

**PROGRAM FOR IMPROVING  
CENTRAL BANK REPORTING AND PROCEDURES  
ON REMITTANCES**



**ECUADOR**

APRIL 2010





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ECUADOR

CENTER FOR LATIN AMERICAN MONETARY STUDIES  
MULTILATERAL INVESTMENT FUND  
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## Foreword

The importance of international remittance flows to Latin American and Caribbean economies has increased substantially, both in terms of macroeconomic stability given the magnitude of these capital inflows, and of economic development in view of their impact on financial inclusion and poverty alleviation.

The Center for Latin American Monetary Studies (CEMLA), with the support of its central bank members, has played a proactive role in the field of remittances. The organization of several capacity-building and technical assistance events by CEMLA, has clearly shown central banks interest in obtaining improved information on the size and characteristics of these flows.

More reliable data is needed to have a proper understanding of the market structure for remittances and the behavior of involved agents. Such information allows to foster the implementation of policies and regulations aimed at reducing the cost of money transfers, providing greater security and transparency, and avoiding unsuitable practices that may deter an efficient development of the market.

In mid-2004, CEMLA and the Multilateral Investment Fund (MIF) began designing a program aimed at improving the statistical measurement of international remittance flows. MIF's financial contribution was approved by its Donors Committee in February 2005 under the title "Improvement of Central Bank Information and Procedures in the Area of Remittances" (RG-M1059). In April of the same year, CEMLA's Board of Governors meeting in Cartagena, Colombia, formally approved the Center's participation as executing agency for the project. The institutional arrangements for the Measurement Program (as it is referred to) comprise a Working Group on Remittances (WGR) formed by experts from central banks in Latin America and the Caribbean, and a Remittances International Steering Committee (RISC) comprising experts from extra-regional central banks and international organizations. Twenty-three of CEMLA's thirty regional central bank members signed up for the project.

The first phase of the project identified limitations on the availability and quality of data on remittances markets and flows, thus serving as the starting point for the design of the Program. Some of the detected shortcomings were: i) the absence of an agreement on basic balance of payments definitions; ii) a lack of precision in measuring the flows; iii) insufficient compilation of statistical data via direct reporting; iv) a deficit of information on the structure of international remittance operators, and v) the need to clarify regulatory and jurisdictional aspects applicable to the providers of these services.

In view of the above, the Program seeks to improve central bank data and procedures in the area of remittances, evaluating and recommending steps to lift the foregoing restrictions. In addition, the Program is expected to contribute to: the use of formal remittance transfer systems by originators and beneficiaries through financial literacy campaigns; cost transparency among regulators in both originating and beneficiary countries; a better understanding of the microeconomic dynamics in remittances markets; and the dissemination of best practices and lessons learned from the studies that were carried out in the region.

In the pursuit of these objectives, the Program includes Country Missions for the analysis of different aspects pertaining to the measurement of remittance flows and the functioning of this market. Deliverables include public reports describing central bank procedures and other relevant aspects of the remittances market. In addition, the Program contemplates the organization of sensitization events, training courses and technical assistance. These activities all benefit from the technical cooperation of WGR and RISC.

The present Report, *International Remittances in Ecuador*, is one of the descriptive documents in the series, and was prepared with the active participation of Banco Central del Ecuador.

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This report was prepared by René Maldonado and Melina Saldaña from CEMLA and by Carlos Andrade from the Banco Central del Ecuador.

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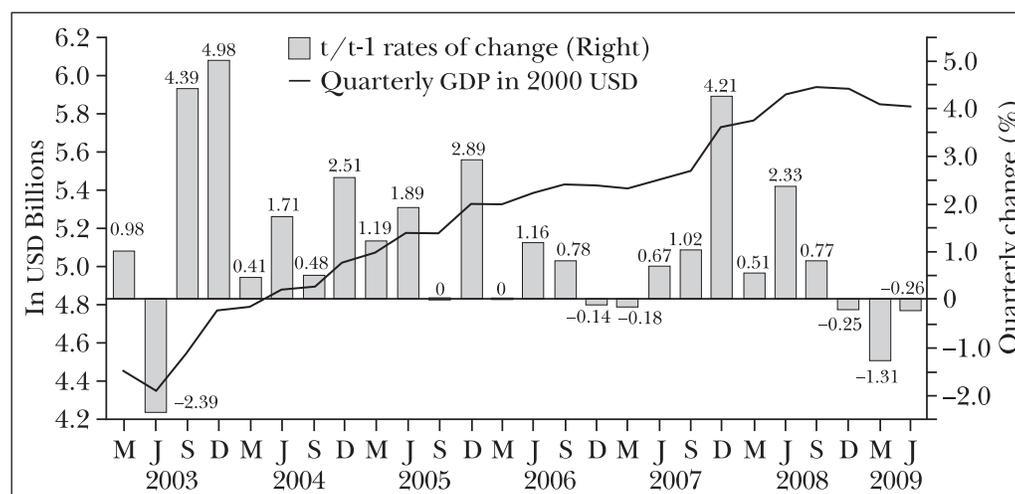
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# 1 ECONOMIC BACKGROUND AND THE REMITTANCES CONTEXT

## 1.1 MACROECONOMIC PERFORMANCE

During the years 2000-06 Ecuador's GDP increased significantly, averaging an annual growth rate of 5.2%. This growth was due to the dynamic performance of various components of aggregate demand. Private consumption and investment spending experienced strong growth during this period (annual averages of 6% and 9.8%, respectively) as did exports of goods and services (6.7%). GDP growth was particularly high in 2004 (8%) when the Heavy Crude Oil Pipeline (OCP) came fully on-stream, allowing for a substantial increase in the output of crude.

**Figure 1. Dollar GDP and Quarterly Rate of Change**



Source: Banco Central del Ecuador, 2009.

The external sector scenario in 2007 was positive for Ecuador, especially with respect to the evolution of demand from the main export markets (United States, Euro area and the Andean Community). During that year foreign inflows of remittances contributed both to the growth in economic activity and liquidity. This dynamic economic performance was reflected in the growth of imports of fuels, raw materials and capital goods, leading to higher integration with production.

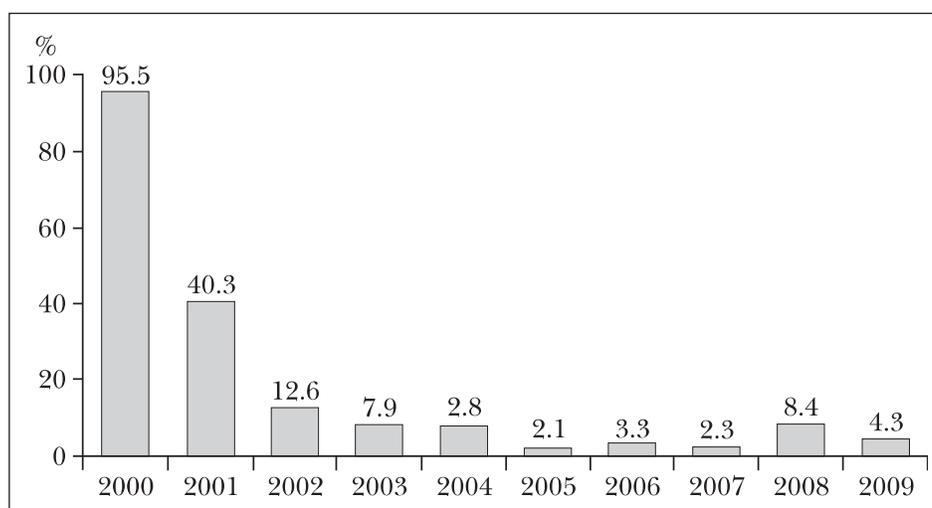
Additionally, dollarization favored a recovery of confidence in the currency which, together with the decline in inflation, contributed to stabilize production costs, improve household purchasing power and recover trust in the financial sector, resulting in improved access to credit. All of the above favored the growth in consumption and investment.

During 2008 and 2009 economic activity in Ecuador – as in other economies in the region – was adversely affected by deterioration in the external environment.

In 2000 Ecuador adopted a monetary regime of dollarization that eliminated currency risk. In this context the demand for money is determined by residents' transactions with the rest of the world. Thus, average annual inflation fell systematically as from 2001 and registered its lowest level (2.1%) in 2005, but subsequently increased slightly to 4.3% by 2009.

The recent rise in inflation was the consequence of exogenous and seasonal phenomena that impacted the price level, particularly in the first and third quarters of 2009. Nevertheless, in general inflation has remained at low rates and registered merely transitory increases. This suggests that aggregate demand has not generated excessive pressure in relation to the productive capacity of the economy. Thus, following the temporary increases in inflation, it resumed its downward trend as witnessed by the fact that inflation by December 2009 was lower than that in December 2008. Core inflation during 2009 remained relatively stable, despite the price increases in oil and other raw materials on international markets.

**Figure 2. Annual Inflation**  
(Annual average)

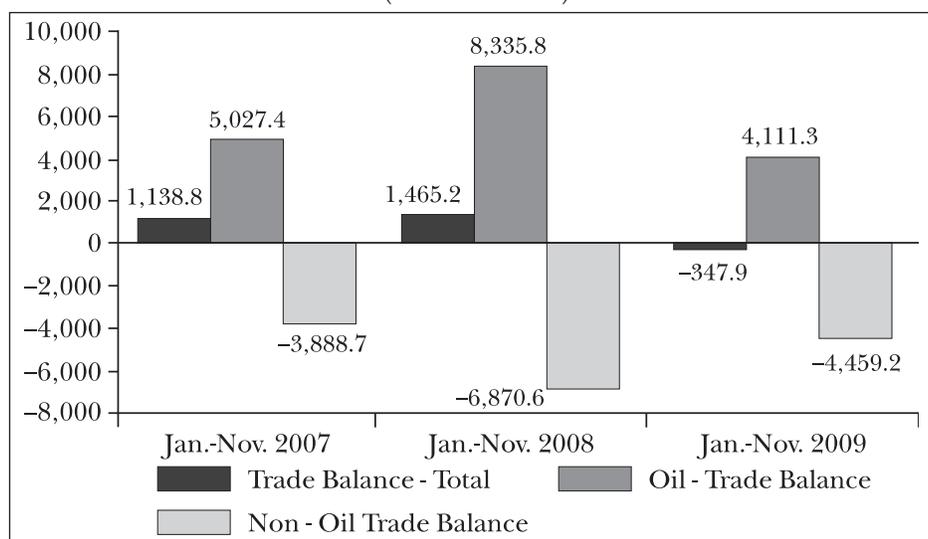


Source: Banco Central del Ecuador.

In a dollarized economy such as that of Ecuador, the external sector becomes the source of currency for enabling productive activity. In effect, liquidity changes in the economy depend to a great extent on the balance of payments outcome.

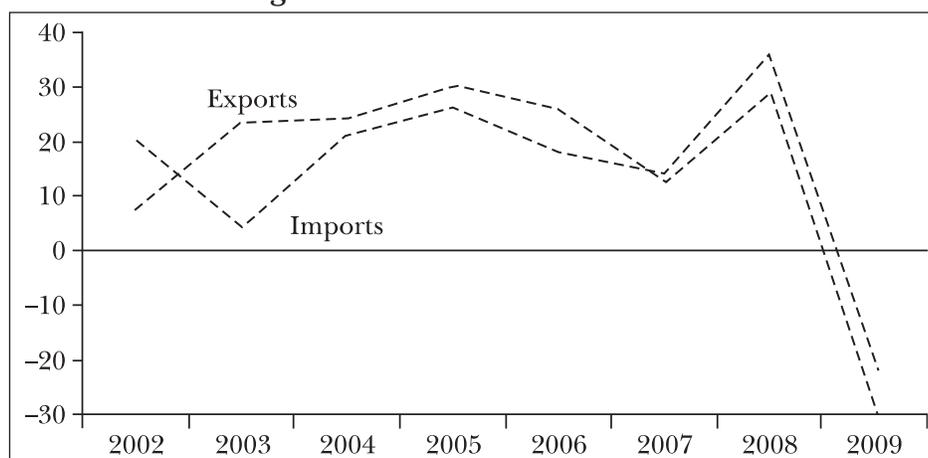
In 2009 the trade balance showed a small deficit of USD 347 million, as the net result of an oil trade surplus and a non-oil trade deficit. Currently, family remittances are an important source of external funding of Ecuador's economy, given that they are the third largest source of foreign exchange (after private external debt disbursements and oil exports). Specifically, in 2008 income from remittances was equivalent to 5.6% of GDP.

**Figure 3. Ecuador's Trade Balance**  
(USD Millions)



Source: Banco Central del Ecuador.

**Figure 4. Growth Rates of Trade**



Source: Prepared from BCE data.

**Table 1. Macroeconomic Indicators**

Variables	2003	2004	2005	2006	2007	2008	2009 <sup>e</sup>
GDP (real annual growth rate)	3.58	7.92	4.74	4.07	2.65	6.52	0.98
Imports (USD millions)	6,228	7,555	9,549	11,202	11,149	17,776	14,269
Exports (USD millions)	6,223	7,753	10,100	12,658	12,478	19,147	14,344
National Consumer Price Index (annual growth rate)	7.97	2.75	2.12	3.3	3.32	8.4	4.31
Unemployment rate average annual (%)	11.5	8.6	7.9	7.4	7.5	7.3	8.5

Source: Banco Central del Ecuador.

e = estimated data.

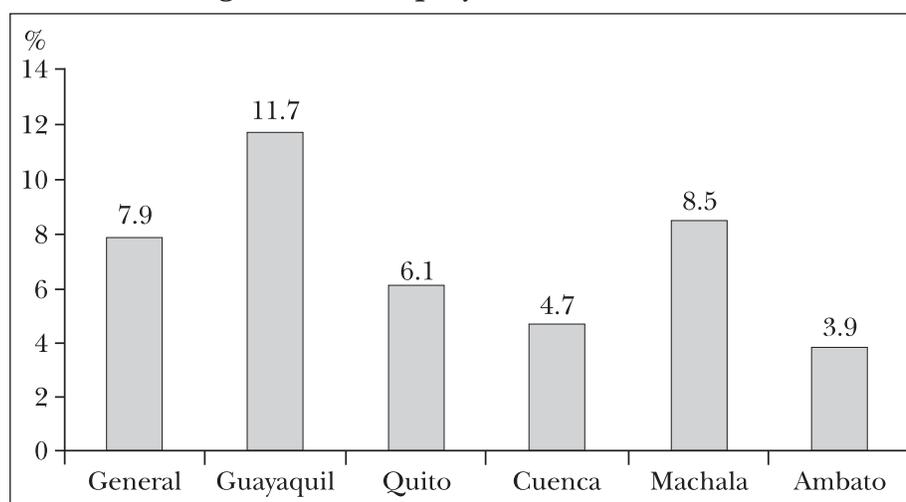
## 1.2 LABOR ENVIRONMENT AND THE MIGRATORY PROCESS

### 1.2.1 Labor Environment

Unemployment in Ecuador represents one of the main structural problems in the economy. Since 2003 the unemployment rate has followed a slightly decreasing trend, although rising somewhat in 2009 as a reflection of the fall in domestic economic activity in the face of an unfavorable external environment.

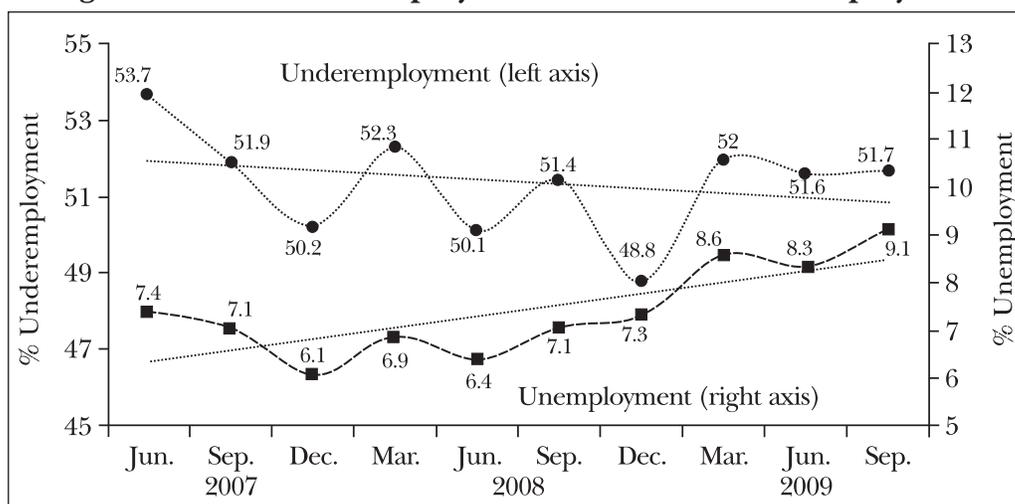
The city with the highest unemployment rate in 2009 was Guayaquil (11.7%), followed by Machala (8.5%). The rate of underemployment in 2009 reached 50.5%, with its highest level in the city of Ambato (54.6%).

**Figure 5. Unemployment Rate in 2009**



Source: Banco Central del Ecuador.

**Figure 6. National Unemployment Rates and Underemployment**



Source: Banco Central del Ecuador.

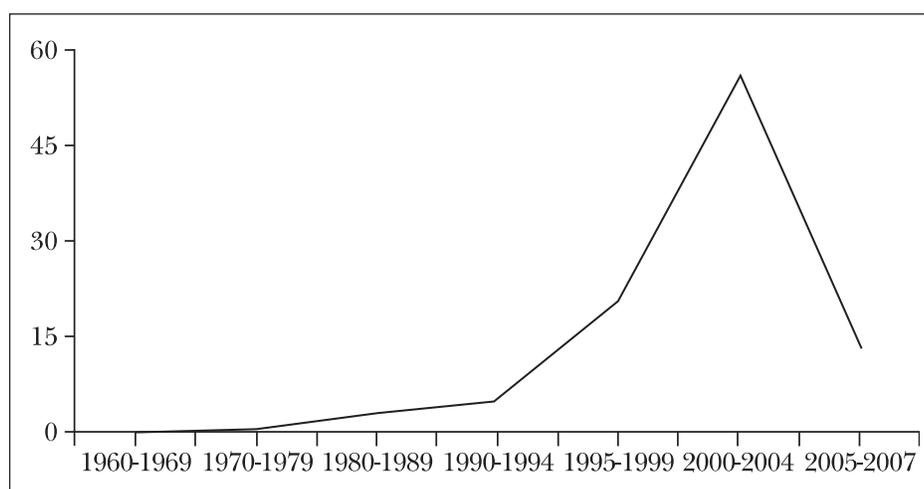
The Ecuadorian labor market is characterized by a high level of segmentation between those sectors that are formally incorporated before the official authorities and thus are more likely to comply with minimum wage and other labor legislation, and informal productive units. Similarly, there is also a high degree of segmentation among productive units according to their scale and levels of productivity, and therefore among the wage levels each type of company can pay its employees. This situation is reflected in a legal framework that establishes different minimum wages according to the size of the productive unit.

Throughout the period of dollarization, the so-called unified basic monthly salary has gradually increased. In fact, the average annual growth in wages (3.2%) has slightly surpassed that of prices (2.87%) throughout this period.

### 1.3 MIGRATORY PROCESSES

The National Statistics and Census Institute (INEC) of Ecuador, together with other public agencies (including the BCE), estimates that approximately 1.6 million Ecuadorians live abroad. Migration has intensified over the last eight years, during which the annual rate of growth in these flows fluctuated between 10 and 11%. More specifically, it is estimated that around 50,000 Ecuadorians left the country in 2007 and did not return. Thus, about 65% of the total number of persons permanently departing Ecuador during the last decade corresponds to the 2002-2007 period.

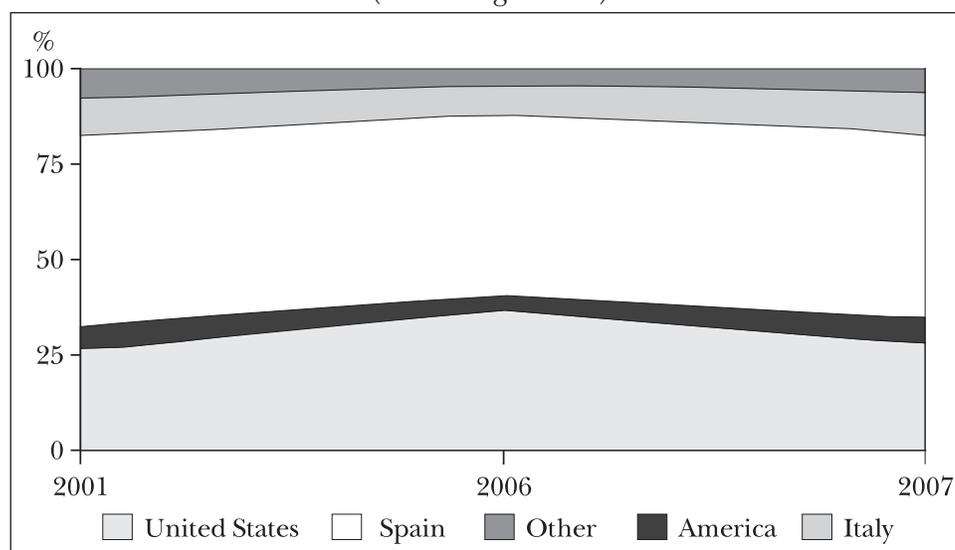
**Figure 7. Year of Migration**  
(Percentage share of period totals)



Source: ENEMDU survey, INEC 2007.

The main destinations for Ecuadorian migrants are the United States and Spain. This notwithstanding, it is recently observed that migratory flows include other destinations such as Italy, Mexico and Venezuela.

**Figure 8. Main Destinations for Migration from Ecuador**  
(Percentage share)



Source: ENEMDU survey, INEC 2007.

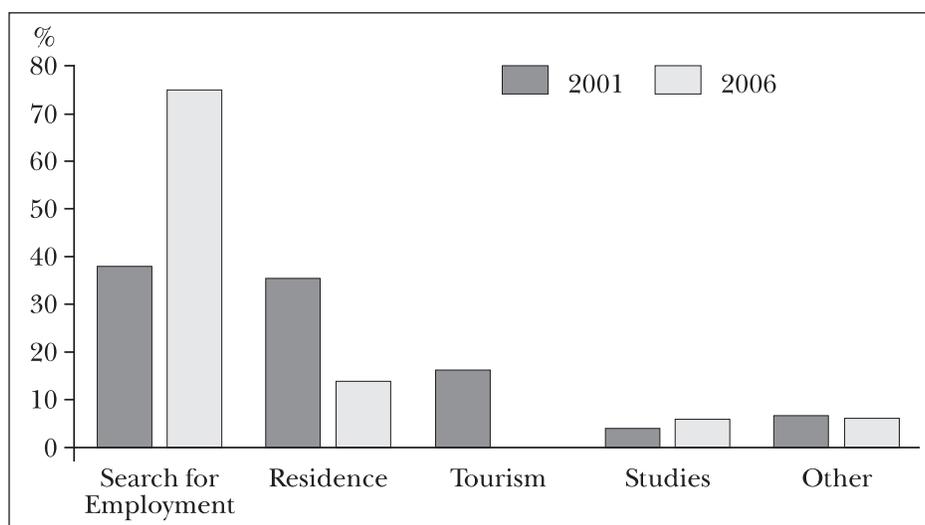
The majority of migrants to the United States of America reside in New York City. In Spain there are approximately half a million Ecuadorian migrants, of which 80% are legal and 20% undocumented.

This migratory process was strongly propelled by the financial crisis of 1999-2000. In this context, data from the 2001 census and the ENENDU (Employment, Unemployment and Underemployment) survey of 2006 show that the main reason for migrating – not only during the crisis but also subsequently – is the search for employment. This was the explanatory factor in 40% of Ecuadorian migration during 2000-2001, but by 2006 the situation had deteriorated to the point where almost three quarters of migration was linked to the search for a job. According to IADB studies, 83% of Ecuadorian migrants stated that the main cause of having departed for another country was the need to send money to their families. The beneficiaries of these transfers represent 14% of adult Ecuadorians.

It is worth noting that Ecuador also receives immigrants. Considerable numbers of Colombians and Peruvians have gone to Ecuador in recent years, attracted by the value of the dollar which affords them greater purchasing power in their local currencies.

Migrants from Ecuador not only face restrictive policies adopted by host countries, but are also subject to problems of family disintegration and – in some cases - even social fragmentation. In this context, the authorities have established a new migratory policy catering to Ecuadorian migrants abroad and their families back home. This policy also aims at formally ordering migratory flows and ensuring respect for the human rights of migrants. The application of the Convention on Regulation and Ordering of Migratory Flows, signed with Spain in May 2001, has allowed for the orderly migration of a large number of Ecuadorians who were actually selected by Spanish entrepreneurs. These migrants travel under a work contract with social security protection, and enjoy the same guarantees as Spanish citizens.

**Figure 9. Motives for Ecuadorian Migration**  
(Percentage share each year)

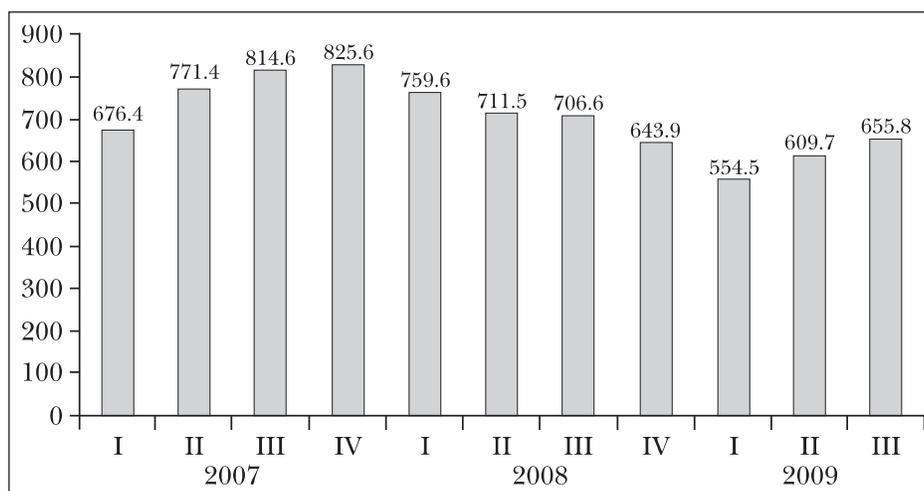


Source: ENEMDU survey, INEC 2007.

#### 1.4 THE EVOLUTION AND IMPORTANCE OF REMITTANCES

Remittances from abroad are of great importance to the economy of Ecuador and in particular to beneficiary families. BCE data show that during 2004-07 these flows averaged an annual growth rate of 19%, but subsequently declined in 2008 and 2009. Thus, in 2009 remittances amounted to USD 2,495 million, resulting from 7.2 million transfers of an average value of 348 dollars. It is worth noting that this figure represented a 19.2% fall with respect to 2007 data. Remittance outflows from Ecuador, on the other hand, are low.

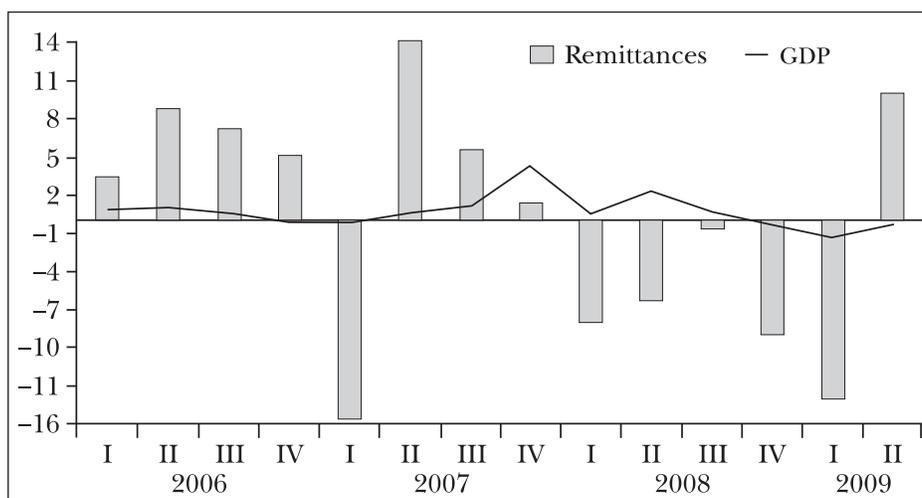
**Figure 10. Remittance Inflows to Ecuador**  
(In millions of USD)



Source: BCE, 2009.

The decline in remittance inflows during 2008 and 2009 is attributable to weaker economic activity in those countries where Ecuadorian migrants are present.

**Figure 11. Quarterly Growth Rates in Remittances and GDP**



Source: Prepared from BCE data.

It should be noted that remittance inflows tend to be higher in the months of April, May, September and December due to seasonal factors.

**Table 2. Remittances from Abroad by Country**  
(January - December 2008)

Country	Percentage share (%)
U.S.A.	46.84
Spain	41.02
Italy	7.48
Mexico	1.41
United Kingdom	0.65
Venezuela	0.31
Belgium	0.27
Uruguay	0.27
Colombia	0.26
Chile	0.20
France	0.17
Germany	0.16
Other	0.95
<b>Total</b>	<b>100.00</b>

Source: Banco Central del Ecuador.

The geographical origin of remittances has been very stable during recent years. Thus, the U.S.A., Spain and Italy account for 95% of these flows. During 2009 46.4% of remittances were channeled through financial institutions (credited to checking or savings accounts), while the remaining 53.6% were sent via *courier* companies. Financial institutions have been able to improve their market positioning in the disbursement of remittances, given that in 2005 their market share was 40%.

The principal use of remittances is for family consumption (household maintenance and education). These resources represent a very large income component for thousands of Ecuadorian households, and have contributed to poverty reduction in the country. Remittances also increase the national income and represent a source of balance of payments financing. However, it should be recognized that by increasing private consumption they may generate inflationary pressures and provoke certain distortions in the labor market, the latter in view of the fact that some workers who benefit from remittances have lost interest in local employment opportunities due to expectations of migration.

## 2 INSTITUTIONAL ASPECTS

### 2.1 GENERAL LEGAL FRAMEWORK

There are no specific regulations for remittance transactions in Ecuador, since the regulation and oversight of this market have taken place under the regulation of financial intermediation entities as one of their activities. Within this framework, remittances are supervised by the Bank and Insurance Supervisor, as an authorized activity of financial intermediation entities (banks, cooperatives and mutual societies). Non-financial players (*couriers*) report their financial statements to the Corporate Supervisor in compliance with the provisions of this agency. Their transaction reports on remittance disbursements are sent to the Banco Central del Ecuador (BCE) for statistical purposes. There also exist cooperatives which undertake transactions in the remittances market, but who are not licensed by the Bank Supervisor nor report to the BCE, although they are registered at the Ministry of Economic and Social Inclusion (MIES). It should be pointed out that all these entities, whether financial or non-financial, are obliged to comply with the anti-money laundering regulations set out by the Financial Intelligence Unit (UIF).

The BCE is in the process of implementing new regulations for the remittances market governing activities, responsibilities and transactions, including the access to statistical information. This regulation, aimed at the payments system, also covers the remittances market.

#### 2.1.1 Financial System

The General Financial System Institutions Act of Ecuador regulates the creation, organization, activities, functioning and termination of institutions of the private financial system operating in the country, including:

- banks,
- financial societies,
- mutual savings and housing credit associations, and
- savings and credit cooperatives engaging in financial intermediation with the public.

This Act also defines the attributes of the Banking and Insurance Supervisory Agency and establishes those activities that may be undertaken with the authorization of this oversight body. The Supervisory Agency must ensure compliance with the norms governing accounting, operations and management of internal control systems, as well as establish responsibilities and apply sanctions when called for. Within this framework, remittances disbursed by the financial entities which come under the control of the Supervisory Agency form part of the legally authorized activities for these entities.

In general terms, private financial institutions may engage in the following transactions in domestic or foreign currency, or in units of account established by law:

- a. Receive demand and term deposits from the public.
- b. Assume third-party obligations through acceptances, letters of credit and the issuance of internal or external guarantees.
- c. Issue liabilities backed by their assets and net worth in accordance with the Securities Market Law.
- d. Receive loans and accept credits from domestic and foreign financial institutions.
- e. Grant mortgage loans, with or without deeds.
- f. Grant credit on current accounts, whether contracted or not.
- g. Negotiate documents that represent payment obligations originating from sales on credit, resulting from foreign trade transactions, securities and foreign documentary letters.
- h. Make deposits in domestic and foreign financial institutions.
- i. Purchase fixed-income securities in accordance with the Securities Market Law, put or call options and futures, engage in money market transactions and participate in OTC securities transactions.
- j. Engage in foreign exchange transactions and contract repurchase agreements.
- k. Provide safe-box and treasury services.
- l. Carry out transfers of funds, as well as issuing drafts against their own accounts or those of domestic or foreign financial institutions.
- m. Accept securities in deposit as custodian.
- n. Act as issuer or operator of credit, debit or prepaid cards.
- o. Carry out leasing operations.
- p. Retain real estate for operational purposes.
- q. Purchase equipment and intangibles for provision of services.
- r. Buy and sell precious metals in coin or ingot.
- s. Issue securities backed by a portfolio of own or purchased mortgage or other asset-backed loans, so long as in the latter case they originate in active loan transactions by other financial institutions.

- t. Underwrite the placement of shares or securities.
- u. Invest in the share capital of financial groups. and
- v. Invest in the capital of other financial institutions with which merger agreements have been reached.

Foreign currency transactions must abide by the norms issued by the Board of the Banco Central del Ecuador. Financial institutions require authorization by the Supervisor to engage in new transactions or financial services, whose nature must be described. With this information the Supervisor must request a report from the Board of the Banco Central del Ecuador. These transactions or services may be suspended ex-officio or at the request of the Board of the Banco Central del Ecuador, when they imply deviations from the established framework for financial activities, or for reasons of monetary or credit policy.

### **2.1.2 Foreign Exchange Market and Remittances**

As from the dollarization of the Ecuadorian economy, the central bank regulations governing its participation in the unregulated foreign exchange spot and futures markets were abolished.

All legally authorized purchase and sale transactions of foreign currencies other than the United States dollar – except for those that must be carried out at the central bank – may take place at those financial institutions that are legally authorized to operate in foreign exchange. Private banks and financial societies must report weekly to the Central Bank and the Bank Supervisor with daily data on their purchase and sale transactions in foreign currencies other than the US dollar – including futures and other transactions in derivatives – indicating the amount, maturity and price.

### **2.1.3 Payments Systems**

The Banco Central del Ecuador is the institution charged with ensuring, guaranteeing and supervising compliance with financial policy through the Payments System, via which it carries out the clearing and settlement of transactions ordered by public entities and financial institutions, thus guaranteeing monetary, fiscal and financial equilibrium. The uninterrupted functioning of the daily settlement process in the system has improved liquidity risk management. This process allows for a better systemic risk control by the Banco Central del Ecuador, as well as enabling it to act in a potential breakdown situation of the payments system.

While there is no Payments System Law, the regulations are designed to govern the functioning and operations of those systems that the BCE manages and administers directly. Thus, the legal framework includes:

- The Constitution of the Republic of Ecuador.
- The Monetary Regime and State Bank Law.

- Law for the Economic Transformation of Ecuador.
- General Law for Financial System Institutions (LHGISF) and amendments.
- Amendments to the Securities Markets Law.
- The Regulatory Code of the Banco Central del Ecuador, which regulates and establishes administrative responsibilities in the national payments system.
- Resolutions issued by the Bank and Insurance Supervisory Agency, which regulates financial system operations.
- The Checking Law and its Regulation (RO. 898: Sept. 26th 1975), which governs the use of checks.

## **2.2 REGULATION, SUPERVISION AND OVERSIGHT AUTHORITIES**

### **2.2.1 Banco Central del Ecuador**

The process of dollarization of the Ecuadorian economy implied a complete transformation of economic policy in the country. In this context, the Banco Central del Ecuador has undergone internal structural changes focusing on a regime based on the free circulation of foreign currency and the substitution of local currency by the US dollar as the store of value, unit of account and means of payment and exchange. During this process the Banco Central del Ecuador underwent an integral reform of its Charter, which governs and describes its mandates.

Under its new Charter the BCE continues to be charged with promoting and contributing to the economic stability of the country, monitoring the macroeconomic program, contributing to the development of the nation and implementing the monetary regime of the Republic, which involves managing the payments system, investing the non-committed reserves and acting as depository of public funds and as the fiscal and financial agent of the State.

### **2.2.2 Banking and Insurance Supervisory Agency**

The Bank and Insurance Supervisory Agency (SBS) is a technical and autonomous entity charged with the oversight and control of institutions in the public and private financial systems, as well as insurance and reinsurance companies and all others defined in the Constitution and by law.

This Supervisory Agency is empowered with ensuring the stability, soundness and correct functioning of the institutions subject to its control, and in general to ensure compliance with the regulations governing their activities. It must also formulate the control and oversight policies for the financial system, approve standards for technical capital requirements and the risk-weighting of assets, and provide an opinion on the incorporation and liquidation of financial institutions. It must also determine those operations and services not expressly included in the Law that are compatible with the activities of financial institutions. The SBS must ensure that the information

on the institutions under its control be publicly available and provided clearly and accurately so as to be understood, and without restriction establish inspection and preventive monitoring programs for the institutions under its control, so as to gain understanding of their economic and financial situation, their business procedures or other essential aspects as may be required. Likewise the SBS must verify the accuracy of the information provided to the Banco Central del Ecuador by institutions of the financial system

Finally, financial system entities must establish and maintain within the SBS a central registry for risk management providing consolidated and classified information on their main debtors. Said information will be available exclusively to them.

### **2.2.3 Financial Services Consumer Protection**

The Consumer Protection Law in Ecuador establishes a Public Defender as a watchdog agency. This Law stipulates that the National Congress must inform in advance all trade organizations of suppliers of goods and services of any legislative bills affecting consumers or impacting relations between suppliers and consumers, in order that the views of these organizations are taken into account. Any rejection of their proposals must be duly justified.

At the same time, the official agency known as the Public Defender must define what information provided by suppliers of goods and services is deemed sufficient according to law. Also, in order to provide for transparency in credit transactions, the documentation related to the payment of services must contain the breakdown of capital and interest, together with details on any additional charges.

All claims and complaints pertaining to private banking institutions which are not covered by the provisions of the Consumer Protection Law shall be submitted to the Bank Supervisor for consideration and judgment.

### **2.2.4 Corporate Supervisor**

The Companies Act of November 1999, which is regulated and enforced by the Corporate Supervisor, establishes the type of companies which may be incorporated in the country – including *couriers* – and provides the former with the authority to supervise the latter. The law provides that the Corporate Supervisor is in charge of monitoring and controlling the organization, activities, functioning, dissolution and liquidation of companies and other entities according to the circumstances and conditions established by the Law. Because of this provision, the *couriers* participating in the remittances market are monitored and controlled by the Corporate Supervisor.

### **2.2.5 Financial Intelligence Unit**

The Financial Intelligence Unit (UIF) is a dependency of the National Anti-Money Laundering Council charged with preventing and detecting cases that may potentially be related to the crime of asset laundering. This agency contributes to the efficient, technical and timely eradication

of asset laundering on the basis of the analyses it carries out and the reports it delivers to the Public Ministry. Its main functions are:

- To set up programs and implement actions to detect unusual and unjustified transactions, and to punish them and recover the funds involved.
- To request from obligated parties reports on the information considered necessary for discharging its functions, for purposes of processing, analyzing and safekeeping.
- To coordinate cooperation with analogous agencies in order to exchange specific or general information related to asset laundering, as well as to implement rapid and efficient joint action.
- To remit to the Public Ministry information related to unusual or unjustified economic operations and transactions.
- To operate a database with all the information obtained.
- To organize training programs in the prevention of money laundering. and
- To seek the recovery of illicit funds and assets.

In order to monitor financial entities and the transactions these conduct, the UIF requires financial institutions and insurance companies to register the identity (general information) of all customers, whether longstanding or occasional. This information must be filed in easily accessible and available magnetic media, and must be updated throughout the duration of the client relationship. Similarly, all transactions in excess of USD 10,000 must be reported within 48 hours.

## **2.3 THE ROLE OF OTHER RELEVANT ORGANIZATIONS**

### **2.3.1 Internal Revenue Service**

The Internal Revenue Service (SRI) is a technical and autonomous entity with the responsibility of collecting the internal taxes established by law, through the application of the regulations in force. The role of SRI is relevant due to the existence of a tax on foreign currency outflows, including the outbound remittance transactions carried out by the providers of these services. In this context, financial entities act as the tax withholding agents when they transfer foreign exchange abroad under client instructions, in the same way that BCE acts as withholding agent when transferring funds abroad on instructions from these entities. The *courier* companies that send foreign exchange abroad (remittance companies) act as withholding agents when they send money abroad on client instructions. From an operational viewpoint, the tax is levied on the value of all outward monetary operations and transactions, regardless of the intervention of financial system entities. The rate is 0.5% and must be paid by all natural persons, inheritances and foreign or domestic private companies.

### **2.3.2 National Statistics and Census Institute**

In one of its articles the Statistics Charter Law establishes the creation of a special department known as the Directorate General of Statistics and Civil Registry, which is charged with the annual compilation and publication of statistical data on population, public education, foreign and internal trade, industry, banking, commercial and loan societies, public treasury and credit, among others.

The most relevant provision of the statistics law is the publication of a Statistical Yearbook of the Republic of Ecuador and of quarterly bulletins containing economic and migration information. All public offices must send their data to the Directorate General of Statistics.

### **2.3.3 International Organization for Migration**

In Ecuador, the work of the International Organization for Migration (IOM) is aimed at the subject of human mobility (international migration), an area in which it has organized several projects. It also provides legal labor advice to Ecuadorians residing in other countries.

Following joint work with the Ecuadorian Foreign Ministry, in 2002 a Technical Unit for the Selection of Migrant Workers was created. This unit prepared a database comprising Ecuadorian workers interested in working in Spain. With this data, the Ministry and OIM undertake a preliminary selection of workers and process the required documentation with Spanish employers. That same year, in joint efforts with OIM England, a Voluntary Return and Reinsertion Program was also implemented, which consists in providing support for the return under dignified conditions of undocumented Ecuadorian migrants residing in England. Once in Ecuador, financial support is provided for their insertion into productive economic activities with the potential for long-term sustainability. Following this pilot project, the program was replicated with the Government of Spain.

### **2.3.4 Ministry of the Economy and Finance**

The Ministry of the Economy and Finance of Ecuador is the organization charged with managing public finances in the country, promoting an efficient and transparent assignment of public resources. Its current role –following the changes introduced under the economic reform in Ecuador– includes the programming and efficient supervision of the public sector according to public policy guidelines and the goals of the national development plan, to ensure a timely and sustainable flow of public debt. It is also charged with the preparation of annual and multiyear budgets, the transparent, efficient, modern, integrated and on-line management of the flow of income and transfer of public resources, the provision of adequate operational solutions to the substantiated and legitimate requirements of the authorities, other institutional players and society, together with communication and accountability towards citizens, and the coordination of economic, financial and fiscal projections that contribute to the sustainability of fiscal performance in the macroeconomic context.

### 3 DESCRIPTION OF REMITTANCES

#### 3.1 DEFINITION AND CONCEPT OF REMITTANCES

The Banco Central del Ecuador defines remittances in accordance with the Balance of Payments Manual of the International Monetary Fund (5th edition, 1993) as those current transfers made by migrant residents who it is expected will remain more than one year in the host economy.

#### 3.2 DESCRIPTION OF REMITTANCE SENDERS

Over the last ten years there has been sustained growth in Ecuadorian migration and consequently in remittances flowing to Ecuador. This trend was initially related to the economic crisis that Ecuador underwent in the late 90s, marking the beginning of a period during which remittance inflows grew until surpassing USD 500 million in 1996. Following the crisis brought about by the fall in oil prices (1998-99), there was a surge in remittance transfers that resulted in a tripling of their magnitude over the next six years. It is worth noting that approximately two thirds of Ecuadorian families have a relative abroad who migrated more than five years ago and is sending remittances. This migration was initially due to the generalized economic crisis in the country that implied the closing down of banks, the rapid depreciation of the currency, commercial bankruptcies and an overall environment of financial instability.

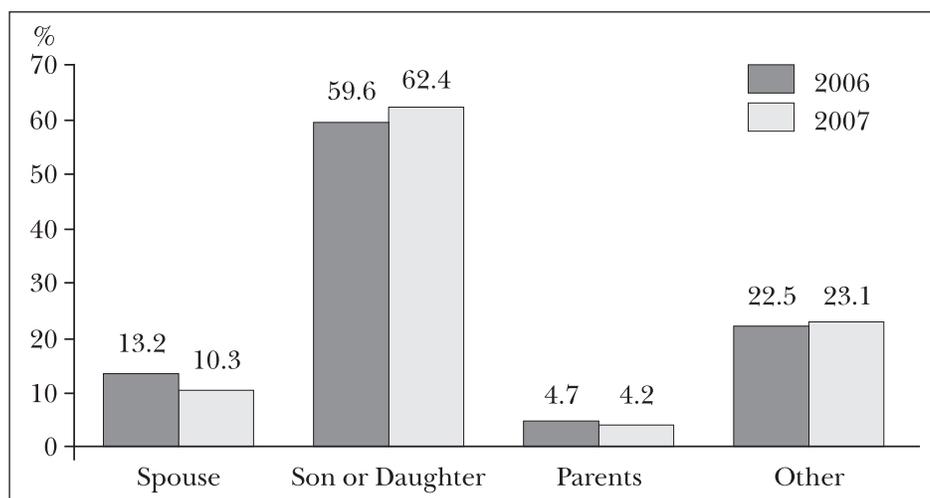
**Figure 12. Migrants Sending Remittances to Ecuador**  
(Distributed by gender)



Source: INEC 2006.

The results of various remittances studies indicate that the main motive for migration for about 80% of Ecuadorian migrants was to send money to their families. Other results show that approximately 60% of remittance-sending migrants are sons/daughters or direct members of the beneficiary families, while about 20% of them are spouses or parents of beneficiaries. As far as their age brackets are concerned, the largest migrant group is between 24 and 29 years old.

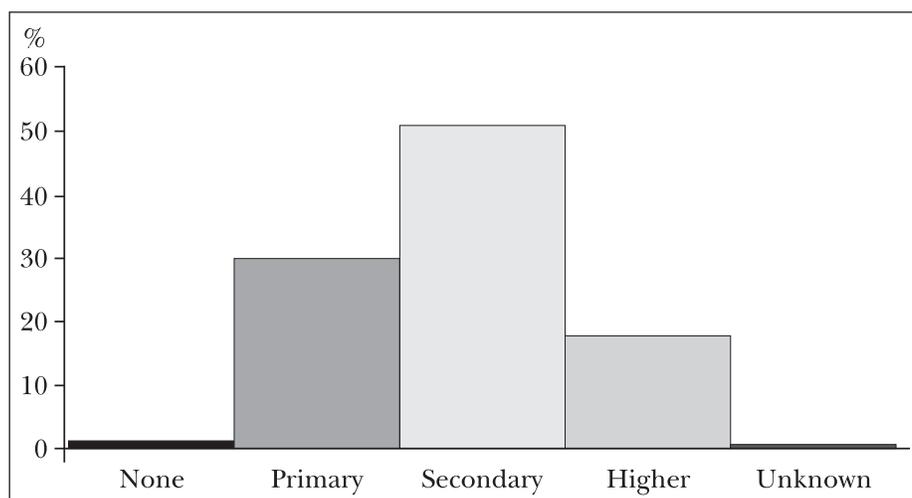
**Figure 13. Relationship of Remittance Senders to Ecuadorian Families**



Source: ENEMDU (INEC, 2007).

One aspect of the Ecuadorian migratory phenomenon is that the propensity to migrate is not necessarily associated with reduced scholastic or income levels. In fact, close to 50% of migrants have at least completed their high school education.

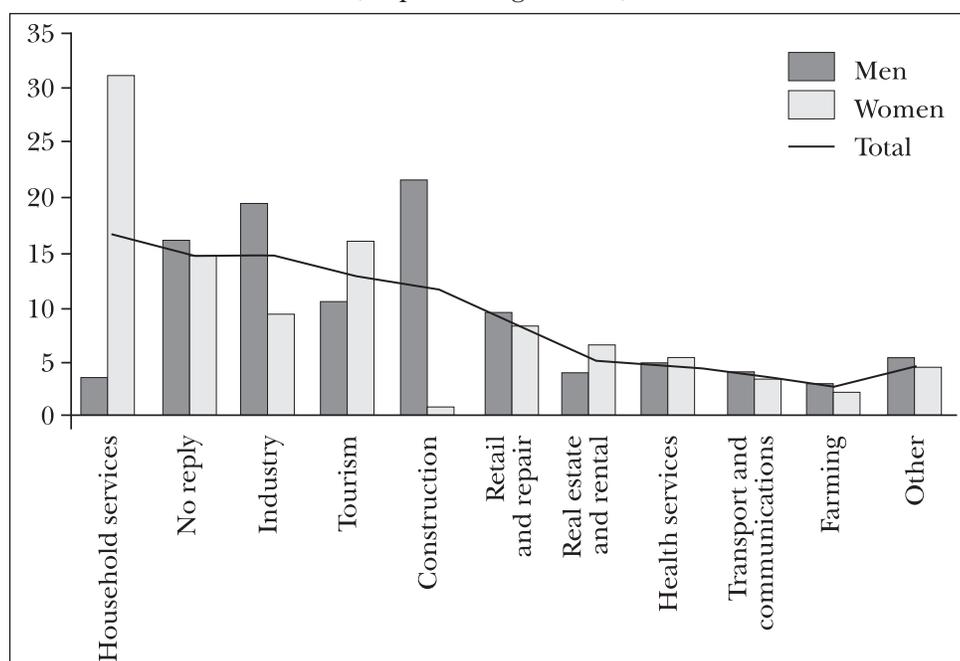
**Figure 14. Educational level of Ecuadorian Remittance Originating Migrants**  
(In percentage terms)



Source: ENEMDU (INEC, 2007).

With respect to employment in sectors of economic activity abroad, male Ecuadorian migrants work in industry and construction while female migrants are employed in household services and tourism.

**Figure 15. Occupational Sector of Ecuadorian Remittance Originating Migrants**  
(In percentage terms)

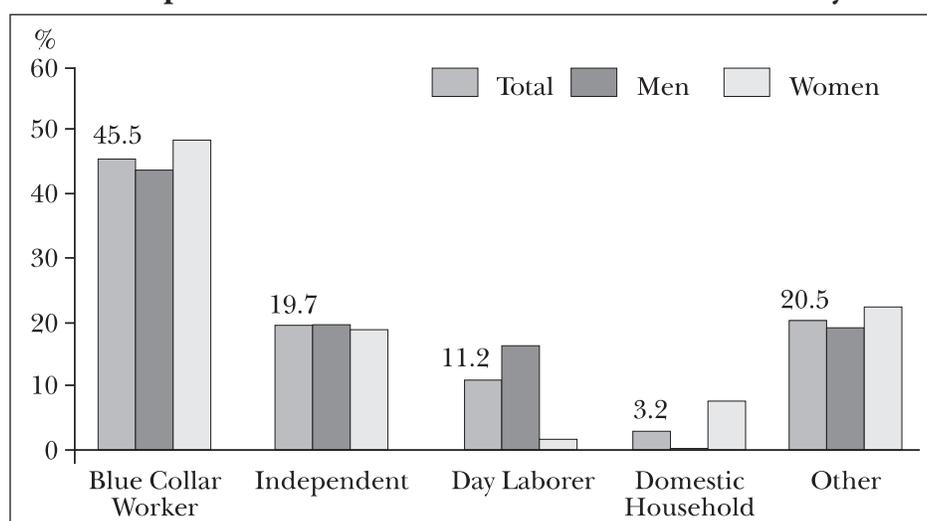


Source: ENEMDU (INEC, 2007).

### 3.3 DESCRIPTION OF BENEFICIARIES

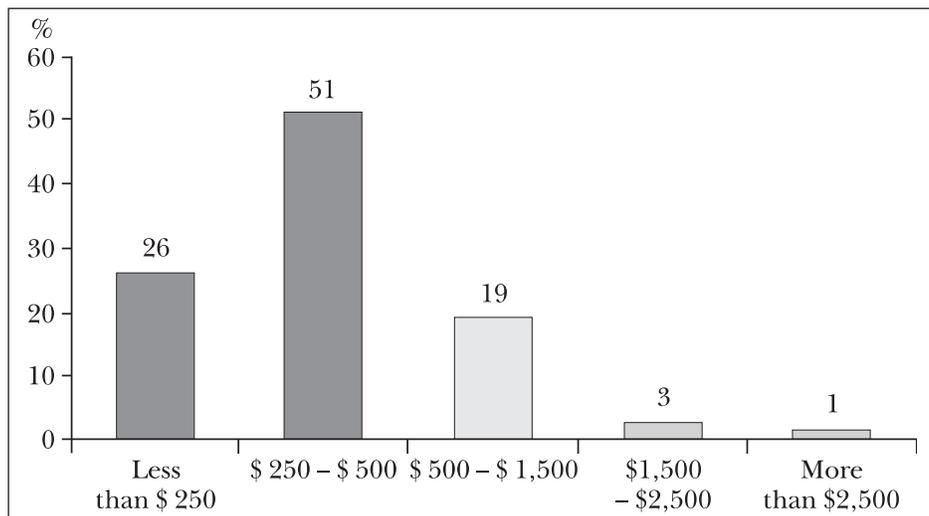
National Institute for Statistics and Census (INEC) data for 2007 show that approximately half of remittance beneficiaries are worker families with monthly income ranging from USD 250 to 500, followed by a segment of independent workers employed in activities that could be considered as informal.

**Figure 16. Occupation of the Head of a Remittance Beneficiary Household**



Source: ENEMDU (INEC, 2007).

**Figure 17. Monthly Income Level of Remittance Beneficiary Households**

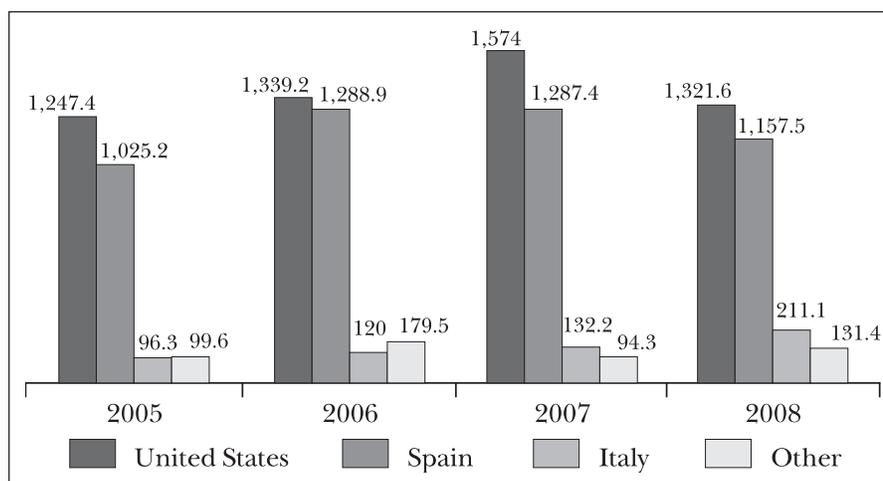


Source: BID, 2004.

### 3.4 REMITTANCE INDICATORS IN ECUADOR

Data from the Banco Central del Ecuador show that in recent years remittances received from the United States, Spain and Italy account for 95% of the total market. In terms of the average transaction value, those coming from Europe are substantially larger than those sent from the United States. Specifically in 2009, remittances from the United States and Spain averaged USD 299 and USD 516, respectively.

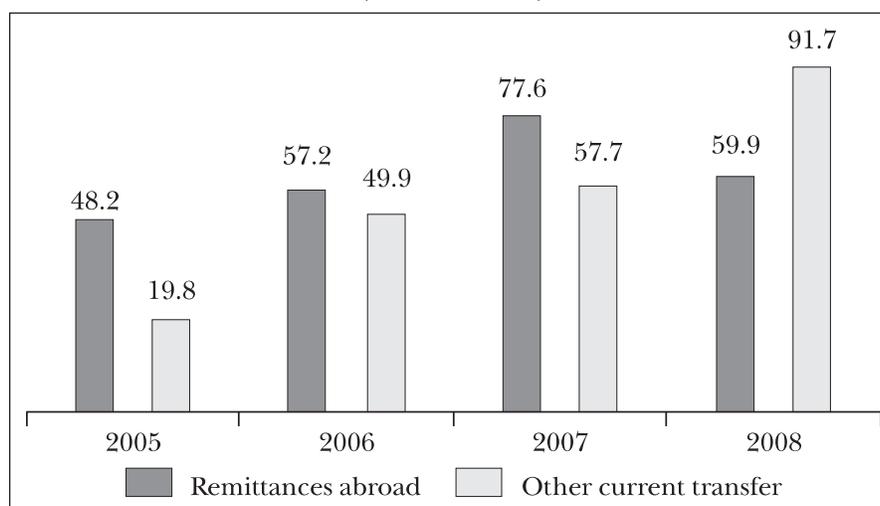
**Figure 18. Remittance Disbursements by Country of Origin (2005-2008)**  
(USD millions)



Source: Prepared by BCE with data from financial institutions and courier companies.

Ecuador is also a host country to migrants, who work primarily in the construction, farming and retail sectors. During 2009 total remittances sent abroad to Peru, Colombia, Nicaragua, Venezuela, Bolivia, Cuba and other countries reached USD 74.9 million. Money sent out of Ecuador on the “other current transfers” account takes the form principally of cash or “in kind” transfers, reflecting among other items, child support and alimony payments, inheritances, gifts, etc.

**Figure 19. Remittances and Other Current Transfers**  
 (2005 – 2008)  
 (USD millions)



## 4 INTERNATIONAL REMITTANCE SERVICE PROVIDERS

Practically all remittances in Ecuador are disbursed by institutional providers that are registered with the Bank Supervisor, the Corporate Supervisor or the Ministry of Social and Economic Inclusion (MIES). The main remittance disbursing agents in the local market are therefore financial institutions (banks, the BCE, savings and credit cooperatives and mutual associations) and *courier* companies.

**Table 3. Market Share of Remittance Disbursements by Type of Operator**  
(2005–09)

	2005	2006	2007	2008	2009
Financial Institutions	49.6	43.5	47.3	47.0	46.4
<i>Courier</i> companies	50.4	56.5	52.7	53.0	53.6
Total:	100.0	100.0	100.0	100.0	100.0

Source: BCE.

The remittances market in Ecuador is characterized by a high degree of concentration. In 2008, for example, only two entities disbursed 34.2% of the total foreign exchange inflow. Additionally, the high volume of remittances entering the country has encouraged certain financial institutions and *courier* companies to participate in the originating market abroad by opening agencies in various cities in the United States.

### 4.1 INSTITUTIONAL PROVIDERS

Institutional remittance service providers in Ecuador can be classified in two groups: (i) institutions that are registered and authorized to carry out remittance transactions, and (ii) institutions that lack a specific authorization to provide remittance disbursement and origination services. Registered institutions correspond mainly to financial intermediaries that operate with the authorization and under the supervision of the SBS. All of them are obliged to report their transactions.

**Table 4. Disbursement of Remittances in Ecuador by Type of Operator**  
(2005 – 2009)

	2005	2006	2007	2008	2009
Financial Institutions	978.1	1,268.9	1,464.1	1,326.2	1,158.0
Private Banks and BCE	968.8	1,253.9	1,442.9	1,295.1	1,117.7
Mutual Societies & Cooperatives	9.3	15.0	21.2	31.0	40.3
<i>Courier</i> Companies	1,490.5	1,658.7	1,623.9	1,495.4	1,337.5
Total	2,468.6	2,927.6	3,087.9	2,821.6	2,495.4

Source: BCE.

The other institutional players providing remittance services are incorporated under the Corporate Supervisor regulations and are unsupervised.. Amongst these firms the best known are *couriers*. Although these entities are not formally registered with a supervisory and oversight authority, they report their transactions to the Corporate Supervisor within the framework of applicable regulations, while the latter shares this information with BCE under joint bilateral agreements.

## 4.2 REGISTERED INSTITUTIONAL PROVIDERS

All institutions that form part of the financial system may engage in remittance and currency exchange transactions. Among them there are 12 commercial banks and 12 mutual associations and savings & credit cooperatives that currently participate in the remittances market.

**Table 5. Regulated Entities Participating in the Remittances Market**  
(End of 2008)

	<i>Entities</i>	<i>Percentage share in the remittances disbursement market</i>
Commercial banks	12	45.9%
Mutuals and Savings & Credit Cooperatives	12	1.1%

*Source: BCE.*

Among the registered institutional providers, banking financial institutions have improved their positioning as remittance disbursers. While in 1995 this sector had a market share of 39.6%, it currently exceeds 45%. The share of Savings and Credit Cooperatives, on the other hand, is only 1.1%.

### 4.2.1 Commercial Banks

**Table 6. Commercial Banks Active in the Remittances Market**  
(End of 2008)

	<i>Reference name</i>	<i>Main office</i>
Banco del Austro	Austro Giros	Cuenca
Banco Bolivariano	Ecuagiros	Guayaquil
Banco Delbank	Banco Delgado	Guayaquil
Banco del Pacífico	Banco del Pacífico	Guayaquil
Banco de Loja	Banco de Loja	Loja
Banco Comercial de Manabi	Banco Comercial de Manabí	Portoviejo
Banco Produbanco	Produbanco	Quito
Banco de Guayaquil	Banco de Guayaquil	Quito
Banco del Pichincha	Banco del Pichincha	Quito
Banco Solidario	Banco Solidario	Quito
Banco Internacional	Banco Internacional	Quito
Banco Procredit	Banco Procredit	Quito

*Fuente: SBS.*

Table 6 presents those banks that participate in the remittances market.

In 2008 the Bank Supervisor issued Regulation 1150 allowing the entities under its supervision to enter correspondent agreements with non-bank operators, who may take deposits but not pay out withdrawals, thus limiting their activities as remittance disbursers. According to the Bank Supervisor, to date only one commercial bank has registered non-bank correspondents.

#### **4.2.2 Savings and Credit Cooperatives**

Savings and Credit Cooperatives are a group of entities with a strong presence in the Ecuadorian financial system. Because of this, the Banking and Insurance Supervisory Agency created the Supervisory Division for Savings and Credit Cooperatives, in line with its Plan for Strengthening Financial System Supervision. This was intended to improve the quality of supervision for savings and credit cooperatives engaging in financial intermediation, in order to protect depositor interests by monitoring the main indicators of the entities so as to ensure their stability and solvency. The Banking and Insurance Supervisory Agency controls 38 of these entities, which at December 2008 had USD 1,390 million in assets under management.

While these entities have carried out important efforts in financial inclusion, they still have very low participation in the remittances market.

#### **4.2.3 Savings and Credit Mutual Societies**

The system of savings and credit mutual housing societies has experienced sustained growth in recent years. Its assets have increased by 38.3% over the last six years, proving that despite the difficulties faced by the financial system the general public preserves its faith in these institutions. As in the case of cooperatives, however, their market share as remittance disbursers is still low. Together with the latter, they disburse no more than 1.1% of total remittance inflows to Ecuador.

### **4.3 UNREGISTERED INSTITUTIONAL PROVIDERS**

Among unregistered institutional remittance providers, international MTOs (money transfer operators), the Post Office and other may or may not have generic authorization for the provision of certain services, but they lack specific authorization to provide international remittances services. To date the international MTOs have not opened their own offices and operate through agreements with banks, *couriers*, exchange houses or other remittance-disbursing agents. Disbursements made through entities other than banks or other financial intermediaries, such as *couriers*, are considered as unregistered entity transactions.

#### **4.3.1 Couriers**

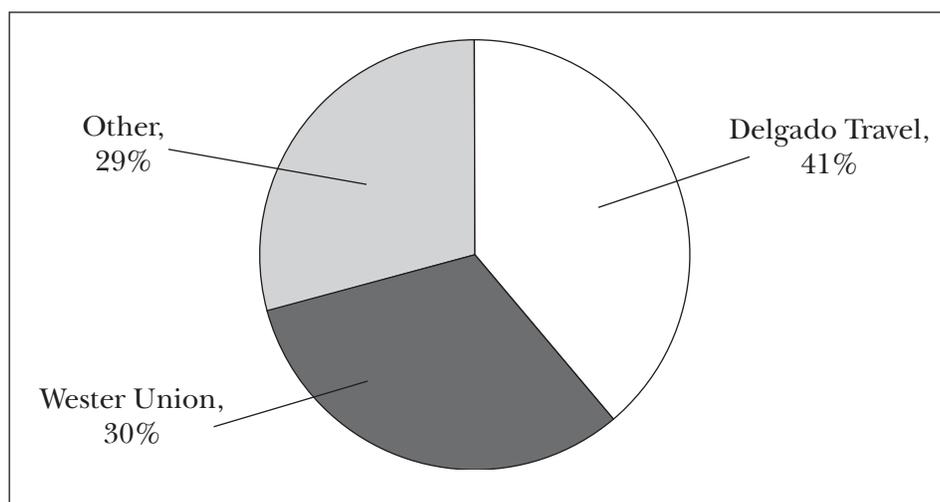
*Courier* companies in Ecuador have traditionally had a strong participation in remittance disbursements. In 2009 their market share was 53.6%. Together with international postal traffic, these companies are afforded a special or exceptional customs regime, since they engage in the international transport of merchandise up to a maximum value of USD 4,000.

The Ecuadorian Customs Commission (CAE) keeps a registry of companies engaging in international postal traffic and express *courier* mail, and requires compliance with customs procedures as set out in the Customs Regulations Rulebook, which establishes that:

- *Couriers* must deposit a USD 30,000 guarantee with the CAE,
- It is forbidden to import or export merchandise prohibited by law, and
- The transport of cash is prohibited.

These companies also disburse remittances through agreements with MTOs who originate these flows abroad. Their important market share has led them to be included under the supervisory regulation of the Corporate Supervisor, enabling them to engage in wiring and transferring funds. This allows them to send and receive remittances from abroad, although the prohibition on transporting cash stands. *Couriers* currently maintain agreements with financial institutions in Ecuador in order to participate as remittance service providers. In this context, the Corporate Supervisor registry contains more than 300 legally incorporated *courier* companies in the country. A fundamental aspect is that while they are not required to provide information on the money transfers they engage in, they provide this data voluntarily. It is worth noting that *courier* companies also operate with remittance disbursement sub-agents, such as drugstores, supermarkets, household appliance stores and others, allowing them to broaden their payments network.

**Figure 20. Principal MTOs Operating with *Courier* Companies**



*Source: Prepared with data obtained during the mission.*

Of the 300 *courier* companies registered with the Corporate Supervisor, only 23 of them act as remittance disbursers in the market. There is a high degree of market concentration, however, since two of them disburse 58% of total remittances.

## **4.4 NON-INSTITUTIONAL PROVIDERS**

Remittances entering Ecuador through informal providers, whether in-kind or in-cash, are delivered by messengers and commonly referred to as pocket-remittances.<sup>1</sup>

### **4.4.1 Cash Transported by Travelers**

Migrants returning to the country may introduce pocket-remittances or bring them in as a favor for a relative, friend or acquaintance. This is not a practical means for periodically sending family remittances. The incoming flows cannot be properly measured.

### **4.4.2 Cash Transported by Messengers**

Messenger or delivery services habitually and regularly engage in the transport of funds. However, the practicality and savings implied by the use of electronic media and the institutional financial system has led to a decline in the market share of messengers.

Separately, the transport at request of so-called nostalgic goods is another modality of in-kind remittances which, while not yet measured by BCE, is not quantitatively significant.

### **4.4.3 Other Means of Transport and Payment of Remittances**

There are other means different to those already mentioned for the transfer of remittances from abroad. Thus, there are migrants who send credit, debit or prepaid cards to their relatives in Ecuador, which can then be used at any automated teller machine (ATM) or point of sale (POS) for cash withdrawals or payment for the purchase of desired goods and services. This type of remittance cannot be statistically measured by the agencies of control. Although payments and cash withdrawals made with international cards are channeled through registered institutional means such as the financial system, their identification and quantification as remittances is still a very complex task.

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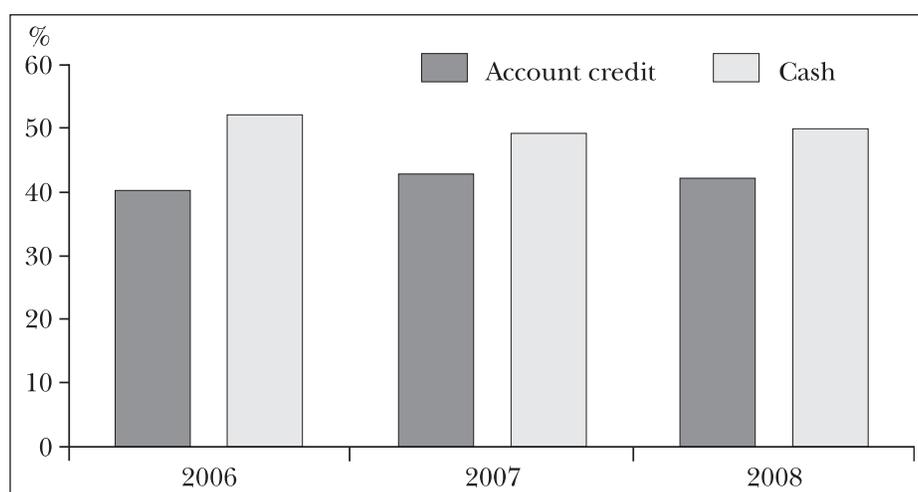
<sup>1</sup> Pocket-remittances are those which are delivered personally by the traveler and are not included in the travel costs.

## 5 MEANS OF PAYMENT FOR REMITTANCES

The disbursement of remittances in Ecuador – as in most beneficiary countries - is carried out mainly in cash or through account deposits. In Ecuador the percentage of remittances credited to bank accounts exceeds that observed in many other countries. This is due to the important effort by financial institutions, and even *couriers*, to provide banking services to their beneficiary customers. Thus, in recent years the share of remittances received and deposited in accounts has been around 47%.

Cash disbursement has the advantage of simplicity and allows beneficiaries to use these funds for consumption. Greater financial inclusion, however, offers the advantage of access to financial services such as credit, savings and insurance. One disadvantage of cash payment for the remittance-disbursing entities is their need for sufficient coin and banknotes, implying an additional operating cost.

**Figure 21. Use of Means of Payment in Remittance Disbursement**



*Source: Prepared by BCE with data from financial institutions and courier companies.*

There are other forms of remittances disbursement - such as checks, credit, debit and prepaid cards, or mobile phone payments – for which there is insufficient detailed information to quantify their importance. This type of transaction cannot be identified as a remittance, or gets confused and included under data reported as account deposits and the like.

### 5.1 CASH

The use of cash as a means of disbursing remittances is widespread. In 2008 it represented almost 53% of the total value of remittances disbursed and 58% of the number of transactions. This figure was 54% in the case of financial institutions and 53% for *couriers*. The latter shows that *couriers* have made an important effort to adapt to the needs and requirements of their customers by offering, as in the case of financial entities, alternative forms of payment such as account deposits.

For their part, in 2008 the savings and credit cooperatives and mutual associations disbursed more than 98% of remittances in cash. This reflects their relatively recent incursion into this activity and their reduced market share, which limits their possibility of offering alternative payment modalities.

## 5.2 CHECKS

The disbursement of remittances to beneficiaries by means of checks is rare, with very few transactions and therefore statistically irrelevant.

## 5.3 ACCOUNT DEPOSITS

The use of account deposits for disbursing remittances has acquired growing importance in recent years. The deposit beneficiary may then dispose of the funds by means of cash withdrawals, or by using debit cards and other instruments linked to the account.

This instrument is characterized by security and convenience for the beneficiary, but is a service provided exclusively to those who already have or are able to open an account in the financial system. It is currently estimated that in Ecuador about 47% of the value of remittances received is disbursed through this means, which exceeds the figure observed in other countries in the region, where remittances deposited to account range from 10% to 15% of the total value disbursed. Account deposits represented 42% of the total number of transactions, implying that their average value is higher than that of cash disbursements.

It is noteworthy that 47% of the value of remittance disbursements by *couriers* represents account deposits, given that these entities are not authorized to open deposit accounts for the general public. When a bank receives a remittance from abroad with an instruction to credit an account, it simply deposits the funds in the account to which they are sent (even in those cases where the account is not with the same financial entity, the funds can be credited via the low-value interbank payments system). But when a *courier* receives a transfer from abroad for account deposit, it must be carried out via its own accounts in the banking system or through a cash deposit or other instrument, thus making the process more complex and expensive.

Similarly, various types of payment can be made at the same entity where funds are held by means of bank transfers (*home banking*). The maximum value for daily funds withdrawal at an ATM or other entity depends on each bank but in general does not exceed USD 200, which corresponds to the average monthly remittance received by an Ecuadorian family.

## 5.4 POSTAL INSTRUMENTS

Postal drafts are a payment instrument that is commonly used as an alternative to traditional payments by the Post Office in Ecuador. This transfer modality began in late 2008, primarily for payments coming from Latin American countries such as Uruguay, Chile and Argentina. The total value transferred by this means is still low.

## 5.5 CARDS

There are no products yet on offer in the Ecuadorian market specifically designed for the use of credit, debit or prepaid cards in the disbursement of remittances.. However, it is possible to use international cards issued abroad in order to make payments or withdraw cash at ATM or POS in Ecuador.

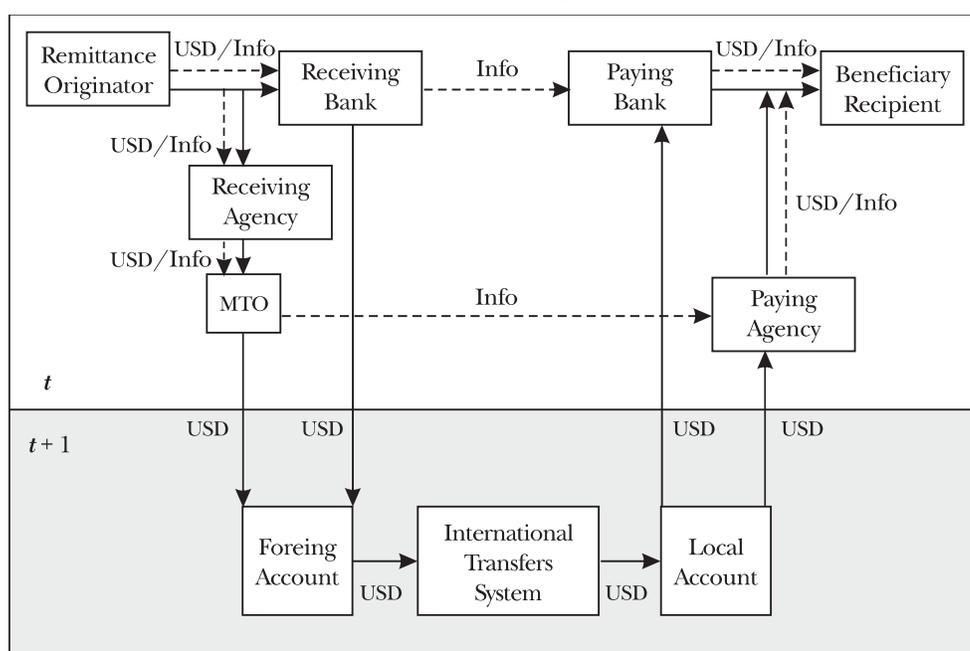
These cards might originate from an account abroad that is replenished by the remittance originator, so that the beneficiary may withdraw the funds in Ecuador. This type of transfer can be mistaken for one of the myriad of foreign card transactions, which include among others, spending by foreigners in the country as tourists or temporary visitors. It is therefore impossible to quantify these remittance transactions and there is no official data on them.

## 6 SYSTEMS AND CHANNELS FOR THE TRANSFER AND PAYMENT OF REMITTANCES

### 6.1 INFORMATION TRANSFER SYSTEMS

As in most cases in the region, relations between MTOs and disburseurs in the local segment – such as banks, *couriers* and others - are governed by negotiated agreements under which payment to the beneficiary takes place within a few minutes or hours from the transaction initiation abroad, based on information received from the MTO. The local agent, however, will only be reimbursed by the MTO later – usually within T+1 or T+2 days – once the former requests repayment for a batch of remittances.

**Chart 1. Remittances Path through the Payments System**



Source: Prepared by authors.

The local payers usually disburse to beneficiaries 24 to 72 hours prior to being reimbursed by MTO funds, during which period they are exposed to foreign exchange and credit risks that are usually covered by a guarantee fund and contracts mitigating the impact of delay or non-payment of the resources that are disbursed in anticipation to remittance beneficiaries. Practically all local remittance disburseurs maintain agreements with an MTO or bank abroad for the attraction of remittances in origin. Some banks in Ecuador have agreements with more than one MTO, bank or both. Only in the case where the remittances payment agreement is made with Western Union is there some degree of exclusivity on behalf of the local remittance disburser.

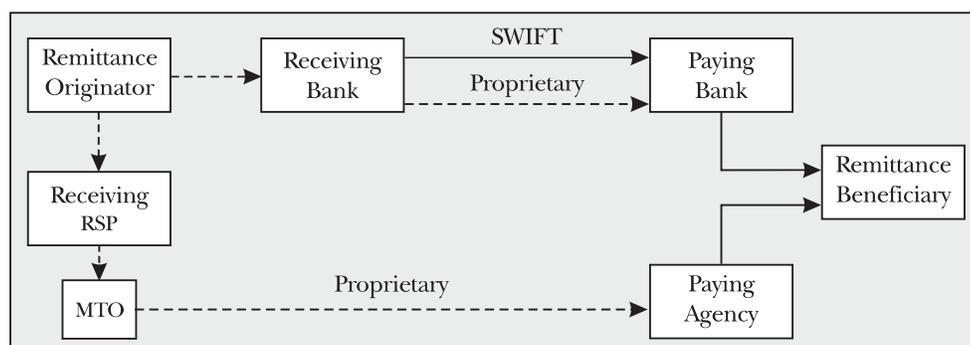
This remittance payment mechanism requires the functioning of other systems that will enable the transfer, including local systems, foreign systems and cross-border systems. Although there

are innumerable possibilities for remittance attraction windows, in essence they simply act as agencies that undertake the transaction for the MTO abroad. Similarly, although it is possible to see many remittance disbursement windows in Ecuador in different types of institutions, supermarkets, drugstores and others, in general they function merely as agents for remittance disbursing companies.

In order to simplify the description of the process of attraction, transfer and payment of remittances, in the following Figures both the attracting and paying agents are included as part of the MTO structure abroad or for local disbursement. Consequently the process may be summarized by assuming that the originator can either send the remittance via an MTO agency or through a financial entity (usually a bank), and that it can be received either through an authorized agent or one of the MTO's local windows.

In general, once the remittance originator approaches the window of a bank or MTO agent abroad, the information transfer process is almost immediate. Information is provided on the name of the originator and beneficiary, the amount remitted, etc. The basic transaction data is transmitted by SWIFT<sup>2</sup> communications systems (in the case of remittances between banks) or via proprietary networks (in the case of other MTOs) to the counterparty in Ecuador, which can be a bank, a *courier* or an MTO agency (see Figure 23). This information travels very fast, and once it is received by the payer the beneficiary may turn up at any time to collect the remitted funds. It should be pointed out, however, that speed is directly proportional to cost and that many MTOs offer different products at different prices according to the required speed of the remittance.

**Chart 2. Information Transfer Schematic**



Source: Prepared by authors.

Among the additional services offered, certain MTOs provide some sort of communication to the beneficiary at the time funds are received, either by fax, e-mail or –in some cases– a telephone call from the originator abroad to his family informing them the remittance is on its way.

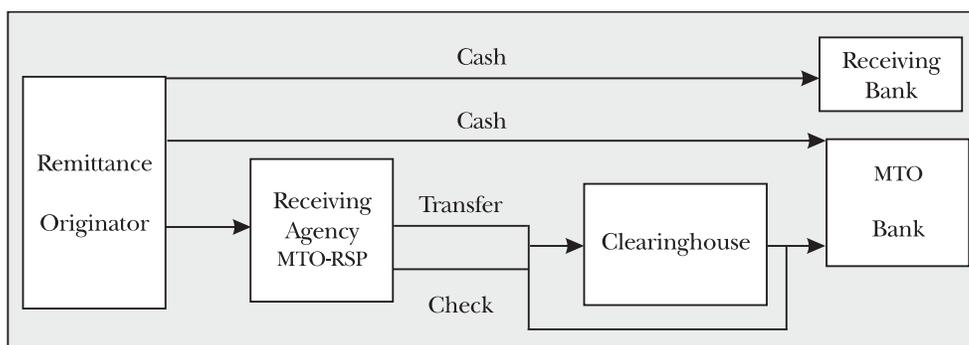
## 6.2 SYSTEMS ABROAD

The following figures summarize the main modalities for the origination and disbursement of remittances. Thus, an originator may transfer funds by depositing cash at a bank and the

<sup>2</sup> Society for Worldwide Interbank Financial Telecommunications.

procedure is concluded (Figure 24). Alternatively, if funds are deposited at an MTO contracted agency, there is a variety of mechanisms through which the agency may send the money to the MTO, including cash, electronic transfer or check. If the transfer or check is drawn on the same bank as the MTO, then this part of the process concludes there. Otherwise, if the agent's transfer or check is drawn on a different financial entity to that used by the MTO, then these instruments must go through a clearinghouse prior to being received and settled into the MTO account.

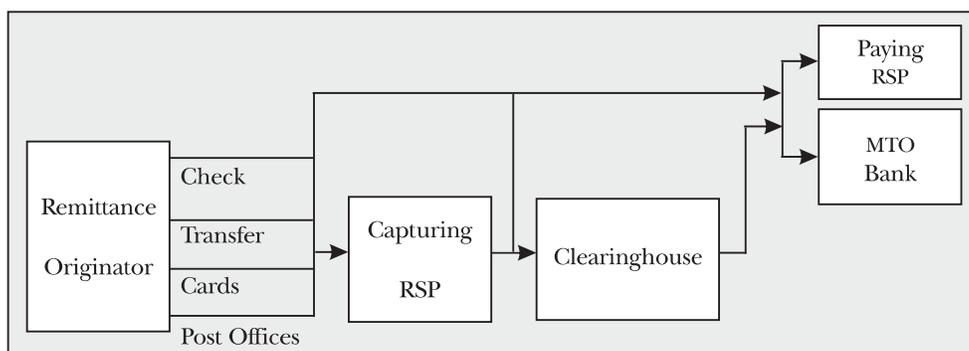
**Chart 3. Transfer of Remittances Originating as Cash Deposits at Capturing Agencies**



Source: Prepared by authors.

Conversely, if the originator initiates the remittance with instruments such as a check, an electronic transfer, a debit or credit card, or by postal instruments sent to the MTO, and if these funds are received at the same bank where they were issued, then they can proceed directly into the account of the MTO or bank. Conversely, if the instrument is issued by a different financial institution, then it must go through a clearinghouse prior to the funds becoming available for transfer in the MTO or bank account (Figure 25).

**Chart 4. Transfer of Remittances Originating as Non-Cash Deposits at Capturing Agencies Abroad**

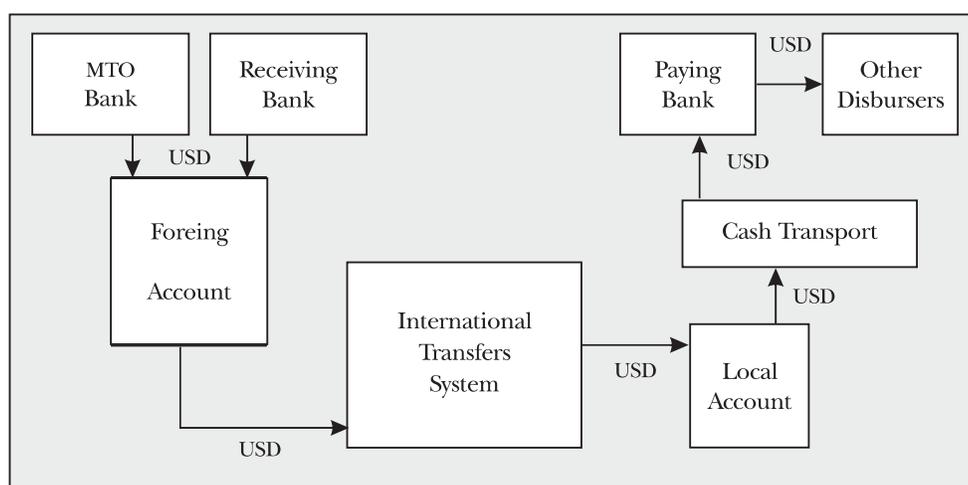


Source: Prepared by authors.

### 6.3 CROSS-BORDER SYSTEMS

Cross-border systems allow for the transfer of funds to and from the country. In Ecuador remittances can only be paid in foreign currency, thus simplifying the process of international funds transfer by means of movements between local and foreign accounts on the instruction of banks or other participants. In some cases the Central Bank is used for the transfer, since it is the BCE who receives the funds that financial entities wish to repatriate to a foreign account, from which the domestic accounts of participants are credited through the large-value payments system (SPI).

**Chart 5. Remittance Path through Cross-Border Systems**



Source: Prepared by authors.

The local remittance disbursers who do not participate in the payments system – and therefore do not have accounts at the BCE – can employ the same procedure by using their foreign accounts and a system participant bank with access to the CPI.

### 6.4 LOCAL SYSTEMS

Remittances to Ecuador can flow through either the large or small value local payments systems. The former allows for the settlement of cross-border transactions and local high-value or urgent operations. The small value system typically settles local transactions, although these may sometimes generate cross-border liabilities when some of the participants are foreign entities or their representatives, as in the case of systems utilized for clearing and settling credit, debit and prepaid cards issued abroad and used at local ATMs and POS.

In general, the Ecuadorian payments system comprises the following sub-systems:

1. Interbank Payments System – SPI (transfer of funds among third parties).
2. Net Payments System – SPN (net value settlement).

3. Bilateral Credit Lines System – SLBC (pre-established credit facilities – which are registered at BCE – between financial system institutions).
4. National Clearinghouse System – SNCC (a central processing mechanism through which financial institutions agree to interchange payment instructions or other financial liabilities).
5. On-line Payments System – SPL (Real time gross settlement).
6. Securities Custody System – SCTV (Securities immobilization at the BCE and negotiation through a delivery-versus-payment real time mechanism).

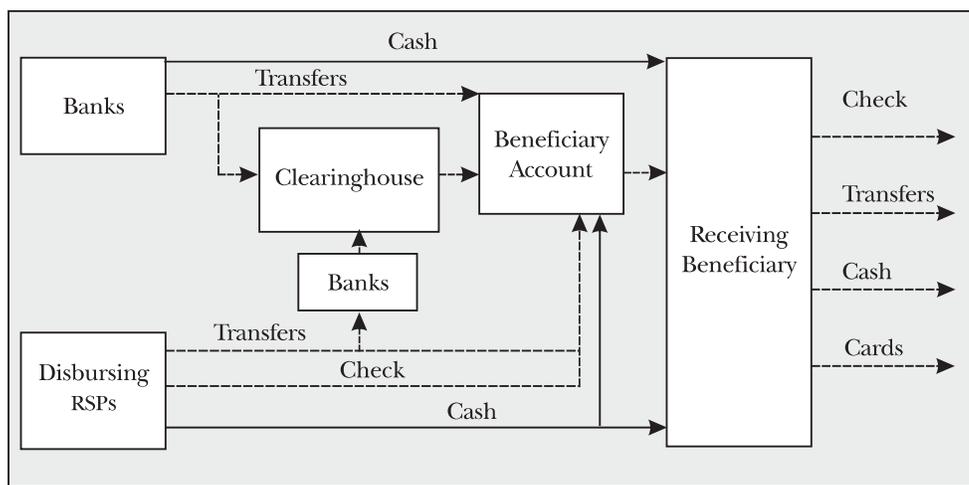
### 6.5 LARGE VALUE PAYMENTS SYSTEMS

The main feature of the On-line Payments System is a real time gross settlement system which can require relatively large amounts of liquidity during the day to cover the transactions ordered by participants. The automated nature of the On-line Payments System reduces the time in which payment and collection transactions are processed between economic agents and allows the final beneficiaries to receive their funds sooner. This in turn allows for a greater number of transactions or a greater availability of temporarily disposable funds.

### 6.6 SMALL VALUE PAYMENTS SYSTEMS

Small value payments systems abroad allow for the transfer of funds from the remittance attractors to the remittance transfer operators. In the local leg of remittances payment, small value payments systems allow for the transfer of funds from the receiving entities to their points of disbursement, or to the beneficiaries themselves in cases where non-cash instruments are employed and must be settled in the accounts of the various receiving entities (Figure 27).

**Chart 6. Small Value Payments Systems**



Source: Prepared by authors.

Institutional remittance disbursements in Ecuador can pay these out in cash or via account deposit. When remittances are credited to an account, other instruments, mechanisms and financial services may be used, such as checks, credit and debit cards, electronic transfers, etc.

Account credit requires the use of different channels and systems, depending on the location of the accounts of the beneficiary and the disbursing RSP (remittance service provider). When the remittance is paid by a bank, the beneficiary account can be credited directly so long as it is in the same bank, as is usually the case for remittances received in Ecuador. If the account is at another financial entity, other systems must be used to enable the transfer, including interbank transfers (which must go through a clearing subsystem to become effective).

When the disburser is not a bank –such as an MTO paying from its own offices– the account credit can be made via an interbank transfer by depositing the cash directly in the beneficiary’s account. If the beneficiary’s account is at a different entity to that of the disburser, this transaction must also pass through a clearinghouse before becoming effective.

### **6.6.1 Check Clearinghouse**

The Check Clearinghouse System (SCC) is governed by the Checking Law and its Regulations. In order to ensure the efficiency of the check collection and payment process the SCC is administered by the BCE. This system allows banking sector institutions to exchange checks that have been deposited at their windows and that must be paid from accounts held at other banks. The outcome is settled by the Banco Central del Ecuador according to the net multilateral balances resulting from the preliminary and final clearing sessions.

The clearing process operates via regional meetings for the physical exchange of checks drawn by customers of the participant banks, through the so-called preliminary and final clearing sessions. The participant institution which manages and administers the regional clearing sessions is responsible to the Central Bank and other regional participants for the clearing outcome and the timely transmission of this data to the Central Bank for accounting purposes. This procedure allows for registration of the number and total value of checks presented to the order of the other participant banks and generates a magnetic file to be submitted to the clearinghouse. This file is processed with the data presented by the participant institutions in the clearing sessions and is stored for subsequent automated multilateral clearing.

The results of the preliminary clearing process are debited or credited – as the case may be – to the accounts that each banking institution maintains at the Banco Central del Ecuador with value date equal to the first working day following the preliminary session. Likewise, the outcome of the final clearing is made effective on the same day as the session.

### **6.6.2 Clearinghouse for Electronic Transfers**

The Interbank Payments System (SPI) is a mechanism which allows for the electronic transfer of funds between current, savings or special accounts of clients from different financial institutions, through the Banco Central del Ecuador (BCE). The operations of this payments mechanism are based on a clearing process of interbank payment orders transmitted to the BCE by private financial institutions and public sector entities through electronic means.

The SPI permits third party collection and payment without recourse to checks or cash, facilitating the transfer of funds from a client account at one financial institution (bank, mutual society or savings and credit cooperative) to the account of another client at another financial institution, thus allowing for the creation of a new payment instrument which improves safety by minimizing the use of cash and permits same-day settlement.

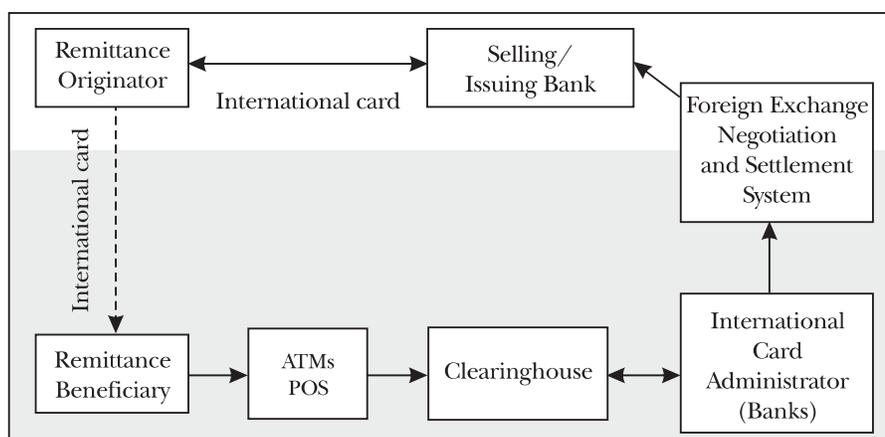
There is another subsystem known as the Net Payments System (SPN) which is a mechanism that allows institutions in the national financial system to register electronic funds transfer instructions drawn on the current account they keep at the Banco Central del Ecuador, for subsequent net value settlement (clearing of the funds transfers sent and received through this system). The netting process reduces the amount of money required to settle the individual balances resulting from the clearing process. The SPN requires participants to optimize their cash-flow management in order to minimize the cash balances kept at the Banco Central del Ecuador while meeting the payments that must be made through the system.

### 6.6.3 Clearinghouse for ATM Networks and International Debit, Credit and Stored Value Cards

The use of alternative instruments in the remittances market is growing, especially those cross-border instruments that provide a permanent link between the sources of funds and the remittance beneficiaries. To date, credit, debit and stored value cards are amongst those of greatest development and use.

The use of cards in the remittance market is initiated at the request of the sender of the debit card (linked to an account at the originating bank) or credit card, or by the purchase of a prepaid card. Credit and debit cards require the applicant to have an appropriate legal status, therefore disqualifying those originators whose residence in the host country is not properly documented. Stored value cards, on the other hand, have the advantage of requiring less formality in their purchase and reloading, making them the preferred instrument for migrants whose residence papers are not in order.

**Chart 7. Use of Cards for Sending Remittances**



Source: Prepared by authors.

Once the originator acquires the card (Figure 28), it must be physically sent to the beneficiary so that it may be used for withdrawals at ATMs or for the purchase of goods and services at POS. Once the cards are used, the value of the purchases or withdrawals made with them are sent to the clearinghouse for debit, credit and other cards, thus generating a debtor position of the International Card Administrator in the country.

The originator can increase the funds in the debit card account, pay off the balance on the credit card or reload the prepaid card periodically, so that the beneficiary can maintain access to the remitted funds.

## **6.7 OTHER SYSTEMS AND CHANNELS**

There exist other mechanisms which are still used by some Ecuadorian migrants to send remittances back home, such as messengers or via relatives. Almost all these mechanisms imply the use of cash, thus making them costly on account of the possible need for currency exchange, the transport itself and the risks involved. Because of this, their use for transferring remittances is in decline.

## 7 COSTS, TIME AND ACCESS

The inflow of remittances represents an important source of funds for Ecuador, which contributes to the improvement of living standards of beneficiary families. It is therefore extremely important for originators and beneficiaries to ensure that these transactions take place at the lowest possible cost. This chapter analyzes the cost of remittances, whether direct costs such as commissions or the indirect costs represented by exchange rate differentials and taxes.

### 7.1 REMITTANCES COST

In the market for remittances to Latin America, their transaction costs are mainly related to the number of agents involved in the chain of transmission and subsequent payment of the transfer, as well as to the prevailing level of competition. The total final cost to the originator and beneficiary, who usually belong to the same family, can be broken down into an explicit cost comprising the commission usually charged at the point of remittance origination and an implicit cost representing the exchange rate differential when applicable. In some cases the disbursing entities may also charge the commission, especially if they possess originating offices abroad.

Given that Ecuador is a dollarized economy, remittances are disbursed in US dollars. Thus, as opposed to other countries in the region, there is no exchange rate differential for remittances sent from the United States and the remittance cost comprises only the commission. However, there is a large component of total remittances originating in Europe –and therefore in Euros– in which case there is an exchange differential.

The commission charged at origin is usually determined by the MTOs, who maintain arrangements with remittance disburseurs in Ecuador. When there is no exchange differential, the commission is shared between the attractor at origin and the disburser at destination, according to the type of agreement among them. Normally, the disburser of remittances at destination receives somewhere between 5% and 10% of the commission.<sup>3</sup>

### 7.2 COMMISSION CHARGES

According to data from entities operating as remittances service providers in Ecuador, the commission charged on a remittance of up to USD 100 can vary between 4% and 8% of the value remitted. For values lower than USD 300, the commission varies between 3% and 6% and for higher amounts the commission ranges from 1% to 7%.

Remittances received via the La Caixa (Spain)-BCE agreement, which are channeled through a payments agreement between both institutions – one private and the other public – for an amount of up to EUR 3,000 are subject to a EUR 2.9 commission per transfer. This represents a very attractive channel from the cost viewpoint.

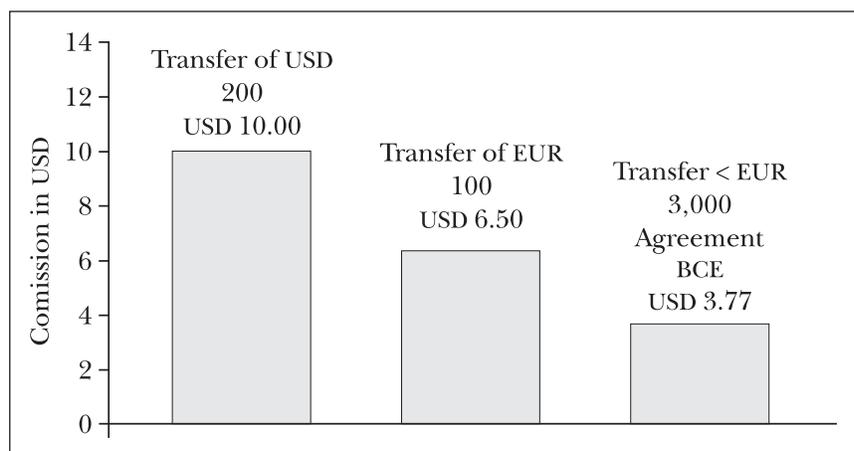
With respect to the local disburser, most RSPs in Ecuador operate as subagents of specialized entities and, therefore, cannot influence the commission charged at origin, which presents substantial differences between firms. Furthermore, only banks will tend to negotiate the

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<sup>3</sup> Based on data provided by the RSPs interviewed during the mission.

commission for remittance services with foreign banks, so this mechanism is relatively inaccessible to other non-bank local disbursers.

**Figure 22. Transfer Cost by Amount, Currency (region) of Origin and Agreement**  
(In USD)



Source: Prepared by authors from data obtained during the mission.

The main commission costs charged in origin could be identical whether the remittances are disbursed by a commercial bank or a *courier* firm. However, there could be a difference in costs according to the type of entity attracting the remittance in origin. In this context, the commercial bank segment usually works also with foreign banks, particularly in the case of remittances arriving from Spain and Italy. On the other hand, said commission is probably lower than that of the RSPs who maintain agreements with MTOs in the United States.

There exists the possibility that an RSP from the country of origin may negotiate different terms with various local disbursers. Said terms may vary as a function of the market capabilities of the local RSPs, affecting the share of the commission corresponding to the local disburser. Commissions may also vary according to the way the remittance is disbursed, taking into account the costs incurred by a local disburser in accessing account deposit services at a financial institution or having the cash on hand with which to pay the final beneficiary.

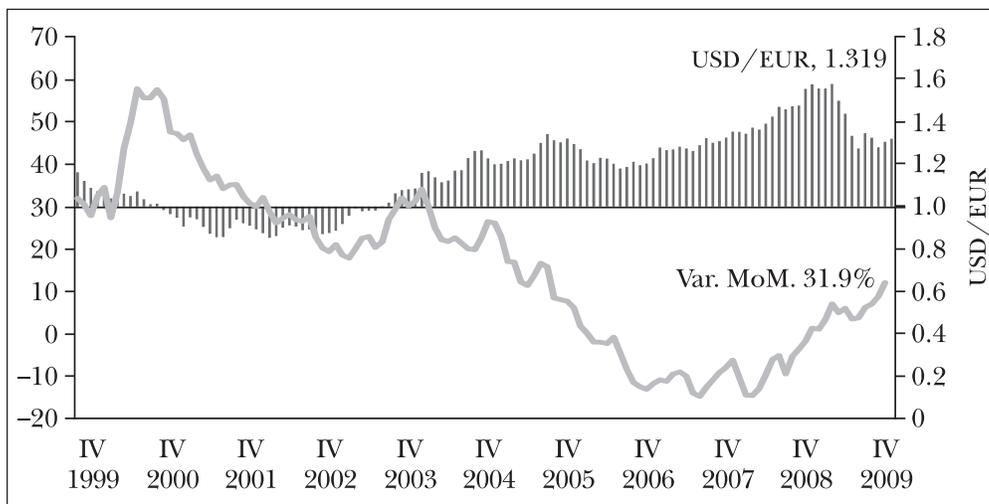
### 7.3 EXCHANGE RATE DIFFERENTIAL

When a remittance originates in a foreign currency and is disbursed in local currency at a certain rate of exchange<sup>4</sup> which may differ from the market rate, this implies a penalty rate for the transfer which represents an implicit cost for remittance beneficiaries. It is worth noting in this context that the value of remittances to Ecuador from Europe –mainly Spain and Italy– represents half of the income from remittances, thus giving relevance to the so-called exchange differential cost to beneficiary families.

<sup>4</sup> In the case of Ecuador this occurs when the remittances originates in EUR and is disbursed in USD.

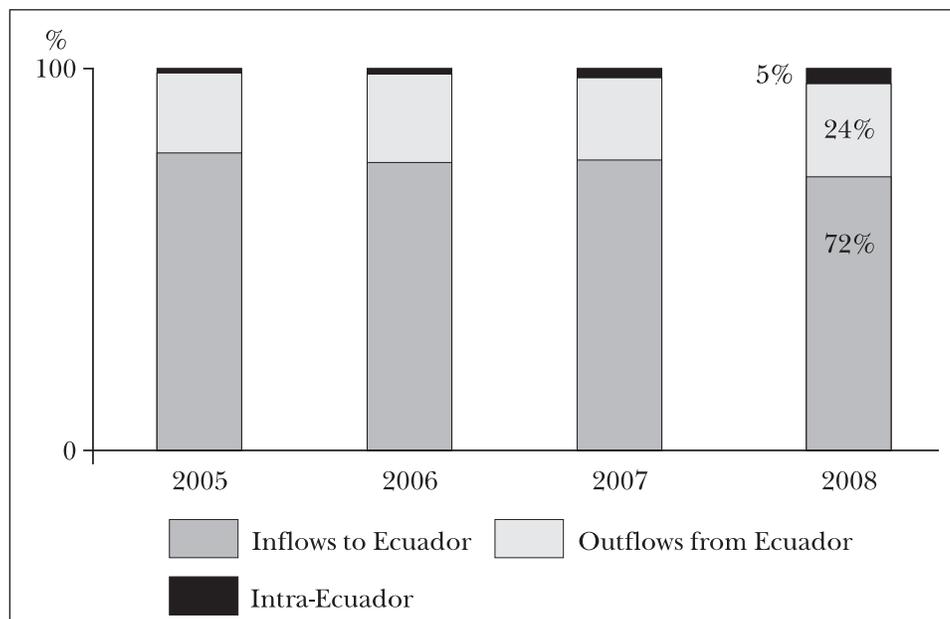
It should be recognized that in the particular case of Ecuador the profits derived from the exchange differential may not accrue to the disbursers. This is because the exchange of Euros for dollars may have taken place abroad and the disbursers received dollars directly to cover the local payment. In this case the disbursers do not participate in the money exchange process nor in the possible profits from the exchange differential.

**Figure 23. USD/EUR Exchange Rate**  
(End-of-month nominal value and MoM (%) variation)



Source: Prepared by authors from ECB data.

**Figure 24. Distribution of Remittances Inflows and Outflows in Ecuador**  
(Information from an MTO with a local presence)



Source: Prepared by authors from data obtained during the mission.

**Table 7. Access Points for Remittance Collection in Ecuador**

	<i>Branches</i>	<i>Agencies</i>	<i>Total offices</i>	<i>ATMs</i>
<i>Banks</i>	<i>115</i>	<i>748</i>	<i>863</i>	<i>1,341</i>
Banco Bolivariano	12	57	69	181
Banco del Austro	15	48	63	50
Banco Comercial de Manabí	2	3	5	
Banco Delbank	2	5	7	1
Banco de Guayaquil	19	88	107	70
Banco Internacional	17	68	85	400
Banco de Loja	1	21	22	
Banco del Pacífico	12	82	94	159
Banco del Pichincha	17	258	275	400
Banco Procredit	2	31	33	
Banco Produbanco	11	65	76	80
Banco Solidario	5	22	27	
<i>Saving and Credit Cooperatives</i>	<i>10</i>	<i>93</i>	<i>103</i>	
Cooperativa 23 de Julio	6	5	11	
Cooperativa Cacpe Biblián	1	2	3	
Cooperativa Cacpe Pastaza		5	5	
Cooperativa Cacpeco		11	11	
Cooperativa Jardín Azuayo		26	26	
Cooperativa Juventud Ecuatoriana Progresista		7	7	
Cooperativa Coopmego		14	14	
Cooperativa Mushuc Runa Ltda.		8	8	
Cooperativa Padre Julián Lorente		7	7	
Cooperativa San José		5	5	
Cooperativa Tulcán	3	3	6	
<i>Mutual Societies</i>	<i>1</i>	<i>31</i>	<i>32</i>	
Mutualista Pichincha	1	31	32	
<i>Courier Companies</i>	<i>46</i>	<i>268</i>	<i>314</i>	
<b>Total</b>	<b>172</b>	<b>1,140</b>	<b>1,312</b>	<b>1,341</b>

*Source: Banking and Insurance Supervisory Agency and Corporate Supervisor.*

As may be seen in figure 23, the euro appreciated with respect to the dollar (which is the official currency circulating in Ecuador) for a prolonged period. This increased the local purchasing power of these transfers for beneficiary families. More recently, however, this process has inverted.

## 7.4 TAX COSTS

Remittances to Ecuador are not taxed. However, all foreign currency outflows –including remittances– are taxed by the Internal Revenue Service (IRS) at a 0.5% ad valorem rate. According to an important remittance market operator in Ecuador, 24% of the firm’s total transactions consist of outflows to other Latin American economies and are taxed by the IRS.

## 7.5 ACCESS COSTS

In addition to the explicit costs of receiving remittances, there is another hidden cost arising from the difficulties in gaining access to the payment points for these funds. During recent years in Ecuador, however, there has been an important increase in the number of remittance payment points.

By 2009 all registered institutions offered remittance disbursement services, both at their own windows or through correspondents. Most disbursements are made by *courier* companies (53.6%) who dispose of a wide network of payment points: 46 branches and 268 agencies totaling 314 offices. In addition, these companies maintain correspondent agreements for remittances disbursement with financial system institutions. For their part, the financial institutions disburse 46.4% of remittances by crediting savings and current accounts – as well as in cash – using their 115 branches and 746 agencies totaling 863 offices. There are other banking institutions that disburse remittances under mandate agreements with *couriers*, which have also increased the number of payment outlets. Finally, the mutual societies and savings and credit cooperatives credit savings accounts (1.1%) and count on 11 branches and 124 offices totaling 135 remittance disbursement points. It should also be mentioned that banks have a network of more than 1,341 ATMs.

Finally, there are a fair number of *courier* companies that have entered into payments agreements with non-financial operators such as drugstores, home appliance stores, telephone centers, convenience stores, supermarkets, and others.

## 7.6 COSTS, TIME AND ACCESS FOR OTHER NON-INSTITUTIONAL CHANNELS

There are different costs related to the use of non-institutional channels such as messengers and cash transported by travelers, especially regarding the amount of time involved in paying the remittance and the associated risks. In terms of access these channels are very limited, since they cannot be found everywhere and depend on the communication network within the migrant community.

The cost of using messengers for the transport of cash remittances is higher than that in the formal market. As a result the former are changing their business model from cash remittances to parcel services, to and from abroad.

## 8 MEASUREMENT METHODOLOGY

### 8.1 RESPONSIBILITY AND COORDINATION

The measurement of remittances in Ecuador is the responsibility of the central bank, more specifically the balance of payments area of its Economic Statistics Division. Other central bank departments, as well as the Bank and Insurance Supervisor and the Corporate Supervisor, also participate in the compilation of different items of these statistics. Remittance statistics in Ecuador include a geographical breakdown for both inward and outward movements, even though the latter are much smaller.

### 8.2 MEASUREMENT BY CHANNELS

The coverage of remittance measurement has improved significantly since 2005 through the inclusion of more institutions in the statistics. At the same time this measurement has benefited from the implementation of a system with new formats and procedures for capturing data on cross-border flows, including remittances.

There are different data sources for measuring family remittances, such as direct reporting, surveys and some estimation, according to the participants and the channels through which they flow. Thus, data is compiled for financial institutions, such as commercial banks, mutual societies and savings and credit cooperatives. Also from those entities registered and supervised by the Bank and Insurance Supervisor (SBS) and the Ministry of Economic and Social Inclusion (MIES).

The other institutional segment that plays a significant role in the remittances market is the *couriers*, who are registered and monitored by the Corporate Supervisor and authorized to engage in two kinds of activities: parcel delivery (a typical activity for this sector) and remittance transfers.<sup>5</sup>In this framework, some *couriers* disburse (and attract) remittances, while others specialize in “parallel postal services” i.e. parcels and physical deliveries.

### 8.3 REGISTERED INSTITUTIONAL

Financial institutions report their remittance flows to the BCE via a form entitled “Questionnaire for companies and banks channeling remittances and/or parcels from workers abroad”. The reports are sent quarterly, but the data is reported on a monthly basis and includes: value and number of remittance transactions, and geographical information on the originating country as well as the cities of destination within Ecuador.

Under an agreement with the BCE, the Corporate Supervisor (SC) employs the same form for couriers that participate in the remittance business with a monthly frequency (as contrasted with the quarterly frequency for financial entities). The main difference is the frequency of reporting, which is monthly for the couriers (as opposed to quarterly for financial entities). The data

<sup>5</sup> In Ecuador the term employed for Messenger Services that send and disburse remittances is “Courier”. In other countries it is likely that couriers would be known as “remittance providers”.

**Table 8. Remittance Data Sources in Ecuador<sup>a</sup>**

	Formal Channel						Informal	
	Financial Institutions <sup>b</sup>			Courier <sup>c</sup>		Deliveries <sup>d</sup>	ATMs and Cards	Cash and Other
	New System	Current System	Cooperatives <sup>e</sup>	New System	Current System			
<i>Data Source</i>	Report E02 <sup>f</sup>	BCE remittance report	Various	Report to SC <sup>g</sup>	Report to SC	No formal	None	None
<i>Authority</i>	SBS and Insurance/BCE	SBS	SBS or MIES	SC	SC	SC	None	None
<i>Reporting Frequency</i>	Monthly, 8 days later	Quarterly	?	Monthly	Monthly	NA	None	None
<i>Data Frequency</i>	Daily	Monthly	Monthly	Monthly	Monthly	NA	None	None
<i>Coverage</i>	Reporter Discretion	Reporter Discretion	Reporter Discretion	Reporter Discretion	Reporter Discretion	None		
<i>Details</i>	Geographic detail, Currency, etc.	Country of origin; number of transfers	?	Geographic detail, Currency, etc.	Country of origin; number of transfers			
<i>Threshold</i>	None	None	None	None	None			
<i>Estimated quantitative significance</i>		44%	1-2%		55%			

Source: Prepared by mission. SBS = Banking & Insurance Supervisory Agency. SC = Corporate Supervisor. MIES Ministry of Social Inclusion.

<sup>a</sup> The table reflects the reporting system in place since 2005. Details of the previous methodology are unavailable. <sup>b</sup> Public financial institutions, commercial banks, mutual societies, cooperatives and financial societies. <sup>c</sup> According to activities; sometimes the same company may disburse remittances and/or provide parcel delivery. Similar form to that used by SC. No system for compiling parcel delivery. <sup>d</sup> Classified as formal remittances since they are transacted through registered entities. <sup>e</sup> In principle, SBS regulated cooperatives send reports; it appears that those registered with MIES do not report. <sup>f</sup> SC Form E02 for international transactions. <sup>g</sup> Possibly form E02, although the matter has not yet been decided.

contained in the report are also monthly and present the same breakdown as financial entities.<sup>6</sup> Of the 300 active couriers present in Ecuador, about two dozen participate in the international remittances market. Most of them (but not all) send the appropriate forms.

The definition of a family remittance remains entirely in the hands of the reporting institution, and therefore participants may apply different definitions in classifying their operations. For example, some establish thresholds by taking into account the value of the transaction. Others consider that any transaction originating from a foreign MTO is by definition a family remittance, while flows channeled through banks (with SWIFT messaging) are of a different economic nature even when the value lies within the typical ceiling for remittances.

<sup>6</sup> Couriers that engage solely in parcel delivery, together with the other firms registered with the Corporate Supervisor, are only obliged to report their annual financial statements to the SC.

Some banks disburse remittances through certain savings and credit cooperatives, and their reports include all remittances flowing through their accounts. Cooperatives (both those that are registered with the SBS and those with the Ministry of Social Inclusion) also prepare reports on remittances disbursed, thus obliging the BCE to adjust for the possibility of double counting.

With respect to parcel delivery – which is a possible source of in-kind remittances – to date there is no information that will allow for estimation of this item. Thus, there are no reports on these flows, either to BCE or the SC.<sup>7</sup>

#### **8.4 NON-REGISTERED INSTITUTIONAL**

Current statistics contain no direct data or estimates on remittances flowing through other channels, such as the non-registered institutional or other similar transactions such as those with credit, debit or prepaid cards. Nevertheless, it is believed that remittances flowing through ATMs and POS are still very small.

#### **8.5 NON- INSTITUTIONAL**

The BCE does not estimate the remittances which may be flowing through unregistered channels such as those entered by relatives, friends, mail or messengers, and which are transported and delivered in cash directly to the beneficiary. Neither does it include in-kind remittances not those that flow through informal channels. Both the BCE and INEC are attempting to identify some of these flows for inclusion in official statistics.

#### **8.6 DATA VALIDATION AND CONFRONTATION**

A complementary indicator of remittances statistics is migration. The story of migration from Ecuador over the last thirty years reflects various stages and moments in the national scene: political events, economic crises, failures in the banking system, dollarization and similar occasions. The National Directorate of Migration has produced data (published by INEC) suggesting that 1.6 million Ecuadorians left the country between 1993 and 2007. These figures reflect only the registered flows, excluding those through informal paths. The data shows that net departures accelerated during 2000-04.

There are diverse estimates of the number of Ecuadorians abroad and their whereabouts. However, as mentioned above, it is estimated that 1.6 million Ecuadorians live abroad, mainly in the United States and Spain. There is a lower number in Italy, followed at some distance by other Latin American countries and the rest of the world. It is considered that BCE data on remittance inflows is consistent with these migratory flows, since in recent those from the US, Spain and Italy accounted for about 95% of the recent total.

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<sup>7</sup> BCE prepared a study on this sector a few years ago which reveals the complexity of the subject.

**Table 9. Data on Ecuadorian Migrants and their Family Remittances**

<i>Country</i>	<i>OECD (2000)</i>	<i>Jokisch</i>	<i>Consensus<sup>b</sup></i>	<i>Percentage of migrants</i>	<i>Remittances 2007 (USD Millions)</i>	<i>Remittances per migrant 2007</i>
Colombia						
Chile			10,000	0.63		
Peru						
Venezuela		28,000	30,000	1.88		
Mexico						
Canada	10,000		20,000	1.25		
USA/Puerto Rico	400,000	600,000	600,000	37.50	1,550	2,583
Belgica						
Spain	220,000	550,000	550,000	34.38	1,300	2,364
Documented 2003						
DIGEL	175,000					
Registered 2008	420,000					
Italy <sup>a</sup>	15,000	120,000	130,000	8.13	80	615
Other (resid) <sup>a</sup>			260,000	16.25	158	608
Total	1,500,000		1,600,000	100.00	3,088	1,930

Note. The “consensus” column reflects the recent study by Jokisch, an as yet unpublished study by INEC and data from official sources from the US (Census y American Community Survey), Spain (Municipal registries) and Italy (Census). [Brad Jokisch, “Ecuador, Diversity In Migration,” February 2007, INEC, “Socio-demographic and Economic Characterization of Ecuadorian migrants”, October 2008. The OECD study is from 2000].

<sup>a</sup> Approximate data for Italy and the residual “Other”. According to the INEC study, maybe 6.7% are in the other countries in America and 4.7% in the rest of Europe. <sup>b</sup> The migrant distribution in the INEC study is somewhat different, showing more in Spain than in the US, although sources are different in certain years.

## 8.7 TRENDS, PROGRESS AND CHALLENGES

The measurement system for family remittances implemented by BCE is considered adequate. It has several advantages: a high frequency of information (monthly data) and wide coverage (all the financial institutions that take part in these transactions). The fact that the measurements include data on the origin and destination of remittances by country should also be emphasized, as well as an array of domestic destinations by cities/provinces. The data allows for the calculation of average remittances for the system in its entirety, and also by market segments.

The statistics on remittance outflows underestimate these flows. The methods and forms used for their compilation are the same as those for remittance inflows, so that the BCE form for inflows has a counterpart for outflows. These reports enable the quantification of remittance outflows and their differentiation from other types of flows. However, the presence of groups of Peruvian,

Colombian and Chinese workers in the country suggests that there may be a yet unidentified informal remittance outflow.

The BCE is modernizing its remittance measurement system. Once it has passed the data cleansing and validation tests, a new form known as the E02 will allow for the recording of all individual remittance transactions (one by one), thus providing for greater analysis and understanding of this market and its development.

The new format shall replace the BCE's ad hoc forms in the near future, at least at financial institutions. Its eventual application to other market players, such as couriers, is already foreseen. The SBS form – which was jointly designed with BCE – has been finalized and went into effect as from June 2008.

## **9 TRANSPARENCY AND DATA PUBLICATION**

### **9.1 OFFICIAL INFORMATION**

The BCE is the authority charged with producing official information on remittance flows and integrating it to the balance of payments, and for sending this information to international organizations. In keeping with the Transparency Law, public entities –BCE included– are obliged to disseminate the information they compile. Thus, the central bank must place the economic statistical information it compiles at the disposal of the national and international communities.

The BCE edits a periodic official publication on remittance inflows and outflows, using the same data employed in the balance of payments which is published quarterly. The BCE data identifies and emphasizes the geographic origin and destination of remittances, their historical pattern and other elements related to this market, such as the market share of the main remittance service providers.

The Central Bank also periodically publishes the exchange rates employed by financial entities for all transactions undertaken in a currency other than that of circulation. Currently, all financial entities operating in currencies other than the dollar must report weekly to the BCE on the exchange rates used for these disbursements. Remittances in Ecuador are disbursed mainly in dollars, eliminating any lack of transparency with respect to implicit costs. However, there is an important remittance inflow from Europe and other countries, which originates in foreign currencies and is exchanged for dollars upon disbursement. The BCE report publishes the exchange rate for these transactions, thus allowing financial customers to better evaluate the market and the services they use.

### **9.2 INFORMATION SUPPLIED BY REMITTANCE SERVICE PROVIDERS (RSP)**

As part of its monitoring activities of financial entities and in the context of the Transparency Code, the Banking and Insurance Supervisory Agency requires the former to publish and publicly disseminate information regarding prices and fees for their provision of financial services. With the application of this Law, those institutions subject to SBS regulation and monitoring are obliged to inform the public of the financial costs and fees for the services they provide, and such information must be visible to any financial customer in such a way as to allow for comparison between the prices of financial services. The Law emphasizes such products as loans, insurance, cards and micro-credit. In the case of remittances, there is yet no specific and obligatory rule for making the financial cost transparent. The information that is reported to the Supervisor is published on this agency's website.

### **9.3 CONSUMER PROTECTION**

As far as consumer protection is concerned, the law only covers financial entities that are regulated by the Bank and Insurance Supervisor – concretely, users of the financial system –and makes no specific provision for users of remittance services. The Corporate Supervisor has control over the

couriers, but this refers to its corporate charter and provides no consumer protection framework whereby the latter may be covered.

In the case of non-institutional registered providers such as couriers, the situation regarding consumer protection is even less robust, since the Corporate Supervisor does not have the capacity to monitor all registered entities, and even less so those who operate without due formality and registration of their transactions.

#### **9.4 INTER-INSTITUTIONAL COORDINATION**

There exists a formal framework for coordination between the BCE and INEC, which has served to improve the quality of information on migration and remittances topics and given rise to a joint study on migratory flows and remittances.

There is a second instance of inter-institutional coordination between BCE, SBS and the Corporate Supervisor, which has enabled an increased control, supervision and monitoring of entities that provide remittance services. This framework for cooperation has allowed for an improvement in data reporting from the various players in the remittances market.



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## ANNEX

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**Table A1. Basic Statistical Data**  
(End of year)

	2003	2004	2005	2006	2007	2008	2009
GDP at current prices (USD millions)	28,636	32,642	37,187	41,402	42,499	52,572	45,566
GDP <i>per Capita</i> (USD thousands)	2,229.77	2,505.74	2,813.98	3,087.80	3,123.67	3,808.19	3,865.31
Inflation	7.97	2.75	2.12	3.30	3.32	8.40	4.30
Interbank interest rate	0.82%	0.74%	2.13%	2.90%	2.50%	0.52%	0.33%
Exports	6,222.69	7,752.89	10,100.03	12,658.00	12,478.00	19,147.00	1,214.00
Imports	6,228.31	7,554.61	9,549.36	11,202.00	11,199.00	17,786.00	12,643.00
Current account balance	-424.34	-564.47	275.00	1,617.50	1,650.26	1,194.41	-427.1
Total current transfers (USD millions)	1,791.30	2,048.70	2,781.40	3,103.86	3,245.60	2,988.63	1,884.5
Total Remittances (USD millions)	1,627.40	1,832.00	2,453.50	2,927.60	3,087.80	2,821.63	2,495.40
Foreign Direct Investment (USD millions)	1,554.74	1,160.29	1,646.14	270.72	194.44	973.53	469.00
International Reserves (USD millions)	788.60	984.40	1,667.90	2,023.35	2,762.75	3,711.65	2,266.65

Source: Banco Central del Ecuador.

**Table A2. Population and Migration**  
(End of Year)

	2004	2005	2006	2007	2008
Total population (thousands)	13,026.89	13,215.09	13,408.27	13,605.49	13,805.10
Demographic growth	1.4%	1.4%	1.5%	1.5%	1.5%
Economically active population (PEA)	58.9%	60.4%	58.8%	62.0%	59.4%
Unemployment	8.6%	7.9%	7.8%	6.1%	7.3%
Underemployment	54.2%	56.0%	56.7%	58.5%	47.3%
Minimum wage (USD)	166.14	174.90	186.60	198.26	233.13
Migratory flow	176,549.0	156,333.0	61,170.0	39,475.0	40,650.0
Inflow of Ecuadorians	642,378.0	703,555.0	779,385.0	898,012.0	949,116.0
Outflow of Ecuadorians	818,927.0	859,888.0	840,555.0	937,487.0	989,766.0

Source: INEC.

**Table A3. Remittance Flows**  
(USD millions, end of the year)

	2004	2005	2006	2007	2008	2009
<i>Total income from Remittances</i>	1,832.04	2,468.60	2,927.62	3,087.90	2,821.63	2,495.40
Net remuneration of employees	ND	ND	ND	ND	ND	ND
Current personal transfers	ND	ND	ND	ND	ND	ND
Other current transfers	ND	ND	ND	ND	ND	ND
<i>Total spending on Remittances</i>						
Net remuneration of employees	ND	ND	ND	ND	ND	ND
Current personal transfers	ND	ND	ND	ND	ND	ND

Source: Banco Central del Ecuador.

ND = figure is not available.

**Table A4. Remittance Characteristics**  
(In percentage terms)

	2006	2007	2008
<i>Average value of remittance</i>			
< USD 200	90.1	80.9	84.9
USD 200 - 400	6.2	10.9	8.1
USD 401 - 800	2.8	4.4	3.9
> USD 800	0.8	3.8	3.1
<i>Frequency of reception of remittance</i>			
Annual	28	12	12
Per Semester	18.1	2	2
Every 4 months	14.9	3	3
Quarterly	9.7	4	4
Every 2 months	16.1	6	6
Monthly	13.3	12	12

Source: Prepared with data from ENEMDU, 2006 and 2007.

**Table A5. Characteristics of Remittance Beneficiaries**  
(End of year)

	2006	2007	2008
<i>Gender</i>			
Men (%)	55.4	51.2	53.3
Women (%)	44.6	48.8	46.7
<i>Average age of originator</i>			
Less than 19 years	14.7	2.6	8.65
Between 19 and 35 years (%)	62.3	50.2	56.25
Between 36 and 45 years (%)	17	28.5	22.75
More than 45 (%)	6	18.7	12.35
<i>Education</i>			
None (%)	1.7	1.2	1.2
Primary (%)	29.8	28.6	34.6
Secondary (%)	50.8	47.4	44.5
Higher (%)	17.7	22.8	19.7
<i>Income Level</i>			
Lower	23.1	26.8	ND
Middle	76.9	73.2	ND
Upper	-	-	-
<i>Residence status of originator</i>			
Legal	ND	ND	ND
Illegal	ND	ND	ND

Source: ENEMDU, 2006, 2007 and 2008.

ND = figure is not available.

**Table A6. Use of Remittances by Beneficiary Households**  
(In percentages)

<i>Use of remittances</i>	2006	2007
Household maintenance	62	61
Health	15	12
Education	8	9
Construction	4	3
Debt	5	7
Savings	1	1
Business	1	0
Other	4	7

Source: ENEMDU, 2006 and 2007.

**Table A7. Remittance Service Providers**

<i>Categories</i>	<i>Number of institutions</i>	<i>Number of branches</i>	<i>Annual value of transfers</i>		
			<i>2007</i>	<i>2008</i>	<i>2009</i>
<i>Direct Institutional Providers</i>	47	260	3,087.90	2,821.60	2,495.4
Registered	34	236	2,909.37	2,775.05	2,455.2
Commercial banks	11	168	1,427.43	1,293.70	1,117.7
Specialized (MTOs and <i>Couriers</i> )	23	68	1,481.94	1,481.35	1,337.5
<i>Other financial intermediaries</i>	13	24	178.53	46.55	40.3
(Federation of Cooperatives)	12	23	33.97	32.45	40.3
(Exchange Houses)	1	1	144.56	14.10	ND
<i>Other Providers (Non-Institutional)</i>	ND	ND	ND	ND	ND
Total Family Remittances			3,087.90	2,821.60	2,495.4

Source: Banco Central del Ecuador.

ND = figure is not available.

**Table A8. Remittance Payment Instruments**

<i>Categories</i>	<i>2007</i>		<i>2008</i>	
	<i>Number of annual transfers</i>	<i>Annual Value of transfers</i>	<i>Number of annual transfers</i>	<i>Annual Value of transfers</i>
<i>Cash</i>	5,229,044	1,647.7	4,577,369	1,505.6
Commercial banks	ND	779.5	ND	712.3
Specialized (MTOs)	ND	867.4	ND	792.6
Other financial intermediaries (Federation of Cooperatives)	ND	0.7	ND	0.6
<i>Account Credit</i>	4,449,543	1,440.2	3,279,678	1,316.0
Commercial banks	3,538,092	671.0	3,157,076	582.8
Specialized (MTOs)	869,252	769.2	50,046	702.8
Other financial intermediaries (Federation of Cooperatives)	42,199	33.2	72,556	30.4
Total Remittances	9,678,587	3,087.9	7,857,047	2,821.6

Source: Banco Central del Ecuador.

ND = figure is not available.



**Table A10. Form E02 for Reporting International Flows**

<i>Field</i>	<i>Transaction Type</i>	<i>Transaction Number</i>	<i>Transaction Date</i>	<i>Type of ID Submitted by Originator/Beneficiary</i>	<i>ID Number Submitted by Originator/Beneficiary</i>	<i>Name of Originator / Beneficiary in Ecuador</i>	<i>Address of Originator / Beneficiary in Ecuador</i>
<i>Type of data</i>	Character (1)	Character (20)	Date (dd/mm/aa)	Character (1)	Character (13)	Character (150)	Character (150)
<i>Option</i>	Obligatory	Obligatory	Obligatory	*Obligatory	*Obligatory	Obligatory	Obligatory
<i>Table</i>	121			4			

<i>Field</i>	<i>Province of Originator/Beneficiary Abroad</i>	<i>Canton of Originator/Beneficiary Abroad</i>	<i>Telephone of Originator/Beneficiary Abroad</i>	<i>Name of Originator/Beneficiary Abroad</i>	<i>BIC Code Originator/Beneficiary Financial Institution Abroad</i>	<i>ABA Code Originator/Beneficiary Financial Institution Abroad</i>	<i>Origen Country Code/ Transfer Destination Abroad</i>
<i>Type of data</i>	Numeric (2)	Numeric (2)	Numeric (9)	Character (150)	Character (11)	Character (21)	Character (2)
<i>Option</i>	Obligatory	Obligatory		*Obligatory			Obligatory
<i>Table</i>	6	7					5

<i>Field</i>	<i>Economic Motive for Transaction</i>	<i>Means of entry /exit of foreign Currency</i>	<i>Exemption on Currency Outflow Tax</i>	<i>Transaction Currency Code</i>	<i>Amount Transferred in USD</i>	<i>BCE Foreign Debt Payment Registration Number</i>	<i>BCE Debt Foreign Payment Date</i>
<i>Type of data</i>	Numeric (4)	Numeric (2)	Character (2)	Character (3)	Numeric (16,2)	Character (10)	Date (dd/mm/aa)
<i>Option</i>	Obligatory	Obligatory	Obligatory	Obligatory	Obligatory	*Obligatory	*Obligatory
<i>Table</i>	122	123	124	33			

<i>Field</i>	<i>Exempt Amount</i>	<i>Currency Outflow Tax</i>	<i>Reinsurance Contract</i>	<i>Type of Credit Card</i>	<i>Card Class</i>	<i>Credit Card Issuer</i>	<i>Transaction Agent</i>
<i>Type of data</i>	Numeric (16,2)	Numeric (16,2)	Character (20)	Numeric (2)	Character (2)	Numeric (4)	Character (1)
<i>Option</i>	Obligatory	Obligatory	*Obligatory	*Obligatory	*Obligatory	*Obligatory	Obligatory
<i>Table</i>				45	46	2	125

Source: Instruction Manual for international transfers, SBS, June 2008

