D.F. 06700

ISBN 978-607-7734-23-9

Printed and made in Mexico  
*Impreso y hecho en México*

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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 Peru's remittance market is the second in the series of public reports and was prepared in collaboration with Banco Central de Reserva del Perú. It is mainly based on information gathered in 2009.

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## **Acknowledgements**

This report has been prepared with information gathered by the program team during the mission to Peru in 2009. The team members were –in alphabetical order– Corina Arteche and Jane Hwang (World Bank), Paloma Monroy (CEMLA) and Gregory Watson (FOMIN/BID). The members of the international team worked closely in collaboration with the local team of officials from Banco Central de Reserva del Perú: Marilyn Choy, Operations Manager and Víctor Roca Buiza (Payment Systems Section). Chapter 1, meanwhile, was prepared by Magali Luna Pérez.

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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: World Bank-CPSS. <http://www.bis.org/pub/cps76es.pdf>



# 1 MACROECONOMIC FRAMEWORK AND REMITTANCES

## 1.1 MACROECONOMIC FRAMEWORK AND LABOR MARKET

During 2000-2008, the Peruvian economy grew at an average annual rate of 5.1%. Such growth was mainly driven by higher public and private spending as well as improved terms of trade. It is important to point out that this performance was based on sound economic fundamentals resulting from the implementation of prudent macroeconomic policies as well as the presence of an adequate institutional framework.

The pace of economic activity slowed down during 2009 in response to the international financial crisis. The economic downturn was particularly noteworthy in the first three quarters of that year due to the contraction of international trade and uncertainty concerning the world economy. This mainly affected the non-primary, commerce, mining and construction industries. Nonetheless, economic activity began to recover in the fourth quarter of that year, allowing GDP to register growth of 0.9% at constant prices during 2009 as a whole (table 1). The Peruvian economy has recovered significantly during 2010, growing 6.1% and 10.1% in the first and second quarters of the year, respectively.

**TABLE 1. MACROECONOMIC INDICATORS**

	2006	2007	2008	2009	2010T1	2010T2
GDP (million current USD)	92,303	107,492	127,643	127,153	35,222	38,880
GDP (million current nuevos soles)	261,653	336,338	377,652	392,564	102,675	112,662
Real GDP (annual percentage change) <sup>a</sup>	7.7	8.9	9.8	0.9	6.1	10.1
Inflation (annual percentage change at end of period)	1.1	3.9	6.7	0.2	0.8	1.6
Exchange rate (end of period, nuevos soles per US dollar)	3.21	2.98	3.11	2.88	2.84	2.84
Trade balance (million USD)	8,986	8,287	3,090	5,873	1,570	1,517
Merchandise exports	23,830	27,882	31,529	26,884	7,905	8,126
Merchandise imports	14,844	19,595	28,439	21,011	6,321	6,609
Direct foreign investment (million USD)	3,467	5,491	6,924	4,760	1,804	1,640
Fiscal deficit (% GDP)	1.8	3.1	2.1	-1.9	2.9	1.8
Public debt (% GDP)	33.0	29.7	24.0	26.6	24.8	23.5

SOURCE: Banco Central de Reserva del Perú.

<sup>a</sup> NOTE: At 1994 constant nuevos soles.

In 2009, some of the main components of domestic demand weakened. In particular, private investment expenditure and private consumption fell, leading to a 2.9% decline in domestic demand despite stronger public investment. The latter reflected the adoption of economic stimulus measures aimed at reducing the effects of the

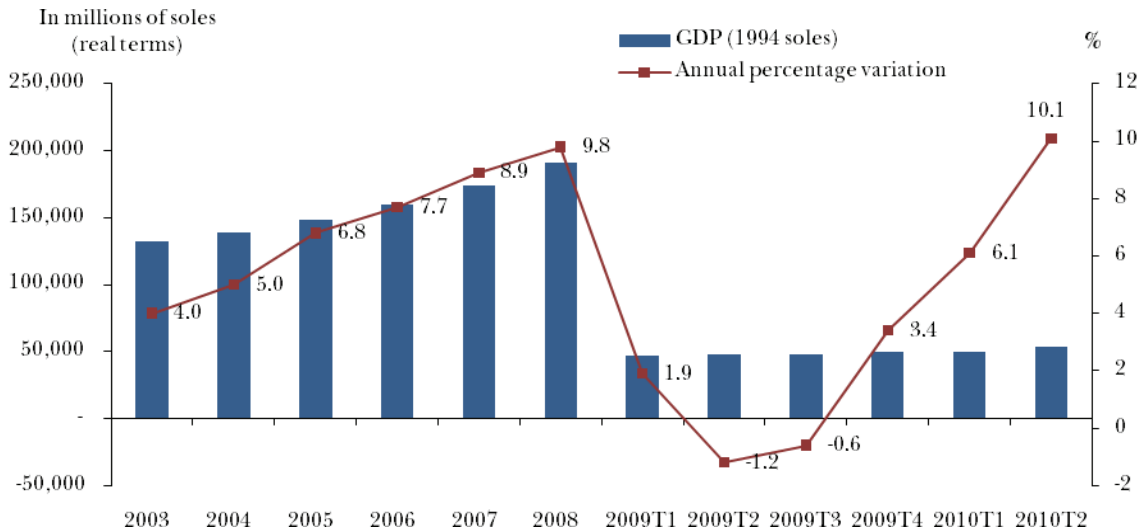


international financial crisis. Exports of goods and services fell 2.5%, their first negative variation since 1990. Weaker external demand had a negative impact on exports of mining products (zinc, iron, refined silver and molybdenum) and non-traditional products such as chemicals, livestock, textiles and metals. Meanwhile, imports of goods and services, measured at constant prices, fell 18.4% in 2009. During the first quarter of 2010, economic activity improved significantly in response to a rebound in domestic demand, especially of consumption and private investment.

The strength of the Peruvian economy throughout the last decade was generally buoyed by a stable macroeconomic environment, as well as other factors such as freer trade. Such scenario bolstered the business climate, generating a new profitable investment opportunities and helped increase the economy’s sources of financing. All the aforementioned contributed to upward trends in consumption and investment expenditure.

At present, Banco Central de Reserva del Perú follows a monetary policy of setting explicit targets for inflation. This policy was started in 2002 and has resulted in greater price stability. In fact, Peru has one of the lowest rates of inflation in Latin America. During 2008, inflationary pressures arose from increases in the international prices of foods and fuels. Nevertheless, throughout 2009 inflation declined in response to the weakening of aggregate demand and decreases in prices of public services and energy. Economic activity also remained below its potential during that year. Meanwhile, inflation was at very low levels during the first half of 2010.

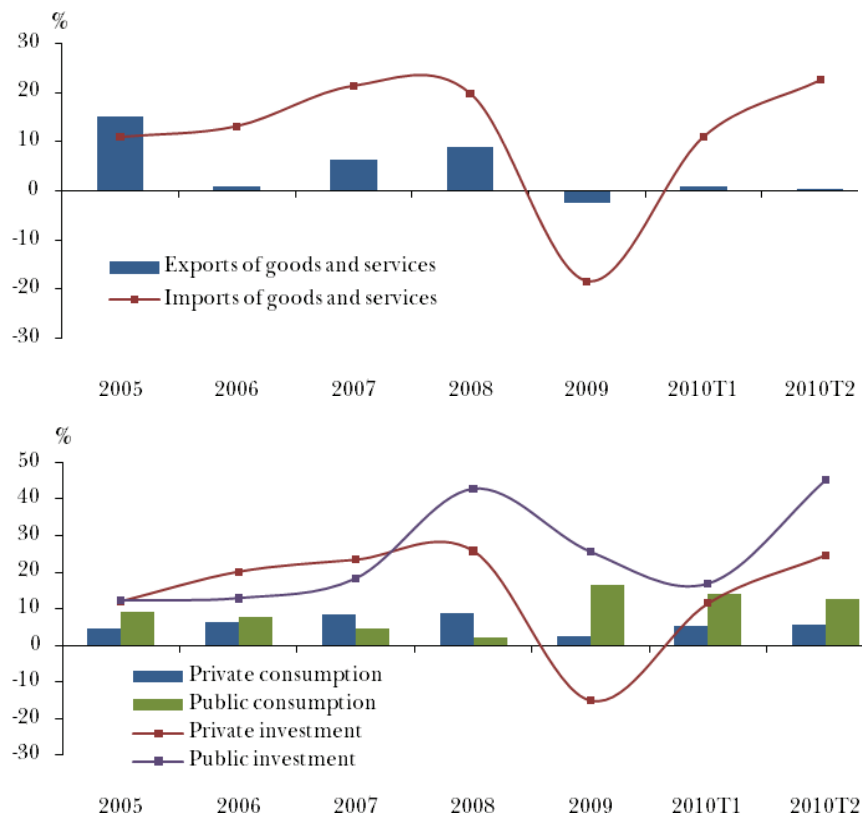
**FIGURE 1. GDP AND ANNUAL PERCENTAGE CHANGE**  
2003-2010T2



SOURCE: Banco Central de Reserva del Perú.

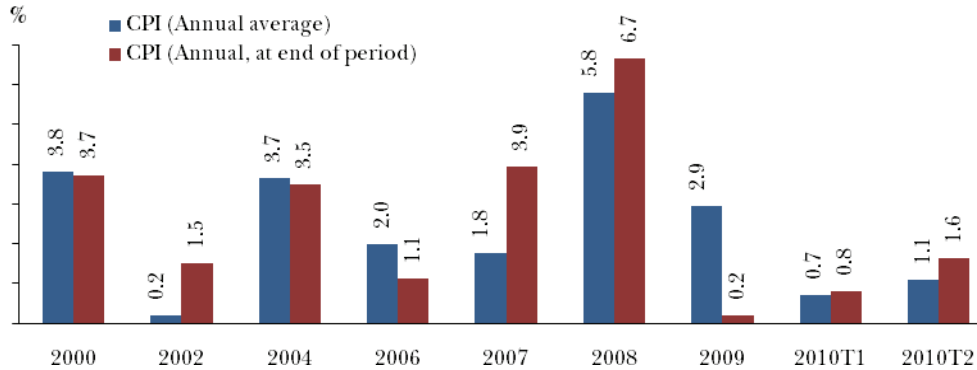
During recent years, the stable economic environment, the strength of GDP and expenditure, freer trade and a persistent surplus in the balance of payments current account, have led to an appreciation in the nominal exchange rate. Such behavior was particularly noteworthy after 2000, although it was interrupted in 2008 by the high levels of volatility in international financial markets. Nonetheless, despite this international turbulence, at the end of 2009 the sol appreciated 7.6% at a nominal annual rate, stabilizing in the first and second quarters of 2010 (graph 4). Furthermore, price stability, greater exchange rate flexibility, a solid regulatory framework and the strengthening of the capital market, have also fostered a gradual process of financial de-dollarization in Peru. As a result, credit dollarization has fallen from close to 80% a decade ago, to current levels of around 50%.

**FIGURE 2. AGGREGATE SUPPLY AND DEMAND: ANNUAL PERCENTAGE CHANGE**  
2005-2010T2



SOURCE: Banco Central de Reserva del Perú.

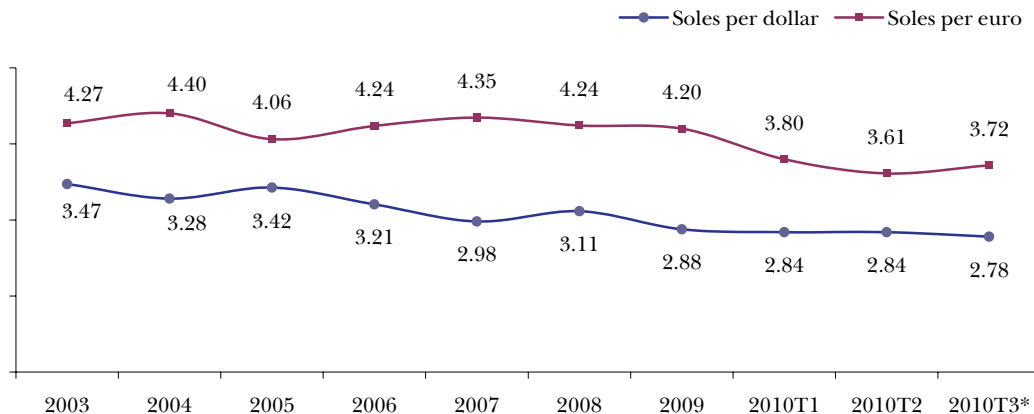
**FIGURE 3. INFLATION**  
2000-2010T2



SOURCE: Banco Central de Reserva del Perú.

In 2009, the international economic environment and the performance of domestic demand were reflected in the behavior of the external accounts. In that year, the flow of foreign direct investment (FDI) declined 31%, while the trade balance exhibited a higher surplus equal to 4.6% of GDP. The latter originated from a larger decrease in merchandise imports (26.1%) than that registered by exports (14.7%). The contraction of merchandise exports partly responded to a decline in the international prices of commodities which affected traditional exports. Meanwhile, the fall in the value of imports resulted from the economic slowdown which led to reduction in volumes purchased (20%), although the average prices of imports also decreased (7.4%).

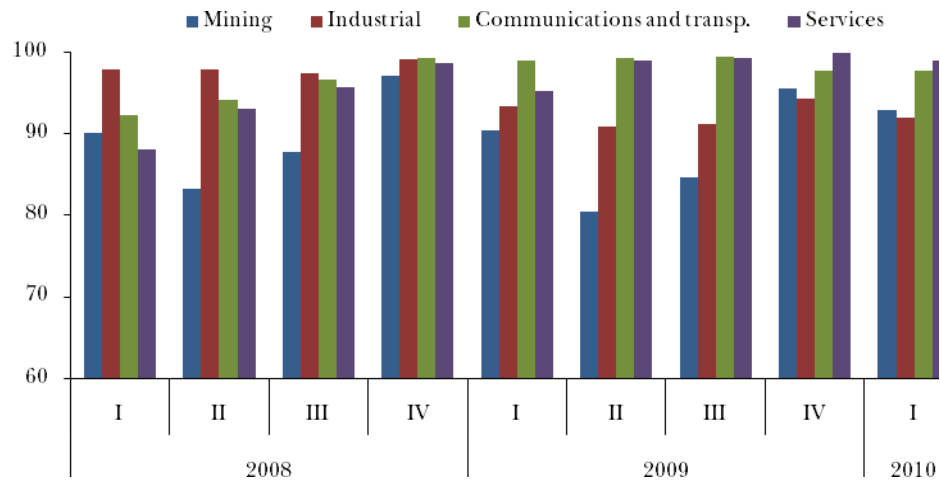
**FIGURE 4. NOMINAL EXCHANGE RATE**  
At end of period, 2001-2010T3



SOURCE: Banco Central de Reserva del Perú.

\* Note: Preliminary, at September 24, 2010.

**FIGURE 5. QUARTERLY EMPLOYMENT INDEX BY ECONOMIC SECTOR IN COMPANIES WITH 10 OR MORE EMPLOYEES**



Source: Instituto Nacional de Estadística e Informática (INEI).

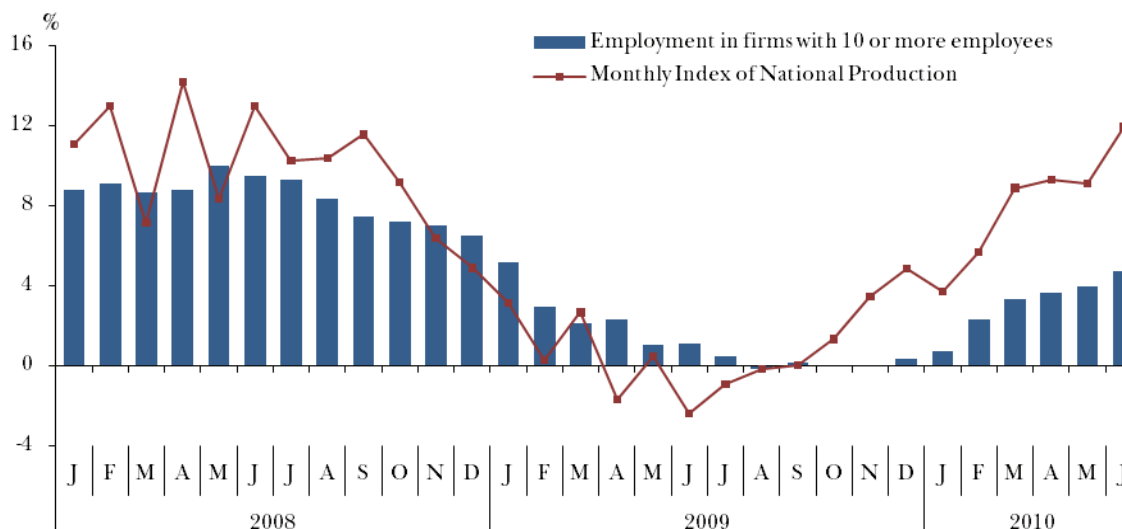
Note: Based on 2008.

In 2009, the fiscal deficit was equal to 1.9% of GDP, after having recorded a surplus during the three previous years. Such behavior is explained by the negative impact on tax revenues of the domestic economic downturn and increased public investment expenditure aimed at reducing the effects of the international financial crisis.

The weakness of economic activity during the first three quarters of 2009 was reflected in the demand for labor. Thus, after having registered an average increase of 8.3% in 2008, employment in formal firms with 10 or more employees rose just 1.3% in 2009. That year employment was most affected in the sectors producing export goods, such as well as the primary and non-primary manufacturing industries, falling 1.9 and 5.8%, respectively. In contrast, employment in commerce and services increased 5.2 and 5.3%, respectively (see graph 5).

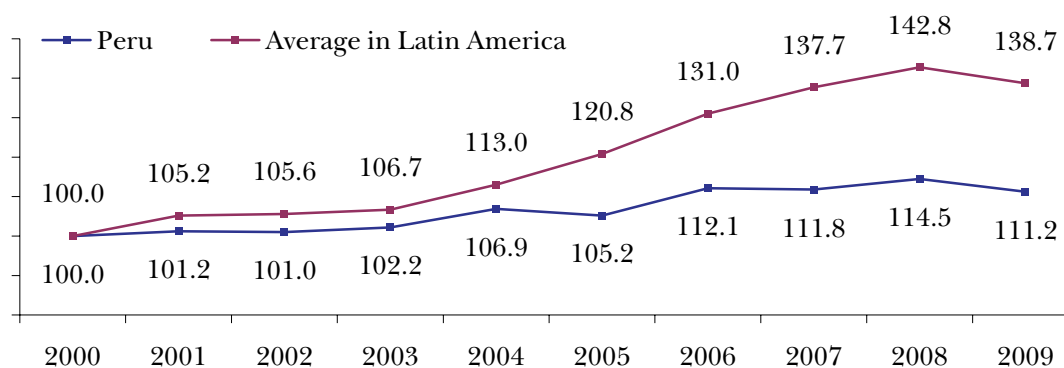
Despite an increase in the Índice Mensual de Producción Nacional –IMPN– (Monthly Index of National Production), the abovementioned employment indicator also fell during the fourth quarter of 2009. However, both these indicators recorded significant growth during the first and second quarters of 2010 (see graph 6).

**FIGURE 6. MONTHLY EMPLOYMENT INDEX AND IMPN**  
Annual percentage change, 2008-2010



SOURCE: Instituto Nacional de Estadística e Informática.

**FIGURE 7. REAL MINIMUM WAGES**  
2001-2009



Source: International Labor Organization.

Note: The weighted average for Latin America and the Caribbean, excluding Haiti, Jamaica and Trinidad and Tobago.

During recent years, the labor market of the Lima metropolitan area, which represents the country's most important economic zone given that it contributes around 50% of the nation's GDP, has exhibited significant strength and was actually the less affected by the economic slowdown during 2009. The said region is characterized by a

significant concentration of employment in services and commerce, as well as by high underemployment.

**TABLE 2. LIMA METROPOLITAN AREA: EMPLOYMENT INDICATORS**  
2008T1-2010T2

	2008T1	2009T1	2010T1	2010T2
Working-age population (WAP), thousands	6,439	6,556	6,675	6,705
Economically active population (EAP), thousands	4,453	4,466	4,779	4,648
Employed	4,039	4,051	4,341	4,295
Full time	1,885	2,013	2,260	2,260
Underemployed	2,154	2,037	2,081	2,035
Unemployed	414	416	439	352
Economically inactive population (EIP), thousands	1,987	2,090	1,896	2,057
Unemployment rate	9.3	9.3	9.2	7.5

SOURCE: Instituto Nacional de Estadística e Informática.

According to figures from the Ministerio del Trabajo y Promoción del Empleo (Ministry of Labor and Employment Promotion), during the second quarter of 2010 the economically active population (EAP) in the Lima metropolitan area was 6.7 million. In the same quarter, 91% of the EAP was employed, while 52% of this figure worked full time and the remaining 48% was underemployed. Although the unemployment rate decreased in the referred period, the economically inactive population (EIP) increased as compared to the preceding quarter.

## 1.2 PERUVIAN MIGRATION CHARACTERISTICS AND PATTERNS

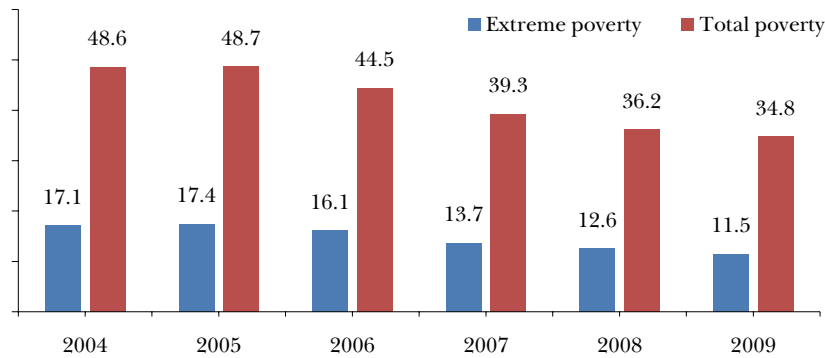
International migration in Peru has historically been explained by economic and political factors such as the labor market situation (strong sectorial and geographical concentration, and high levels of underemployment), unequal income distribution, low real wage levels, periods of domestic armed conflicts and a certain amount of instability sometimes exhibited by Peru's democratic regimes. Even during the last decade when Peru significantly improved its economic conditions and there was a considerable reduction in poverty levels, Peruvian migration remained strong.

According to figures from the document *Evolution of Peruvian Migration* published in October 2010 (data up to August 2010) by the Instituto Nacional de Estadística e Informática,<sup>1</sup> in 2009, Peruvian migration recorded a net outflow of 292,435 individuals,

<sup>1</sup> Informe Técnico, No. 10 October 2010. Available at: <http://www1.inei.gob.pe/web/BoletinFlotante.asp?file=11471.pdf>

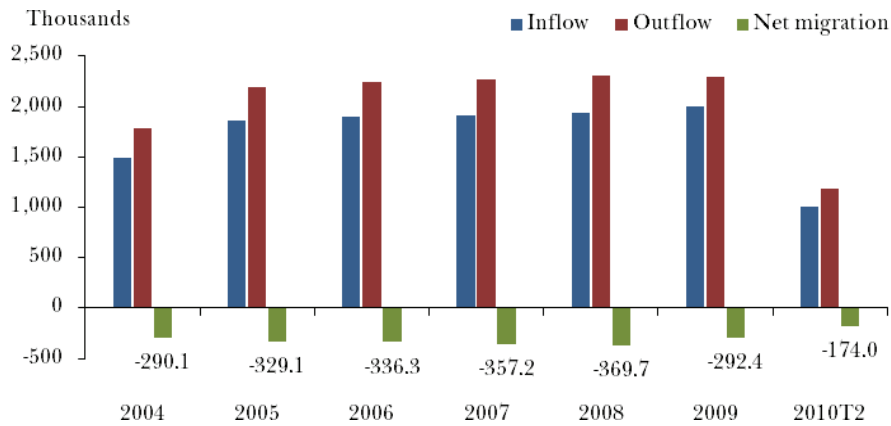
figure below that registered in 2008, in response to the world economic recession and high unemployment rates in destination countries. The referred document also shows that from January to June 2010, migration recorded a negative balance of 173,975 individuals. The six main destinations for this migration were the USA (27.2%), Argentina (11.5%), Spain (10.8%), Chile (7.6%), Colombia (6.9%) and Brazil (5.9%), accounting for 70% of total migration.

**FIGURE 8. INCIDENCE OF EXTREME AND TOTAL POVERTY**  
2004-2009



SOURCE: National Institute of Statistics and Informatics.

**FIGURE 9. PERUVIAN MIGRATION**  
2004-2010T3



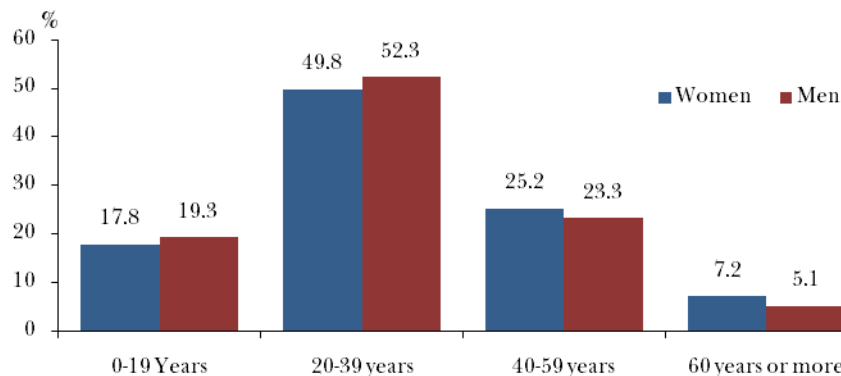
SOURCE: Peruvian Migration (INEI).

Note: Informe Técnico, No. 2, February 2008 was consulted for 2004 to 2006. Informe Técnico, No. 8, August, 2008, was consulted for 2007 to 2010.

According to official figures, from 1994 to 2008, 51% of Peruvian migrants were aged between 20 and 39, while 24.3% were between 40 and 59 years old. This flow of Peruvians migrating abroad was therefore mainly composed of individuals who were of

working age when they left the country (see graph 10). Furthermore, during that period, 51% of migrants were women, a percentage which tends to rise with migrant age. A study of migrants' occupations at the time they left the country reveals that 29% were students, followed by office workers (13%), professionals, scientists and intellectuals (10%), and mid-level technicians and professionals (5%). Thus, 28% of labor migration can be classified as qualified labor.

**FIGURE 10. STRUCTURE OF PERUVIAN MIGRATION BY SEX AND AGE**  
1994-2008



SOURCE: Instituto Nacional de Estadística e Informática, DIGEMIN and OIM (2009).

One interesting characteristic of Peruvian migration is that most Peruvians migrating to Chile were students and service industry workers, while those heading to the USA and Spain were mainly students, office workers and professionals. Within the latter group, teachers, engineers, business administrators and nurses were noteworthy (see table 3).

**TABLE 3. PERUVIAN MIGRATION BY SEX AND PREVIOUS OCCUPATION**  
1994-2008

	Total (thousands)	Women (%)	Men (%)
Students	509.05	48.1	51.9
Office workers	234.43	39.7	60.3
Service workers and salespeople	179.95	36.2	63.8
Housewives	188.79	98.1	1.9
Professionals, scientists and intellectuals	174.64	51.8	48.2
Mid-level technicians and professionals	95.26	40.2	59.8
Under age	72.52	49.5	50.5
Livestock and fishing	17.62	4.1	95.9
Other	288.11	49.3	50.7
Total	1,760.41	51.0	49.0

SOURCE: Instituto Nacional de Estadística e Informática, DIGEMIN and OIM (2009).



According to figures from the 2007 national census on population and housing,<sup>2</sup> 10.4% of Peruvian households had migration abroad and 73.6% of this group were medium, medium-low and low income households. Meanwhile, 90.9% of Peruvians who migrated abroad came from urban areas. The zones with the greatest share of total migration were Lima with 45.9%, La Libertad 7.1% and Callao 4.7%.

During recent years Peruvian migration policy has been based on two main principles: the signing of bilateral migration agreements and the implementation of institutional reforms aimed at increasing the protection of migrants abroad and developing closer links with them. In fact, Peru has signed bilateral agreements with Italy and Spain in the European Union, and with Argentina, Bolivia, Chile and Mexico in Latin America. These agreements include the exchange of information and seek to improve the working conditions of migrants. In the institutional area, it is important to mention the creation of the Under Secretary of Peruvian Communities Abroad, the electoral reform which widens the voting obligations of Peruvian residents abroad and the Law of Migratory Incentives encouraging migrants to return to participate in professional and business activities in Peru.

### **1.3 EVOLUTION AND IMPORTANCE OF REMITTANCES**

In line with the IMF's Balance of Payments Manual (fifth edition, 1993), Banco Central de Reserva del Peru (BCRP) defines workers' remittances as current transfers made by migrants residing abroad, who have been, or intend to be away for more than one year.

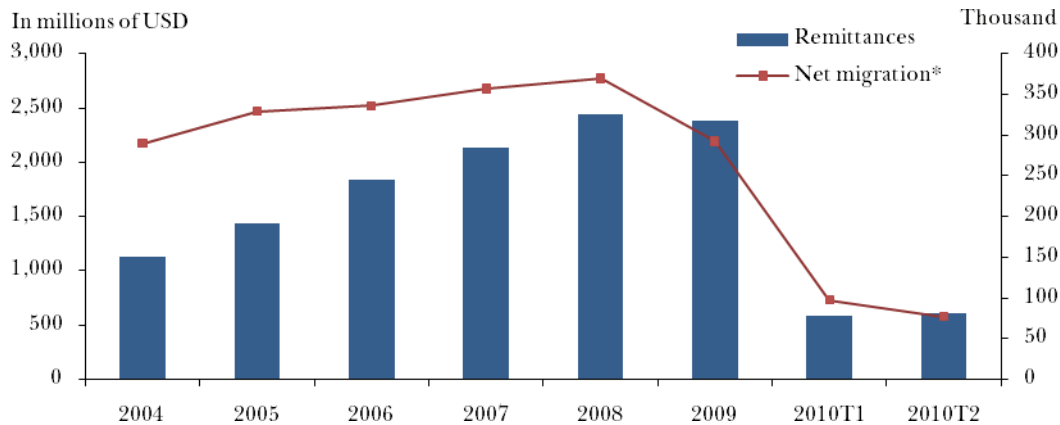
Revenues from remittance inflows to Peru have risen as migration has increased. According to figures from the Multilateral Investment Fund of the Inter-American Development Bank (FOMIN-BID), in 2009, Peru was the seventh highest remittance receiver in Latin America and the Caribbean, and came fifteenth in the relation of remittances to GDP. According to BCRP figures in 2009, remittance inflows to Peru totaled USD 2.4 billion (1.9% of GDP).

During the last decade, remittance inflows to Peru tripled, recording an average annual growth of 14% in the 2000-2009 period. These external revenues dropped 2.7% in 2009 as a result of slower economic growth in the USA and the international financial crisis. Nevertheless, in the first and second quarters of 2010 remittances registered annual increases of 7.8 and 6.6%, respectively.

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<sup>2</sup> Censos Nacionales 2007: XI de Población y VI de Vivienda.

**FIGURE 11. REMITTANCES AND NET MIGRATION**  
2004-2010T2

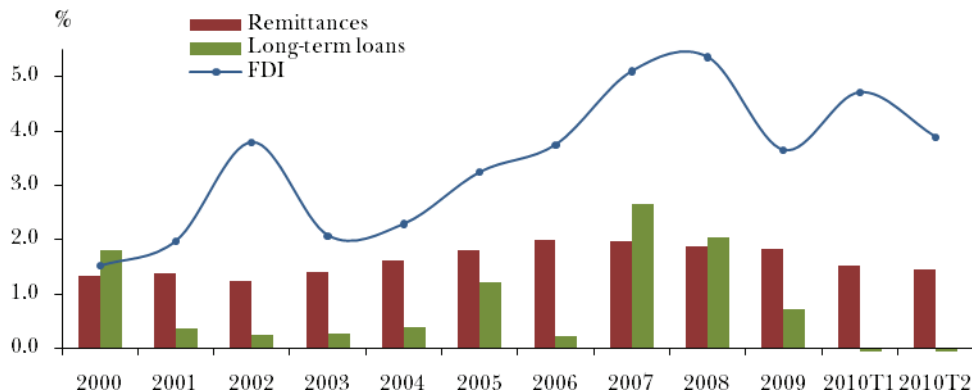


SOURCE: Peruvian Migration, INEI and BCRP.

\*Note: Informe Técnico, No. 2, February 2008 was consulted for 2004 to 2006. Informe Técnico, No. 8, August, 2008, was consulted for 2007 to 2010.

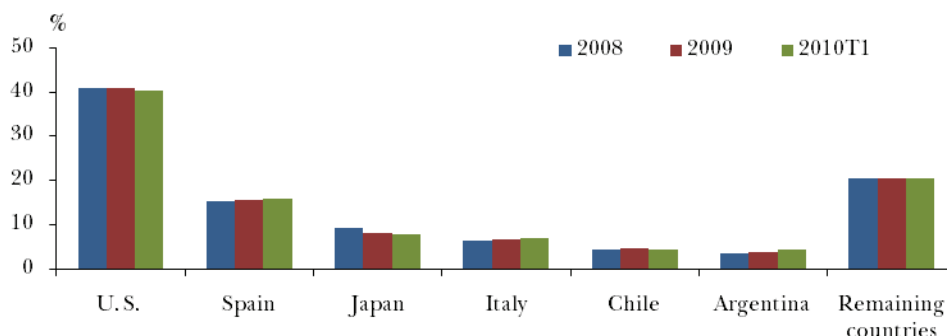
Despite the rapid growth of remittances over the last decade, their value as a percentage of GDP has remained relatively stable within a range of 1.4% to 1.9%. Nonetheless, it is worth remembering that in relation to GDP, remittances are the second most important source of external revenues, behind foreign direct investment and ahead of long term loans.

**FIGURE 12. MAIN EXTERNAL REVENUES IN RELATION TO GDP**  
2000-2010T2



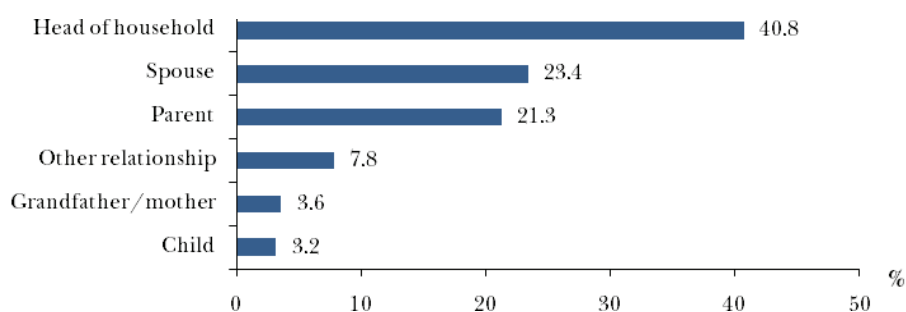
SOURCE: Banco Central de Reserva del Perú.

**FIGURE 13. MAIN ORIGINS OF REMITTANCES**  
2008-2010T1



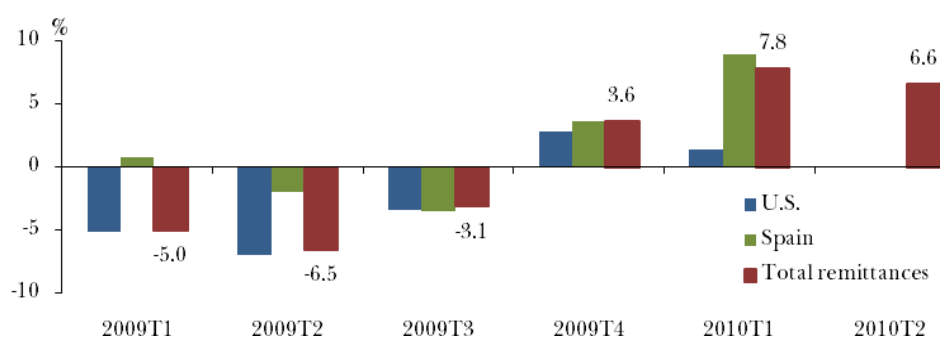
SOURCE: Banco Central de Reserva del Perú.

**FIGURE 14. REMITTANCE SENDER'S RELATIONSHIP WITH FAMILIES IN PERU**  
2007



SOURCE: National Institute of Statistics and Informatics and OIM (2009).

**FIGURE 15. TOTAL REMITTANCES FROM ABROAD BY SELECTED COUNTRY:**  
**ANNUAL PERCENTAGE CHANGE**  
2009T1-2010T2



SOURCE: Banco Central de Reserva del Perú.

The geographic origin of remittances has remained relatively stable. Thus, 79% of these external revenues come from six countries. In particular, during the first quarter of 2010, 39.8 % of remittances came from the USA, 16.1% from Spain and 7.4% from Japan. Meanwhile, Argentina, Chile, Venezuela and Uruguay accounted for 9% of total remittances.

In the first quarter of 2010, after recording negative average annual variations for four consecutive quarters, remittances from the USA increased 1.4%, while those from the remaining countries rose 14%. Among the latter it is important to mention the increase registered in remittances from Argentina (33.4%), Italy (22.3%), Japan (16.5%), Spain (8.9%) and Chile (5.0%).

During the referred quarter, banking institutions handled 46% of total remittances, money transfer operators (MTOs) 37% and 16% were sent via other methods such as postal order, directly through travelers and, in the case of those coming from Japan, by associations and credit unions.

The results of the 2007 Encuesta Nacional de Hogares –ENAHO– (National Household Survey) show that, in Peru, remittances make up 30% of the income of the individuals receiving them, of whom only 47% obtain some labor income. Remittances therefore represent a significant source of additional income, improving Peruvian households' standard of living. The results of the survey also show that households receiving remittances perform better in indicators for education and access to basic services and housing. Furthermore, remittances are mainly used to finance consumption expenditure, given that 75.3% of them are channeled to family consumption including food, health, clothing, paying basic services, etc. The remainder are used for education (13%), housing (3.2%), saving (3.2%) and other outlays (3.1%).

According to figures from the Continuous National Survey, from 2002 to 2006, 38.7% of Peruvians abroad sent remittances back to their families in Peru. The information shows that the main reasons why Peruvians leave their home country are lack of job opportunities and the possibility of completing higher education or continuing their studies abroad. Furthermore, 40.8% of those sending remittances are heads of household, of whom 56.8% are men and 43.2% women, while around 45% are spouses or parents of the beneficiary.

Although the international financial crisis had a negative impact on remittance inflows to Peru, it did not alter the geographic origins of these resources. In the first quarter of 2010, besides showing signs of recovery, remittances from the USA (39.8%) and Spain (16.1%) continued to be the first and second most important countries of origin, respectively (see graph 15).

According to figures from the American Community Survey prepared by the USA Census Bureau, in 2008, there were 516,144 Peruvians residing in the USA, accounting for 1.1% of the Hispanic population in that country. Seven out of every ten of these individuals are immigrants (69.3%) and four out of every ten (42.3%) hold citizenship. Regarding their geographic distribution, the states with most Peruvians were Florida (19.8%), California (16.8%), New York (12.3%) and New Jersey (12.9%). It is important to mention that 29.8% of Peruvians aged over 25 in the USA are educated to at least undergraduate level, as compared to 12.9% of the Hispanic population as a whole in that country. In the same year, the average annual income of Peruvians over 16 years of age was USD 24,441, while for the Hispanic population as a whole this figure was USD 21,488. It is also worth mentioning that three out of ten Peruvians (30.2%) do not have medical insurance.

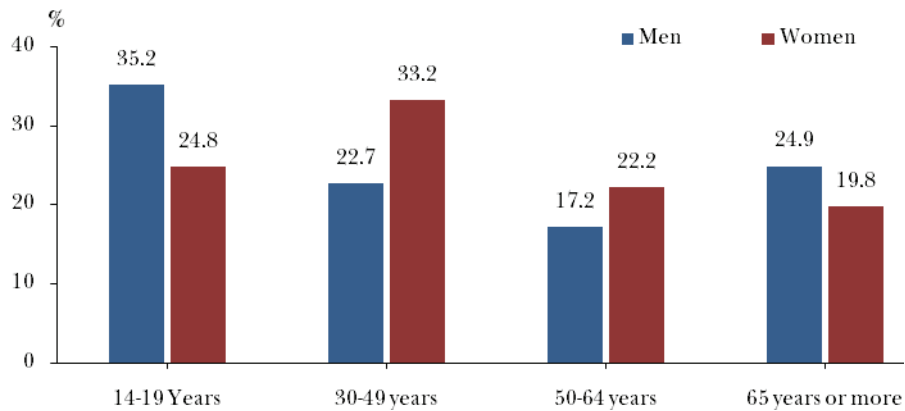
According to the results of a survey carried out in 2007 by the BID through FOMIN and Bendixen y Asociados, of the 1.82 million adult Latin American migrants living in Spain, 126,000 were Peruvian, i.e. seven out of every hundred Latin American immigrants. Within this Peruvian population, 45% indicated they had been living in Spain for over four years and 55% said they earned more than EUR 10,000 per annum. It was also found that 80% of Peruvians residing in Spain sent remittances to their country of origin, of these 63% were transfers of less than EUR 200, while 65% opted to send their funds through an MTO. Finally, it is important to mention that 64% of Peruvian migrants in Spain make social security contributions and 14% are homeowners.

### **1.3.1 Profile of Remittance Receivers**

The results of the 2007 ENAHO show the characteristics of Peruvians receiving remittances from a sample of 809 such individuals. The results indicate that 66.3% of remittance receivers aged over 14 are women.

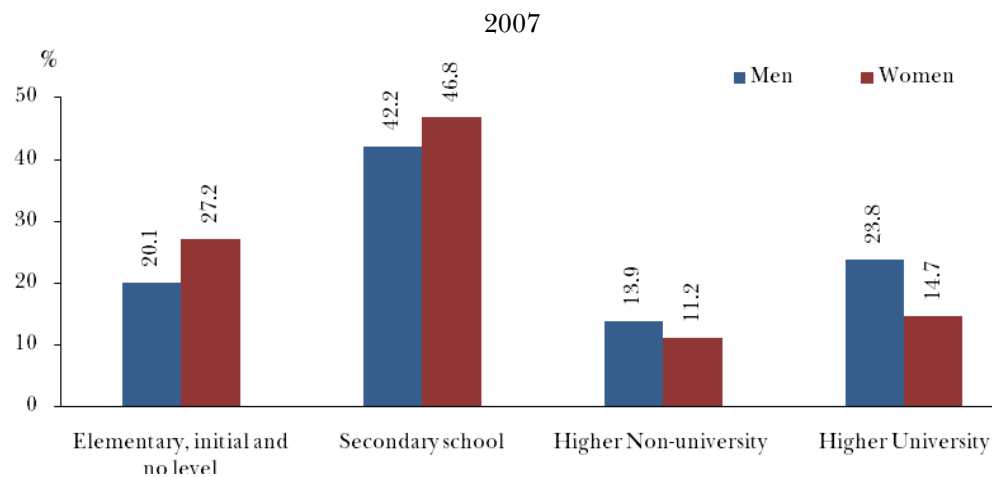
The survey's results also show that the main receiving group of remittances (29.7% of the total) falls within an age range of 30 to 49, followed by that of 14 to 29 years old (28.3%). As for their level of education, 45% of remittance receivers had secondary school education (complete and incomplete), 24.8% had no or only elementary education and 17.8% had undergraduate studies. It is also worth pointing out that 33.9% of remittance receivers are married, 28.9% are single, 15.3% are living together, 11.3% are divorced or separated, and 10.5% are widowed. Furthermore, 93.3% of remittance beneficiaries are urban dwellers, while study of their geographic location reveals that 41.3% live in the Lima metropolitan area and Callao, and the remainder in the regions of Costa (38.8%), Sierra (12%) and Selva (7.9%).

**FIGURE 16. STRUCTURE OF THE REMITTANCE RECEIVING POPULATION BY AGE**  
2007



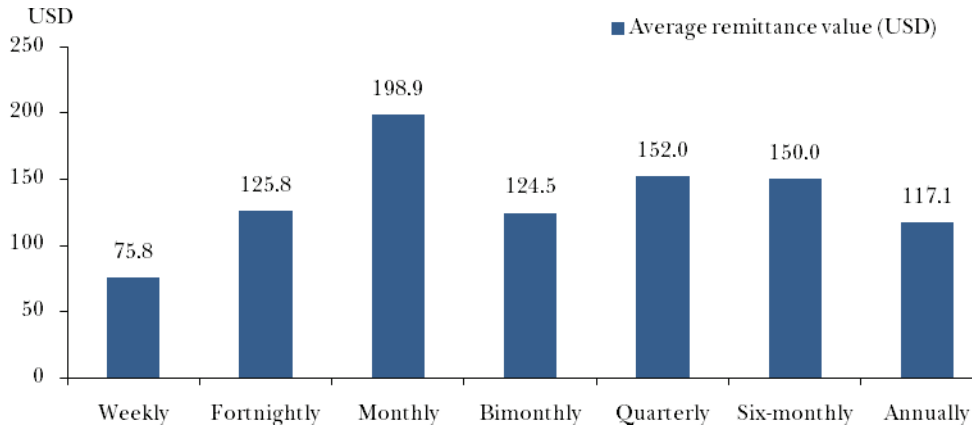
SOURCE: Instituto Nacional de Estadística e Informática, DIGEMIN and OIM (2009).

**FIGURE 17. STRUCTURE OF THE REMITTANCE RECEIVING POPULATION BY GENDER AND LEVEL OF EDUCATION**



SOURCE: Instituto Nacional de Estadística e Informática, DIGEMIN and OIM (2009).

**FIGURE 18. AVERAGE FREQUENCY AND AMOUNT OF REMITTANCES**  
2006-2007



SOURCE: Instituto Nacional de Estadística e Informática, and OIM (2009).

It is worth mentioning that of all remittance receivers interviewed, 51.2% were employed, 10.5% were unemployed and 38.3% were not economically active population.

Remittances from abroad increase the income of the families receiving them, reduce the volatility of their consumption expenditure and raise their saving levels. In fact, according to information from the 2007 ENAHO, remittances are the only source of income for 53% of those who receive them, while for receivers who also have other sources of income, they on average represent 30% of their total income. As for the frequency of remittances, 54% of Peruvians abroad send money monthly, 11.9% quarterly and 9.5% annually.

The average value of remittances sent to Peru is below USD 200. In the 2006-2007 period, the average value of monthly remittances was USD 198.9, USD 152 in the case of quarterly transfers and USD 117 for those made annually.

## 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

The existence of a transparent and open regulatory framework which encourages competition is important for developing the remittance market. Remittance service providers in Peru, mainly commercial banks and money transfer operators (MTOs) are regulated and overseen by the Superintendencia de Banca, Seguros y AFP –SBS– (Superintendence of Banking, Insurance and Private Pension Funds).

**TABLE 4. REGULATORY FRAMEWORK FOR REMITTANCE SERVICES AND PROVIDERS**

<i>Law</i>	
Reglamento de las Empresas de Transferencias de Fondos –ETF– (Money Transfer Operator –MTO– Regulations)	SBS Resolution No. 1025-2005 July 12, 2005
Sistema de Prevención de Lavado de Activos y del Financiamiento del Terrorismo (Anti-Money Laundering and Financing of Terrorism System)	SBS Resolution No. 838-2008 March 28, 2008
Auditoría Interna y Control Interno (Internal Audit and Control)	SBS Resolution No. 11699-2008 November 28, 2008
Gestión Integral de Riesgos (Integral Risk Management)	SBS Resolution No. 037-2008 January 10, 2008
Riesgo Operacional (Operational Risk)	SBS Resolution No. 2116-2009 April 02, 2009
Capital Mínimo Legal (Legal Minimum Capital)	Law No. 26702, article 17.

SOURCE: Superintendencia de Banca, Seguros y AFP.

The Ley General del Sistema Financiero y del Sistema de Seguros (Financial and Insurance Systems Law) and the Ley Orgánica de la Superintendencia de Banca, Seguros y AFP (Organic Law of the Superintendence of Banking, Insurance and Pension) consider MTO's as firms offering complimentary and connected services which are subject to the supervision and control of the SBS.



In line with this framework, in 2005, the SBS issued regulation 1025-2005 for overseeing the activities of MTOs. The regulation defines MTOs as companies offering to receive money transfers for the general public according to the sender's instructions or deliver them to the corresponding beneficiaries. MTOs can carry out such money transfer activities as a representative of international firms or independently through contracts made with similar companies abroad. Companies offering these services as an additional or complimentary activity to their main line of business are also considered MTOs.

The SBS is responsible for authorizing the setting up and functioning of MTOs. These in turn must comply with a series of requirements, including the obligation of having a minimum amount of capital. The regulations outline such requirements according to whether the company is new in the market or meets the conditions to be considered as an already existing MTO, which must align itself with SBS regulations according to its level of operations.

## **2.2 PAYMENTS SYSTEM REGULATORY FRAMEWORK**

Although the Ley Orgánica (Organic Law) of Banco Central de Reserva del Perú is not specific about the role of the Central Bank in the payment system, it does empower it to regulate clearing houses. Other laws such as the Ley del Sistema Financiero (Financial System Law) establish the minimum capital requirements for clearing houses.

In 1997, the BCRP in coordination with financial institutions began a process to modernize payments systems. Since then the BCRP, through its newsletters and resolutions, has been regulating the real time gross settlement system (RTGS), the settlement cycle and cheque payment, the organization and running of exchange service companies, credit transfers and other instruments settled in the Cámara de Compensación Electrónica, S. A. –CCE– (electronic clearing house), as well as payment of funds from the securities settlement system.

The Ley de Sistemas de Pagos y de Liquidación de Valores (Payments and Securities Settlement Systems Law), No. 29440, approved in November 2009, bolstered the country's existing legal and regulatory framework and gave the BCRP wide ranging powers and authority to regulate and oversee systemically important payment systems. It also empowered the BCRP to assess the safety and efficiency of payment methods in said system.

The above mentioned Law No. 29440 applies to payment systems and security settlement systems, organizations operating these systems, their participants, the payment

agent, guarantees issued within the framework of the system and the companies providing them with IT support.

According to this Law there are three systemically important payment systems in Peru: (1) the RTGS that is operated by the BCRP; (2) the cheque clearing and settlement systems and other payment instruments operated by the CCE –an exchange and settlement company–; and (3) the Sistema de Liquidación Multibancaria de Valores – SLMV– (securities settlement system) which settles transactions through the BCRP.

The legal framework for Peru’s payments system, which includes regulations concerning participants, procedures and operations, is summarized in table 5.

**TABLE 5. PAYMENTS SYSTEM LEGAL FRAMEWORK IN PERU**

<i>Law</i>	
Ley Orgánica BCRP (Organic Law of BCRP)	Law-Decree, No. 26123
Ley General del Sistema Financiero (Financial System Law)	Law No. 26702, modified by law Nos. 27008 and 27102
Reglamento Operativo del Sistema LBTR (RTGS System Operating Regulations)	Newsletter, No. 033-99-EF/90
Reglamento General de los Servicios de Canje y Compensación (General Regulations for Exchange and Settlement Services)	Newsletter, No. 022-2000-EF/90
Reglamento de las Cámaras de Canje y Compensación de Cheques (Cheque Exchange and Clearing House Regulations)	Newsletter, No. 023-2000-EF/90
Reglamento de las Cámaras de Compensación de Transferencias de Crédito (Credit Transfer Clearing House Regulations)	Newsletter, No. 005-2001-EF/90
Reglamento de las Cámaras de Compensación de Débitos Directos (Direct Debit Clearing House Regulations)	Newsletter, No. 024-2001-EF/90
Ley de los Sistemas de Pagos y de Liquidación de Valores (Payment and Securities Settlement Systems Law)	Law, No. 29440
Reglamento General de los Sistemas de Pagos (General Payment Systems Regulations)	Newsletter, No. 012-2010-BCRP
Reglamento General de las Empresas de Servicios de Canje y Compensación (Exchange and Clearing Service Company General Regulations)	Newsletter, No. 013-2010-BCRP

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

The basic legal framework for consumer protection is set out in Law Decree 716, which establishes the regulations under which consumer relationships are carried out. Law 28587/2005 reformulated consumer protection legislation for financial services,

making special reference to the transparency of user information. In 2008, the consumer protection system was strengthened with the Ley Complementaria del Sistema de Protección al Consumidor (Complimentary Law of the Consumer Protection System) included in legislative decree 1045.

**TABLE 6. SPECIFIC CONSUMER PROTECTION LEGISLATION**

<i>Law</i>	
Ley de Protección al Consumidor –LPC– (Consumer Protection Law –CPL–)	Legislative Decree 716 <sup>a</sup>
Ley de Fortalecimiento al Sistema de Protección al Consumidor (Law for Bolstering the Consumer Protection System)	Law 27311
Ley Complementaria a la LPC en materia de servicios financieros (Complimentary LPC Law in the area of financial services)	Legislative Decree 28587
Ley Complementaria del Sistema de Protección al Consumidor (Complimentary Law of the Consumer Protection System)	Legislative Decree 1045
Normas de la Publicidad en Defensa del Consumidor (Publicity Standards in Defense of the Consumer)	Legislative Decree 691

<sup>a</sup> The original text of Legislative Decree No. 716, Consumer Protection Law and its modifications up to December 11, 2000, are included in Supreme Decree No. 039-2000-ITINCI, a standard which has been changed by Legislative Decree No. 1045, Complimentary Law of the Consumer Protection System.

Article 9 of the Financial System Law No. 26702, establishes that companies participating in the financial system are free to set interest rates, commissions and expenses for their asset and liability activities and services. The interest rates, commissions and any other fees that companies in the financial system might charge must be available to the public according to SBS regulations.

Regarding MTOs, such institutions are free to set their fees, commissions, reference exchange rates and the expenses they charge for their services. These must be previously available to the public (senders and beneficiaries) both by stipulating them in the corresponding contracts and by informing their customers of such fees through permanently updated leaflets or information charts which include examples of how such fees are calculated. This information must be clearly displayed to the public in all the MTO's branches as well as those of their agents. They must also detail these charges when making remittance disbursements to their customers.

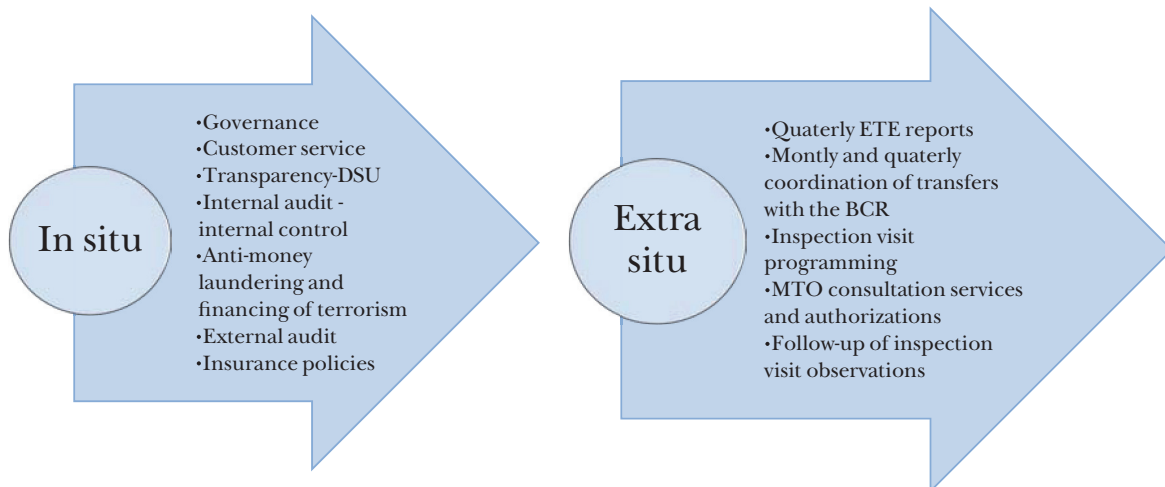
When an MTO operates as an agent for an international company, it must employ the measures necessary to enable the customer to identify the MTO providing the service and not confuse itself with the international company it is working with, making clear it is acting as a representative. It is also the responsibility of each MTO to ensure its

agents follow the same criteria. The MTO should have an up to date list of its agents displayed in all its offices as well as on its web page.

**General Principle 5: Governance and Risk Management**

*Remittance services should be supported by appropriate governance and risk management practices.*

**CHART 1. SUPERVISORY ACTIVITIES: MTO**



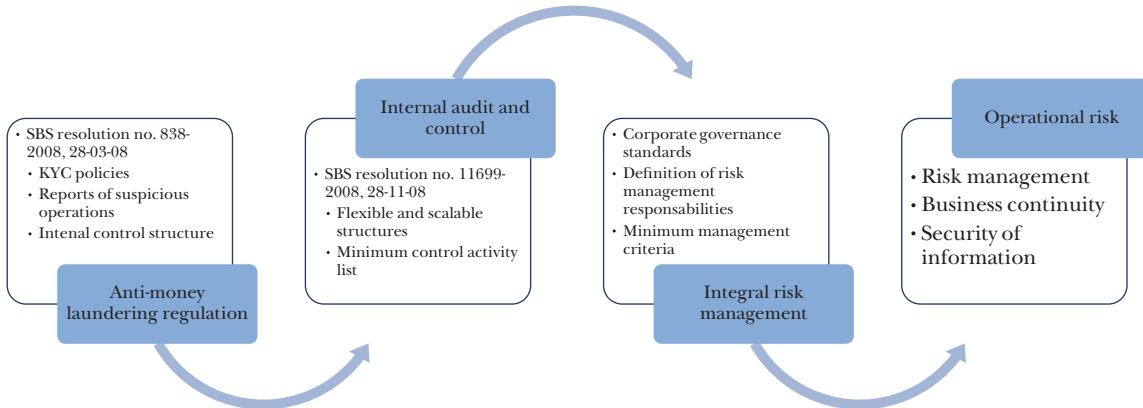
*SOURCE: Superintendencia de Banca, Seguros y AFP.*

As for competition, Legislative Decree 1.034 approved in 2008, represents the legal framework for the defense of free competition. Companies under the supervision of the Superintendence of Banking, Insurance and Private Pension Funds have policies and procedures to identify, evaluate, treat, control, report and track risks concerning the size and complexity of their operations and services.

As mentioned above, Peru has a regulatory framework for running and operating MTOs: Internal and External Audit Regulations, approved by SBS Resolution No. 11699-2008 dated November 28, 2008, and No. 1042-99 dated November 26,1999; Integral Risk Management Regulations approved by SBS Resolution No. 037-2008 dated January 10,2008; Complimentary Regulations for the Prevention of Money Laundering and Financing of Terrorism approved by SBS Resolution No. 838-2008 dated March 28,2008; and SBS Resolution No. 11695-2008 dated November 27,2008, which modifies several articles of SBS Resolution No. 838-2008.

MTOs must at all times maintain a level of available funds compatible with the nature of their operations.<sup>3</sup> Such amount must at least be equal to the average of two days of transfers, the calculation of which should be based on movements during the previous 12 months. These available funds can be accredited by resources advanced by the company they represent or its branches, credit lines from companies in the financial system or the MTO’s own working capital, among others, according to Superintendence rules.

**CHART 2. GOVERNANCE AND RISK MANAGEMENT**



*SOURCE: Superintendencia de Banca, Seguros y AFP.*

<sup>3</sup> Source: Money Transfer Operator (MTO) Regulations, SBS.

### 3 AUTHORITIES PARTICIPATING IN REMITTANCE SERVICE REGULATION

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

*A. Role of remittance service providers: Remittance service providers should participate actively in the implementation of the General Principles*

*B. Role of public authorities: Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.*

In Peru, different authorities are responsible for application of General Principles (GP) for remittance services.

#### **3.1 AUTHORITIES**

##### **3.3.1 Superintendencia de Banca, Seguros y AFP**

The Superintendence of Banking, Insurance and Private Pension Funds (SBS) is a government institution whose autonomy is recognized in Peru's Constitution. Its objectives, functions and faculties are established by the Ley General del Sistema Financiero y del Sistema de Seguros (General Law of the Financial and Insurance Systems), and the Organic Law of the Superintendence of Banking, Insurance and Private Pension Funds (Law 26702).

The SBS is in charge of supervising financial intermediaries, including MTOs. Besides overseeing financial institutions, in 2005 the SBS issued Resolution SBS No. 1025-2005, regulating the activities and functions of MTOs with annual operations of over 200 obligatory tax units (approximately USD 233.000). MTOs with annual operations of below this figure are not supervised by the SBS.

In the area of consumer protection, the SBS is in charge of issuing the regulatory standards necessary to guarantee compliance.

##### **3.1.2 Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual**

The Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual –INDECOPI– (National Institute for the Defense of Competition and the Protection of Intellectual Property) is Peru's consumer protection agency. The

organization is also responsible for applying the legal regulations designed to protect the market against controlling and anti-competitive monopolistic practices in the production and sale of goods and services, as well as practices which lead to disloyal competition and those affecting market agents and consumers.

This government organization was created in 1991 by Law No. 25868 and has technical, economic, budgetary and administrative autonomy. According to the Law, INDECOPI through its Tribunal for the Defense of Competition and Intellectual Property is in charge of implementing the regulations regarding competition, consumer protection and intellectual property rights in all sectors and industries, including financial services. These faculties include the authority to investigate as well as impose correctional measures and penalties.

### **3.1.3 Ministerio de Relaciones Exteriores**

The Ministerio de Relaciones Exteriores (Ministry of Foreign Affairs) through the Dirección General de los Derechos de los Peruanos en el Exterior (General Directorate for the Rights of Peruvians Abroad) seeks to protect the rights of Peruvians living abroad. In the area of remittances, this Directorate has taken different actions to ensure migrants can make money transfers economically, swiftly and safely. These facilities, together with other programs, are promoted through the consulates, and advisory boards and associations of Peruvians living abroad.

The Chancellery designed the Family Remittance program involving local commercial banks to encourage the bankarization of remittance receivers. Under this context, it is worth mentioning that since 2002, several banking institutions have offered services as well as preferential costs and facilities to Peruvians who send money from abroad.

The Ministry of Foreign Affairs has not only made strategic alliances with commercial banks but also signed a cooperation agreement in June 2004 with the Peruvian post office. The aim of this agreement is to publicize and encourage the use of postal orders as another way of sending remittances. Furthermore, the Ministry has negotiated with different banking institutions in order to give Peruvians living abroad access to savings programs and mortgage credit. Several Banks are currently involved in programs to enable remittance senders' families residing in Peru to purchase housing with a preferential interest rate mortgage which use duly credited remittances received over a period of six months as leverage.

### 3.1.4 Other Entities

The Asociación de Bancos del Perú –ASBANC– (Peruvian Association of Banks) represents the country’s financial institutions. In April 2003, the ASBANC set up the Defensor del Cliente Financiero –DCF– (Defender of Financial Customers), which acts as an independent mediator to prevent or solve conflicts between the clients and providers of financial services. The DCF offers its services free of charge to customers of associated banks and commercial banks must adhere to its resolutions.

## 3.2 REMITTANCE SERVICE PROVIDERS

### General Principle 4: Market Structure and Competition

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

The remittance distribution market in Peru is made up of a significant number of participating institutions offering customers different options for receiving their remittances through commercial banks, MTOs, credit unions and savings and loan. According to BCRP information, in 2009, the remittance market was concentrated among commercial banks, MTOs and other methods. The latter group includes credit unions, which intermediate remittances from Japan, the postal service company and the estimated amount of remittances handled by companies whose main business is not fund transfers, as well as other informal methods.

**TABLE 7. PERU:REMITTANCES FROM ABROAD**  
Million USD, 2003-2010T1

	2003	2004	2005	2006	2007	2008	2009	2010T1
Banks	75	227	398	595	771	970	1,038	272
MTO	541	616	704	851	960	1,005	930	218
Other	252	290	337	392	400	469	410	95
Total	869	1,133	1,440	1,837	2,131	2,444	2,378	585

SOURCE: SBS and other intermediaries.

**TABLE 8. PERU: REMITTANCE MARKET SHARE**

	2003	2004	2005	2006	2007	2008	2009	2010T1
Banks	9	20	28	32	36	40	44	46
MTO	62	54	49	46	45	41	39	37
Other	29	26	23	21	19	19	17	16
Total	100	100	100	100	100	100	100	100

SOURCE: SBS and other intermediaries.



### **3.2.1 Commercial Banks**

During recent years, commercial banks have gained share of the remittance market from MTOs. Thus, in 2005, 49% of remittances were disbursed by MTOs as compared to 28% by commercial banks, while in 2009 commercial banks handled 44% of all remittances.

### **3.2.2 Money Transfer Operators**

There are eleven MTOs in Peru's remittance market handling around 40% of total remittances from abroad.

### **3.2.3 Non-Bank Microfinance Institutions**

Microfinance institutions in Peru include municipal savings and loans (CMAC), rural savings and loans (CRAC), small and micro firm development institutions (EDPYMES) and credit unions.

#### ***3.2.3.1 Municipal Savings and Loan***

CMAC are government institutions owned by municipalities. They receive deposits from the public and specialize in financing, preferably to small and micro firms. At present, CMAC offer remittance services in Peru in association with Western Union. These institutions are represented by the Federación Peruana de Cajas Municipales de Ahorro y Crédito –FEPCMAC– (Federation of Peruvian Municipal Savings and Loan).

#### ***3.2.3.2 Rural Savings and Loan***

CRAC are private institutions which receive deposits from the public and offer financing, preferably to medium, small and micro firms in rural areas. At present, CRAC offer remittance services in Peru in association with Western Union.

#### ***3.2.3.3 Small and Micro firm Development Institutions***

EDPYME are private institutions granting financing, preferably to entrepreneurs of small and micro firms. There are currently two EDPYME offering remittance services in Peru: Credijet del Perú and Edpyme Alternativa. The first of these, Edpyme Credijet, was created by the MTO Jet Perú S. A. to offer additional financial services to remittance beneficiaries, implying cross selling to their remittance receiving clients.

Meanwhile, Edpyme Alternativa offers remittance disbursement services under an agreement with Western Union.

Just as municipal and rural savings and loan, EDYPMES are also subject to SBS supervision.

**TABLE 9. PERU: MTOs**  
2009

<i>Supervised MTO's</i>	<i>Date</i>	<i>International links</i>	<i>Coverage</i>
A. Serviban S.A.	06-may-98	Western Union	National and international
Jet Perú S A	27-jan-00	Own network	National and international
Peru Services Courier S.A.C.	07-apr-00	Own network	National and international
Josilva S A	11-nov-00	Own network	International
GFP International S.A.C	12-dec-00	Own network	International
Argenper S A	06-apr-01	Own network	National and international
Red Perú Mundo S.A.	07-jun-02	Own network	International
Unión Express S A	03-sep-02	Own network	International
DHL Express Peru S.A.C.	02-oct-02	Western Union	National and international
Perú Express Servicios Internacionales S.A.	20-feb-03	Money Gram and own	National and international
Falen Money Transfer S.A.	12-oct-04	Own network	International

*SOURCE: Superintendencia de Banca, Seguros y AFP.*

### 3.2.4 Credit Unions

In 2008, Peru's Federación Nacional de Cooperativas de Ahorro y Crédito del Perú – FENACREP– (National Federation of Credit Unions), with the support of the World Council of Credit Unions (WOCCU), signed an international fund transfer agreement with Money Gram. FENACREP is currently responsible for the supervision of credit unions in Peru. The SBS oversees and controls the FENACREP and regulates the operation of the referred institutions. It is important to mention that FENACREP's network encompasses 161 institutions offering services to over 700.000 members and their families in 21 regions of the country. This group includes 18 credit unions, disbursing remittances through 47 agencies.

The average value of remittances received during the period from August 2008 to August 2009 was USD 420.

## 4 INSTRUMENTS FOR DISBURSING REMITTANCES IN PERU

### **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*

Remittance service providers in Peru offer different disbursement method, although most are done by cash or bank account deposits.

### **4.1 CASH**

Information from remittance disbursing firms reveals that 94 to 96% of such payments are made in cash. Remittances can be received in nuevos soles, US dollars and euros in some institutions.

### **4.2 CHEQUE**

According to transaction volumes, cheques are the most common disbursement instrument used in Peru. However, such payments are mostly made by firms. In fact, cheques are very seldom used for disbursing remittances.

### **4.3 BANK ACCOUNT DEPOSITS**

Information provided by remittance disbursing institutions reveal that bank account deposits represent around 4 to 6% of total remittance payments. Such result is in spite of the fact that, according to information from Peru's main commercial banks, only around 20% of remittance receivers have a current account.

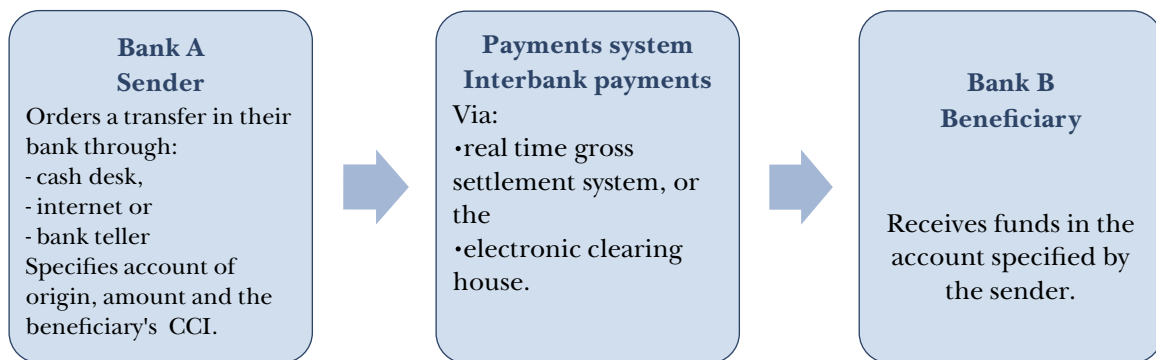
It is important to point out that MTO activity in Peru does not exclude financial services, due to the fact that remittances channeled through these institutions can also be disbursed via bank account deposit, although it is believed such amounts are very small.

#### 4.4 REMITTANCE CARD DEPOSIT

Banking institutions expect to offer new financial products specially designed for Peruvians living abroad who send remittances.

- Working capital loans for micro firms.
- Mortgages.
- Education loans.

**CHART 3. ELECTRONIC FUND TRANSFER DIAGRAM**



## 5 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*

During 2009, 58% of remittances received in Peru came from the USA (42%) and Spain (16%).

### 5.1 ACCESS POINT NETWORK

There are several options available to Peruvians living abroad for sending remittances to Peru: commercial banks, MTO's and savings and loans.

**TABLE 10. TRANSFERS FROM THE USA TO PERU**

<i>Company</i>	<i>Type of firm</i>
Delgado Travel	MTO
Wells Fargo	Bank
Uniteller	MTO
Jet Perú	Bank
Remesas Quisqueyana	MTO
Ria	MTO
Uno Money Transfer (Omnex Group)	MTO
Vigo	MTO
Xoom	MTO
La Nacional	MTO
Western Union	MTO
MoneyGram	MTO

**TABLE 11. TRANSFERS FROM SPAIN TO PERU**

<i>Company</i>	<i>Type of firms</i>
Hispano World Transfer (MoneyGram)	MTO
Banco Santander (latinoenvios)	MTO
BBVA Dinero Express	MTO
Universal de Envios	MTO
Safe Money Transfer Spain	MTO
Maccorp Exact Change	MTO
Master Envios Unidos	MTO
Caja Madrid	Savings and loan
La Caixa	Savings and loan
Ria	MTO
Foreign Exchange Co. (Western Union)	MTO

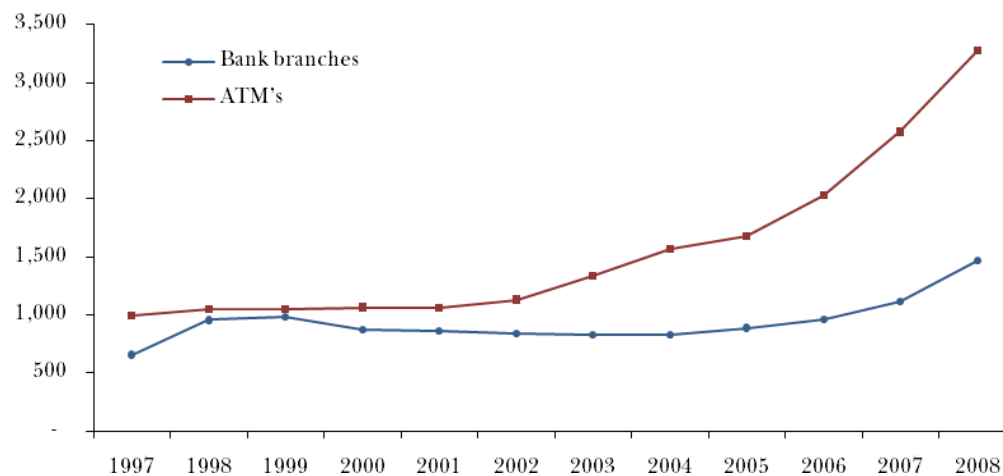
## 5.2 LOCAL FINANCIAL INFRASTRUCTURE

The level of development of local financial infrastructure is of utmost importance for guaranteeing efficiency and security to remittance receivers.

### 5.2.1 Bank Network Coverage

Bank network coverage in Peru is small if the number of bank branches and ATM's is considered. Thus, in 2008, out of a total of 194 provinces, 104 did not have a bank branch. It is worth mentioning that there are 3.8 bank branches and 11.4 ATM's per 100 thousand inhabitants in Peru as a whole.<sup>4</sup>

**FIGURE 19. BANK NETWORK: BRANCHES AND ATM'S**  
1997-2008



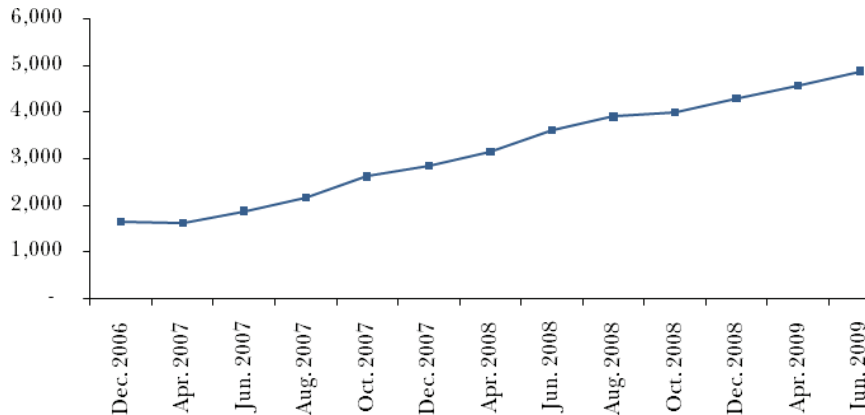
Despite the above, financial institutions have broadened their public service network by establishing banking agents (cajeros corresponsales) in retail outlets. Thus, in 2005 a regulation was issued (Newsletter B 2147-2005) regarding these agents. Meanwhile, in 2008 conditions for banks and microfinance institutions (CMAC, CRAC and ED-PYMES) were standardized by SBS Resolution No. 775-2008 dated March 26, 2008.

The non-branch bank network has therefore been increasing its coverage to previously unattended segments of the population, while significantly reducing bank operating costs. It is worth pointing out that in 2008 there were 3,606 banking agents operating in Peru and that this network grew 40% in 2009, making it the fourth largest in the world behind that of Brazil, the Philippines and South Africa. The fact that it is

<sup>4</sup> Superintendencia de Banca, Seguros y AFP (2007).

possible to make deposits, withdrawals and pay public services, as well as receive remittances in local currency at these banking agents is also noteworthy.

**FIGURE 20. NUMBER OF BANKING AGENTS**  
2006-2009



SOURCE: Asociación de Bancos de Perú.

## 5.2.2 The Network Coverage of CAC and Microfinance Institutions

In mid-2009, microfinance institutions had 514 ATM's and banking agents.

## 5.2.3 Payment Systems in Peru

The payment systems which are considered systemically important in Peru are the RTGS system, the Electronic Clearing House (CCE) and Multibank Security Settlement System (SLMV). The latter executes the payment phase of systemically important security payment system.

Depending on the instrument used, Peru has different payment systems, among those which are described below.

### 5.2.3.1 Large Value Payment Systems

The RTGS system began operating in February 2000, according to newsletter No. 033-99-EF/90 dated December 28, 1999. The system is administered by Banco Central de Reserva del Perú and replaced the old deferred net settlement system. The RTGS processes transactions one by one in real time, whether they be in nuevos soles or in US dollars. Such operations must be for a minimum of USD 3,500, although most operations are high value. The following operations are processed through this system:

- Interbank fund transfers by banks or their clients.
- Foreign exchange purchase-sale operations among banks.
- Settlement of payments made by the CCE (cheques or credit transfers).
- Settlement of SLMV payment obligations resulting from security operations negotiated in the stock exchange and Government bond transactions in the secondary market.
- Operations carried out by the BCRP in order to implement its monetary policy and to provide liquidity to RTGS system participants.

Through this system funds are available in the beneficiary's account the same day as the transfers were made.

### ***5.2.3.2 Low Value Payment Systems***

#### ***5.2.3.2.1 Electronic clearing house***

The CCE currently operates two low value payment systems: one for paying cheques and the other for transfers.

The CCE is a private company owned by 14 of the 16 banks operating in Peru. Electronic cheque payment began in November 2000 and replaced the clearing house operated by the BCRP which processed cheques manually. The CCE clears operations (cheques or bank transfers) of up to 265,000 nuevos soles and USD 50,000.

#### ***5.2.3.2.2 ATM and Card Networks***

In September 2009, there were 3,541 ATM's operating in the country.<sup>5</sup> According to studies by the World Bank, the number of ATM's per million inhabitants in Peru is one of the lowest in Latin America. However, this figure has exhibited the highest growth in the region (101% in the 2002-2006 period).<sup>6</sup>

There are seven ATM networks in Peru: Unicard, an independent network providing various services to financial institutions; Globalnet, owned by Interbank; and banks own networks. These networks are interconnected, allowing holders of any debtor credit card to use the ATM's. The only difference for the customers is the commission they must pay for using the ATM network of a bank other than their own.

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<sup>5</sup> Statistics from the Superintendencia de Banca, Seguros y AFP.

<sup>6</sup> World Bank (2008), "Balancing cooperation and competition in retail payment system: Lessons from Latin American Case Studies", Financial Infrastructure Series, Payment systems policy and research, Washington DC.



### **5.3 CROSS-BORDER PAYMENTS**

Most cross-border payments in Peru are made through the traditional system of bank correspondents. Commercial banks have access to the SWIFT system to make payments abroad, be it through correspondent banks or their own branches abroad. The Central Bank also offers a service for sending and receiving funds from abroad to financial system participants via the foreign currency accounts they hold in this institution.

## 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 disbursing 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 agent (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 operating in the receiving market.

Intervention in this chain of agents with different operating structures implies a cost. 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.

According to information from the World Bank's database of remittance prices, Japan is the most expensive corridor for companies sending remittances to Peru, followed by Spain and the USA.<sup>7</sup> Based on information from the referred database, table 12 shows the cost in 2009 of sending USD 200 to Peru from three different countries: Japan, Spain and the USA. It is important to mention that most Peruvian migrants reside in the USA and Spain.

**TABLE 12. COST OF SENDING 200 USD**  
2009

	<i>Cost in %</i>	<i>Cost in USD</i>
Japan	19.92	39.84
Spain	6.24	12.48
USA	4.18	8.02

During the referred period, for the Spain-Peru corridor the highest commission for sending USD 200 was charged by Caixa and Caja Madridbanks for a less than one hour service, while the cheapest was charged by the MTO of Santander and BBVA banks.<sup>8</sup> If the transfer commission and exchange rate margin are both considered, during the first quarter of 2010, the total cost of sending USD 200 from Spain to Peru

<sup>7</sup> (<http://remittanceprices.worldbank.org/RemittanceCosts>).

<sup>8</sup> World Bank, (<http://remittanceprices.worldbank.org/RemittanceCosts>).

was 6.24%. In contrast, the total cost from Japan was 19.92% and 4.18% from the USA.

**TABLE 13. COST OF SENDING USD 200 FROM SPAIN TO PERU**

<i>Company</i>	<i>Type</i>	<i>Commission (USD)</i>	<i>Exchange rate margin (%)</i>	<i>Total Cost</i>	
				<i>%</i>	<i>USD</i>
Hispano World Transfer (Money-Gram)	MTO	6.62	0.73	4.23	8.46
Banco Santander (Latinoenvios)	MTO	4.05	2.19	4.33	8.67
BBVA Dinero Express	MTO	4.05	2.19	4.33	8.67
Universal de Envíos	MTO	8.1	0.73	5.02	10.03
Safe Money Transfer Spain	MTO	5.4	2.19	5.05	10.09
Maccorp Exact Change	MTO	8.1	2.19	6.48	12.95
Master Envíos Unidos	MTO	8.1	2.19	6.48	12.95
Caja Madrid	Savings and loan	12.15	1.46	7.89	15.78
La Caixa	Savings and Loan	8.1	3.65	7.94	15.87
Ria	MTO	6.75	4.38	7.95	15.9
Foreign Exchange Co. (Western Union)	MTO	7.43	5.88	9.81	19.62
Savings and loan average		10.12	2.55	7.91	15.82
MTO average		6.51	2.52	5.96	11.93
Average total in 2009T3		7.17	2.53	6.32	12.64
Average total		7.05	2.71	6.24	12.48

SOURCE: World Bank, world remittance prices (<http://remittanceprices.worldbank.org/>). Note: In all cases transfers are made in less than one hour and all the institutions shown provide national coverage.

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

The previous sections of this document have described the situation of Peru'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.

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

Adequate consumer protection is essential as it provides both remittance senders and receivers with rights, including proper procedures and processes for resolving disputes.

Peru has a legal framework and regulations protecting customers of financial services, including those provided by commercial banks and microfinance institutions. Clients of commercial banks, MTOs and microfinance institutions benefit from the rights established in the Financial System Law, the Consumer Protection Law and the Complimentary Law of the Consumer Protection Law.

In this context, it is important to mention that Peru also has a legal and regulatory framework protecting clients of financial services and remittance services, and that there is a high degree of coordination and cooperation between the authorities in the area of consumer protection.

Based on current legislation, remittance service providers (RSP's) are generally not subject to any specific legal obligations regarding the transparency of remittance services. Meanwhile, commercial banks and other regulated financial institutions offering remittance services are obliged to publish the commissions and interest rates they charge for the services they provide to the public, including remittances. However, given that most commercial banks only act as disbursement agents for international MTOs, international banks or others, it is not clear whether the commissions, costs and speed of transactions are available or known by customers at the moment they send a remittance transfer abroad.

Unlike other countries in the region, in Peru, transparency in the price of remittances is made easier by the fact that 98% of payments to the final beneficiary are carried out in USD. Thus, RSPs do not have to make any currency exchange operations in order to disburse remittances.

**TABLE 14. GPI TRANSPARENCY AND CONSUMER PROTECTION**

	<i>Yes</i>	<i>No</i>
Consumer Protection Law	✓	
Specifically mentions remittances and consumer protection		✓
Transparency of information in financial services (regulations for disclosure and publication)	✓	
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		✓
Disclosure of prices for sending remittances	✓	
Comparison of prices for sending remittances		✓
Consumer protection sanctions	✓	

## 7.2 PAYMENT SYSTEM INFRASTRUCTURE

Peru's systemically important payment systems are the RTGS, the CCE and the SLMV. The latter carries out some payments of the systemically important security settlement system.

Remittance services, perhaps with the exception of those based completely on the use of cash, in some way depend on the domestic payment infrastructure. In Peru, 44% of remittances from abroad are channeled through commercial banks and 40% through MTOs. This implies the need for a payment system infrastructure which can securely and efficiently meet the demand of these services.

During recent years, significant progress has been made in developing the infrastructure of payment systems and financial institutions regarding their capacity to provide services to the public as well as their geographic coverage. Nonetheless, RSPs must still focus more on leveraging payment systems in order to increase the standardization of disbursement instruments in the market, further automate their processes and increase network interoperability. In this context, it is important to mention that the financial authorities are currently considering regulatory and business innovations which provide the public with greater access to the financial system.

It is also important to recognize that greater use of payment systems by RSPs is hampered by the habits of their customers who prefer to receive cash (94% to 96% of remittances are paid in cash). This is in spite of the fact that commercial banks have an

important share of the market and that 20% of customers receiving remittances through banks are current account holders.

**TABLE 15. GP2: PAYMENT SYSTEM INFRASTRUCTURE**

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

### 7.3 REGULATORY FRAMEWORK

A solid legal framework for remittance services which is well understood by market participants contributes to reducing the risks faced by both RSPs and their customers. The legal and regulatory framework encompasses the general legal infrastructure, including any regulation, statute or contract of relevance to remittances, such as, for example, payment system regulations. In this regard, the new Payment Systems and Securities Settlement Law approved in November 2009, represents a significant step towards compliance with international standards and best practices for payment systems.

In Peru, MTOs must register and obtain a license to offer remittance services, while credit unions and microfinance institutions are only required to register. All disbursement service providers are responsible for guaranteeing that they, as well as any other disbursing agent in their service, comply with pertinent laws and regulations, including anti-money laundering and financing of terrorism requirements.

It is worth mentioning that the above mentioned Law makes no explicit reference to remittances services given that they are not considered as systemically important payment systems by the authorities. The Law does require the collection of information on payment agreements and disbursement service providers. The latter category could include RSPs.

### 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. The remittance distribution market in Peru has evolved in an environment where a large number of participating institutions compete and offer customers different ways of receiving such transfers. These institutions are: commercial banks, MTOs, the postal company, credit unions and savings and loan.

**TABLE 16. GP3: REMITTANCE AND PAYMENT SYSTEMS REGULATORY ENVIRONMENT**

	<i>Yes</i>	<i>No</i>
Payment system supervision authority	✓	
Specific regulatory framework for the remittance industry and its participants	✓	
Remittance disbursing banks	✓	
License franchising	✓	
Money laundering program	✓	
Transaction tracking	✓	
Provision of reports to the authorities	✓	
Supervisory authority	✓	
Sanctions	✓	
Remittance disbursing MTO's	✓	
Registry	✓	
License franchising	✓	
Money laundering program	✓	
Provision of reports to authorities	✓	
ID presentation requirement	✓	
Supervisory authority	✓	
Other remittance disbursing RSPs (credit unions and microfinance institutions)	✓	
Registry	✓	
License franchising		✓
Money laundering program	✓	
ID presentation requirement	✓	
Supervisory authority	✓	

In recent years, a significant process of innovation has taken place in the remittance distribution service market in Peru. Thus, providers have designed new products for their customers, both for paying these funds as well to increase the range of services offered, such as mobile banking and account opening in banking agents.

However, the presence of exclusivity contracts constitutes an obstacle to achieving greater competition and lower prices for these services. Some RSPs in Peru demand that their agents work with only one MTO, thereby hindering the lowering of costs and the expansion of distribution networks. Thus, if an individual abroad wishes to send money to a location in Peru where there is only one distributor and if the latter is prevented under an exclusivity contract from working with other networks, the sender has no other options. Nevertheless, it should be pointed out that there are

currently only a few exclusivity contracts and market agents recognize the benefits of having agreements with several RSPs in the country of origin.

Most RSPs in Peru have slowly increased their disbursement point network by opening new offices and using banking agents where remittances can only be disbursed in local currency.

It is also important to mention that Peru has a law for encouraging competition and an independent authority that promotes and oversees it.

**TABLE 17. 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	✓	
Credit unions	✓	
Microfinance companies	✓	
MTO through their own offices	✓	
Couriers	✓	
Exclusivity agreements	✓	
RSP have adequate access to payment systems	✓	
Competition law	✓	
Independent competition authority	✓	

## 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 Peru, major remittance service providers, both bank and non-bank, generally have appropriate manuals and procedures, while their staff has received proper training. The Law for the Prevention of Money Laundering applies equally to bank and non-bank institutions authorized to carry out currency operations. Meanwhile, most disbursement service providers, including MTO's, are overseen by the SBS meaning the possibilities of bankruptcy, fraud and liquidity risks are limited by supervision and regulations.

It is important to recognize that the existence of contractual guarantees and the gradual incorporation of disbursement service providers into the regulatory and supervisory



framework are important tools for increasing consumers' confidence in such channels. Finally, the authorities and RSP's should work actively together in developing the market for remittance services.

**TABLE 18. GP5: GOVERNANCE AND RISK MANAGEMENT**

	<i>Yes</i>	<i>No</i>
Major remittance service providers with internal procedures for regulating money transfer activities	✓	

## 6.6 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.

Although there are no formal cooperation agreements among MTOs in Peru, all of them are members of associations where they take joint decisions (ASBANC, MTO Association, FEPCMAC, FENACREP).

**TABLE 19. THE ROLE OF THE PRIVATE SECTOR**

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

## 7.7 THE ROLE OF THE AUTHORITIES

The various aspects of the General Principles for the remittance market come under the jurisdictions of different authorities in Peru. Thus, the BCRP in its role as operator, regulator and supervisor, is well positioned to implement actions on aspects more closely linked to payment systems, such as overseeing and contacting RSPs. As the supervisor of remittance service providers, the SBS also has a wide margin for leading and coordinating joint efforts by the authorities and the remittance market's private sector to make this market more efficient and secure.

The Ministry of Foreign Affairs has implemented various measures designed to allow Peruvians residing abroad to send remittances more cheaply, swiftly and safely. It is highly convenient that it maintain these efforts. A study of the different aspects of Peru's remittance market shows it is also recommendable that the authorities continue

their coordinated evaluation of remittance topics through the already functioning institutional committees.

**TABLE 20. THE ROLE OF THE AUTHORITIES**

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

The Peruvian authorities have a very important role to play in increasing the efficiency of remittance services. In this context, RSPs are increasingly recognizing the value of the link that can be established between such transfers and the bankarization of those who receive them, particularly the possibilities of offering them a range of financial products associated with these resources.

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Coyoacán n<sup>o</sup> 1450, colonia Del Valle, México D. F., 03220.  
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