



Report

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The Remittance Marketplace: Prices, Policy and Financial Institutions

By

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The opinions expressed in this report are those of the author(s) and do not necessarily reflect the views of the Pew Charitable Trusts.

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Executive Summary

Over the past several months a growing number of countries, including the United States, have committed themselves to facilitating remittance transfers by immigrants who send money back to their home countries. Leaders of the major industrialized democracies and Russia at the annual summit of the Group of Eight (G8) countries that begins June 8, 2004 are expected to call for efforts to reduce the costs of transfers and to promote a greater role by banks and other financial institutions in an industry currently dominated by wire transfer firms. In January, leaders of the Western Hemisphere meeting at the Special Summit of the Americas in January called for the costs of remittances to be cut in half by 2008.

To better understand the challenges involved in meeting these goals, the Pew Hispanic Center commissioned Manuel Orozco, a senior researcher at Georgetown University's Institute for the Study of International Migration to conduct a detailed assessment of the marketplace for remittance transfer services between the United States and Latin America. The study reached two major conclusions relevant to the new initiatives:

- Although the cost of sending remittances is now much lower than in the late 1990s, the rate of decline has slowed markedly in the past three years. Prices have dropped only slowly despite rapidly growing volume and increased competition in the marketplace. This suggests that further price reductions might be difficult to achieve under current market conditions.
- A substantial number of banks and credit unions in the United States have launched major initiatives in remittance services over the past three years. So far, however, they have captured only a small fraction of the market which continues to be dominated by wire transfer firms. In the U.S.-Mexico channel, which has been the target of most of the effort, American financial institutions account for no more than 3 percent of the remittance traffic. Currently, with the exception of debit card withdrawals, the cost of sending the average remittance from the United States to Mexico is about the same whether it is sent via a bank or a wire transfer firm.

The study's findings are based on the most extensive examination of the U.S. remittance transfer industry ever conducted. No government agencies or industry associations systematically collect data on the costs of transfer services, market shares or the types of products on the market. As a result, data had to be developed for this study by soliciting information from a wide array of individual companies.

Cost information was gathered from 84 companies offering remittance transfer services, representing the most active firms in the market as well as some recent entrants. In addition, 60 financial institutions provided pricing and product information on remittance transfer services, and executives at 22 of those institutions—14 banks and 8 credit unions—were interviewed in depth about efforts to offer a broader array of financial services, such as savings and checking accounts, to remittance senders.

Some of the major findings of the study include:

- In the late 1990s dispatching a \$200 remittance to Mexico could cost as much as \$30 or 15 percent of the amount sent. By early 2004 the cost had been cut in half to 7.32 percent. However, most of the reduction took place at the beginning of this time span. By 2001 the cost stood at 8.07 percent and the declines have been relatively minor since then. Meanwhile, the amount of money sent to Mexico has increased dramatically from \$9.2 billion in 2001 to \$13.2 billion in 2003, a growth of 43 percent.
- With increased competition new products have come on the market that offer lower prices for senders who transmit larger amounts. The cost of sending the amount of an average remittance to Mexico, now about \$400, has come down somewhat more quickly in recent years, from 6.29 percent of the amount sent in 2001 to 4.4 percent in 2004.
- Using this measure of costs—the price of the average amount sent—banks and credit unions do not offer a significant advantage to the consumer in the U.S.-Mexico remittance market. The cost of sending an average remittance by bank is 4.1 percent which is only slightly below the 4.4 percent average for the entire marketplace.
- Despite substantial marketing campaigns and very large investments over the past three years, U.S. banks have only captured a small fraction of the remittance transfer market. The four largest banks in this field—Citibank, Wells Fargo, Harris Bank and Bank of America—conduct less than 100,000 remittance transactions a month. The vast majority goes to Mexico. In 2003 an estimated 40 million remittance transactions carried money from the United States to Mexico which means the banks have captured about 3 percent of that market.
- Marketing campaigns designed to encourage Latino immigrants to open accounts with banks and credit unions, often with remittance services as an enticement, have had somewhat more success. About 400,000 new accounts have been opened as a result of these efforts. That is about 5 percent of the estimated eight million Hispanic immigrants who currently do not have bank accounts.

Introduction¹

Remittances occupy an important place at the intersection between finance and development. They form a financial stream coming from and going to mainly low income families in the U.S. and the developing world, but the stream has been judged inefficient by a growing number of governments because of high transaction costs and because it is disconnected from financial deposits. In January 2004, for example, leaders of the Western Hemisphere meeting at the Special Summit of the Americas in Monterey, Mexico called for the costs of remittances to be cut in half by 2008. In April 2004, the finance ministers and the central bank governors of the Group of Seven (G7) countries—Canada, France, Germany, Italy, Japan, the United Kingdom and the United States—issued a statement promising, “On remittances, we will continue to work on our initiatives to reduce barriers that raise the cost of sending them and to integrate remittance services in the formal financial sector.” That statement put remittances on the agenda for the G8 summit to be held in Sea Island, GA June 8 to 10, 2004.

This study analyzes the state of money transfer market from the United States to Latin America based on pricing information gathered from 84 money transfer companies and in-depth interviews with executives of 22 financial institutions. It addresses the market structure, identifies trends in costs and analyzes in detail the new roles played by financial institutions. Two key findings suggest, first, that as previous analyses have pointed out (Orozco 2004), the structure of the market is at a consolidating stage, with continued albeit slow price decline and greater efficiency. Second, a growing number of banks and credit unions are offering banking products to immigrants. A significant number of national, regional and local institutions are promoting remittance transfers as a strategy to attract new customers for a broader range of financial services. Despite offering transaction costs that can be somewhat lower than their major competitors—wire transfer companies—financial institutions have captured a relatively small share of the remittance market. Attracting new deposits from immigrants appears to be a greater interest.

This study is divided into three sections. The first section analyzes the structure of the marketplace of remittances and looks at topics such as players, regulatory environment, competition and costs. The second section analyzes the participation of banks in the remittance transfer business and their offers of financial services beyond transfers. These findings are the

¹ Data collection and research assistance was provided by Janna Sherman (interviews of depository institutions), Theresa Beltramo (company pricing datasets) and Stephany Larson (banks and credit unions pricing dataset).

result of field research and interviews at 60 depository institutions. The third section offers a brief review of government initiatives.

1. REMITTANCES AND THE MARKET

Until the late 1990s, most work on remittances focused on the sender-recipient dynamics, neglecting to consider the role of intermediaries in getting the money from one point to another. More recently (Orozco 2000) formal intermediaries—non-bank financial institutions—have been recognized as playing a key role in guaranteeing the flow of money, and even in fostering its increase, although they have also been criticized for the transfer costs incurred by customers for such intermediation. However, whereas five years ago costs were at least 15 percent of the value of the average amount sent, today those costs have fallen by 50 percent (IAD 2004).

This section provides an analysis of the structure of the marketplace of remittance transfers and looks at a range of characteristics that define it, such as regulatory issues, company participation, range of service provided, geography of the money transfer industry, nature and size of the market, level of market competition among the major companies and various transfer corridors. The first part of this section looks at the structure of the market in terms of three key dynamics; the second part analyses the costs of sending money and how those costs have changed. The last part focuses on the extent of competition in the various corridors.

a) Money transfers and the remittances industry

One lesson learned in the analysis of remittances is that intermediation and transaction costs are associated with a marketplace structure that results from the interplay of three major factors: the type of player in the industry, the regulatory environment, and competition. These three elements help explain market behavior in the sending and receiving markets.

i) Players in the industry

Intermediation involves multiple money transfer actors: the money transfer company, the agent that the company contracts to sell remittance transfers, the agent that provides the distribution on the receiving side, and the financial institution used by the money transfer company to make transactions. Thus, in order to guarantee the transmission of money, data and money streams need to flow from a point of sale into a point of delivery, passing through a series of stages and players that ensure the success of the remittance.

A money transfer business (which can be a financial institution or a wire transfer service) can choose to operate its own offices or branches or contract another firm or an individual, such as a retail store (e.g. Seven Eleven), to serve as its agent. In this latter case the

agent typically collects a commission from the fee charged (and sometimes for the foreign exchange differential) to the customer in the transaction.

The cost structure of a money transfer business thus depends on the number of agent contracts and the commissions paid to each or in the case of firms that dispatch remittances from their own offices or branches, the costs of maintaining and staffing those establishments. In some cases, expanding the number of company-agent agreements to cover a large geographic area may lead to an increase in costs. Also, agents may bargain for higher commissions if their business becomes a magnet for remittance transfers. One method through which agents may increase their commissions is to take advantage of a profitable foreign exchange differential by bargaining for a percent of the differential instead of the fee.

The money transfer business also establishes agreements with agent-distributors in Latin America in order to ensure coverage and efficiency on the receiving side. In many cases commercial banks are one, if not the only, key player in a given market because their financial operations cover a large geographic area and already meet regulatory requirements. In Mexico, for example, some of the major distributing agents are the large banks, including Banamex, BBVA-Bancomer, HSBC, and BanNorte. In Central America, Airpak, which works exclusively for Western Union, is an important distributor. Grace Kennedy is Western Union's exclusive agent for the English Caribbean.

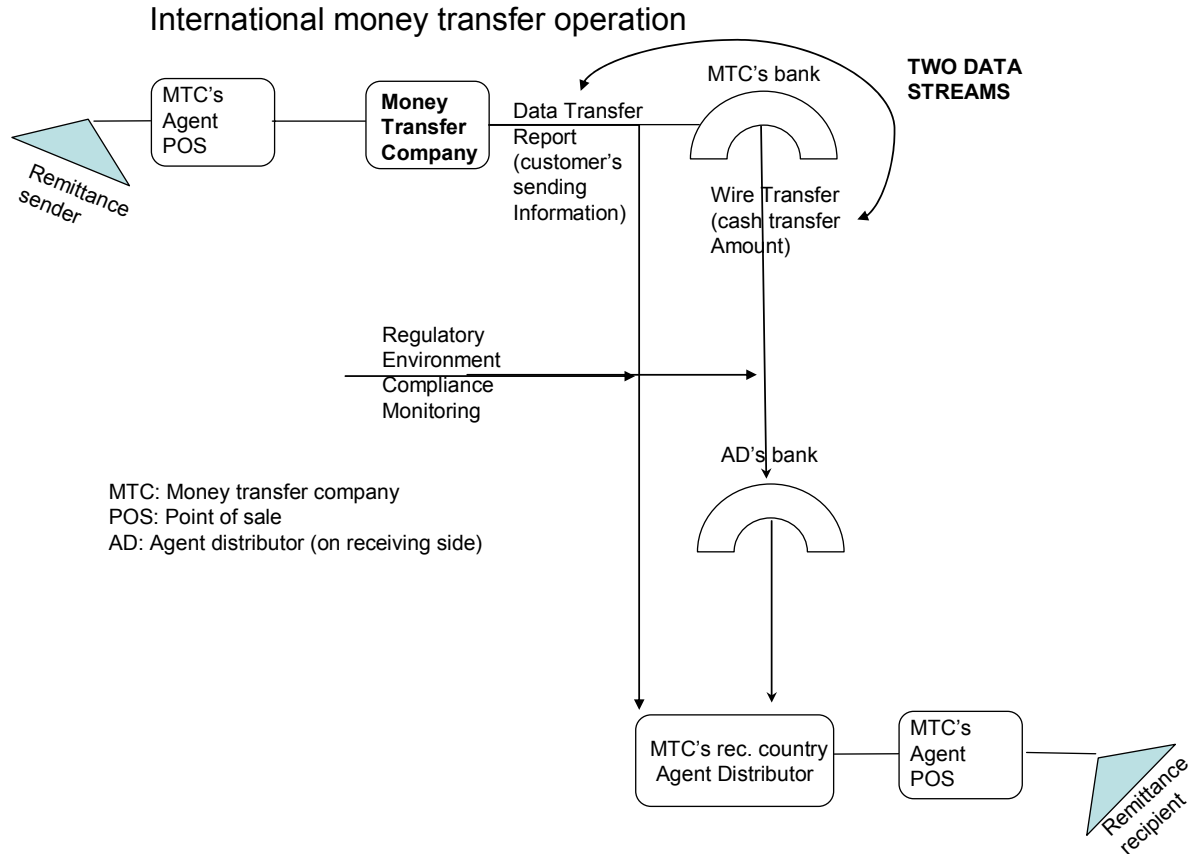
So, remittances can be sent and received at widely different types of establishments. For example, money dispatched by an agent for a wire transfer service operating out of a butcher shop in Chicago might be picked up at a bank in Mexico City. And, likewise money sent from a bank branch in the United States might be retrieved from a small retail establishment in Latin America.

Recipient country distributors also play an important role in pricing and in defining the nature of the competitive landscape. In many cases, distribution agents have agreements with more than one company. Agents thus compete to attract companies to utilize their distribution networks, and in doing so also influence pricing. They charge a commission on the fee and exchange rate charges; should these players raise their commissions, costs to customers would increase, too.

Moreover, banks also play a direct and indirect role in money transfers, not simply by functioning as agents, but also because they serve as intermediaries; they operate as depositories for the money transfer companies and distributor agents. Banks likewise charge to keep money deposited in an account owned by the company or distributing agent. If a bank raises the cost for the deposit transaction, the company ultimately will pass on the costs to the sender.

Figure 1 depicts the various players in the money transfer market. A typical transaction involves two streams of transfers, one for data and one for money, between two countries (sender and recipient). The extent of competition and variance in pricing result in part from the interplay among these stages and the stakeholders described above.

Figure 1: Structure of an international money transfer operation



ii) Regulatory environment

The structure in which money transfers operate is also related to regulatory environments. From the regulatory perspective, there are two kinds of businesses involved: licensed and unlicensed.

Unlicensed businesses represent a variety of players, such as individual entrepreneurs: travel agents who have a license for airfare sales, for example, but not for financial transfers; or retail outlet stores whose agents offer ‘alternative’ transfers to licensed businesses, though they may also have a license to provide transfers. Informal businesses typically operate in countries where flows are not particularly attractive to companies because of their small volume, where foreign currency transfers are highly regulated by the state, where technology is still inaccessible

to individuals and businesses, or where customers have greater trust and preference for person-to-person delivery. However, these businesses or entrepreneurs are aware of the presence of a regulatory environment. In many instances, some informal entrepreneurs have matured and evolved into formally licensed business operations. Some companies operating today in the Dominican Republic and El Salvador are examples of this evolution. Conversely, informal businesses make up over 50 percent of the total volume transferred to Haiti, Cuba and Nicaragua.

Most transfers to Latin America today, however, take place through fully licensed businesses. Enforcement of regulatory procedures and monitoring of money transfers for the U.S. – Latin America corridor primarily occur in the United States. In order for a business to legally offer money transfers, the company has to comply with federal and state (and sometimes municipal) regulations regarding money laundering, suspicious activities, and day-to-day operations. The compliance process often involves bonding and regular audits, as well as making information available about transfers and the agents with whom the company operates.

Money transfer companies are regulated in more than 40 states and municipalities as non-bank financial institutions with licensing and bonding requirements. Federally, the regulatory environment of ‘Money Service Businesses’ is managed by the Treasury Department through the Office of the Comptroller of the Currency, the Financial Crimes Enforcement Network (FinCEN), and the Office of Foreign Assets Control, agencies that enforce compliance with the Bank Secrecy Act and the USA Patriot Act. Reporting to FinCEN focuses on preventing money laundering practices, while reporting to OFAC involves monitoring transfers from entities or countries listed by this office. In addition to the reports and audits, the companies need to meet several procedural and personnel requirements, which include having a written compliance handbook, a compliance officer and implementation of an anti-money laundering training program for staff. Remitters are required to provide identifying information both for themselves and the recipients; information that money transfer businesses are required to keep on record. These regulations place similar compliance burdens on wire transfer services and banks.

The regulatory policies and compliance mechanisms in Latin America are minimal. In some countries, money transfer institutions and their distributor counterparts are required to hold a license. They are also required to report transfers above US\$10,000. However, because most transactions are below \$300, little reporting occurs. Moreover, in some countries companies do not report any kind of information about their business, nor are they required to do so. This situation not only adds to uncertainty about the amounts received and recorded by the Central Bank, but also raises risks of illicit activities.

The regulatory system, in the United States, has increased monitoring, but has also increased costs for companies that provide training for and implement oversight programs. Businesses are also concerned that stringent identification requirements for both senders and recipients will lead to greater utilization of informal services by individuals who would rather use an unlicensed business than provide extensive information.

The next section looks at the state of transaction costs, highlighting three particular aspects: the comparative costs of sending money to 14 Latin American countries, the trends in costs from 2000 to 2004 and a comparison of costs in different areas of the United States.

b) *Competition: change or continuity?*

Several types of business operate in the remittance industry, and they can be classified in terms of the kind of transfer they provide and the nature of the institution. There are three kinds of transfers: wire transfers; money orders; and hand delivered cash (this latter through informal unlicensed means), and four kinds of institutions: nationwide companies, regional businesses, international banks or credit unions, and unlicensed entrepreneurs.

In terms of the transfer mechanisms employed, the remittance industry remains primarily a cash to cash process, with restricted banking intermediation. For example, an analysis of individual companies shows that the most typical mechanism involves senders delivering cash and recipients withdrawing it regardless of whether the venue is a bank or a drugstore. Less than 5 percent of transfers are done via direct deposit into accounts at financial institutions. This suggests that depository institutions (banks and credit unions) are yet to become major participants in the market.

An analysis of data collected from the four largest U.S. banks in this field—Citibank, Wells Fargo, Harris Bank and Bank of America—shows that they conduct less than 100,000 remittance transactions a month with almost all going to Mexico. In 2003 an estimated 40 million remittance transactions carried money from the United States to Mexico which means these banks have captured about 3 percent of that market.

**Table 1. Remittance mechanisms:
Share of transfer U.S. to Latin American and the Caribbean**

Cash pick up at office or bank branch	86%
Home Delivery	4%
ATM, Debit or Smart Card	1%
Bank, credit union deposit	4%

Source: data compiled by the author

Remittances and the Informal sector in Cuba:

Cuban remittances occur predominantly in an informal context. The majority of Cubans choose to send remittances through informal mechanisms, particularly through *mulas*.

Mulas are entrepreneurs--men and women, Cuban Americans and foreign nationals (Mexicans and Colombians among others)--who can and do travel with ease and frequency to the island. They carry both money and packages of goods to Cuba for relatively inexpensive fees to Cuban relatives of the senders. They are known through word of mouth, through the references of relatives, acquaintances, and friends who recommend them as 'reliable' people to send packages of any kind.

Mulas go to Cuba predominantly as tourists, as they are informal entrepreneurs without a license to operate as a business. However, they have a well established network of contacts from Miami residents and businesses, to customs officials in Cuba, and to the distributors of goods.

There is no single type of *mula* and their numbers may run into the thousands. Some *mulas* are salaried and employed by a particular entrepreneur who hires them to travel back and forth to Cuba. There are also *mulas* who are sole proprietors of their informal remittance businesses and who work with family networks in the United States and Cuba. Depending on the business size, some of these sole proprietorships have an informal financial infrastructure in Cuba which they utilize to have their distribution operations active at any time. Carrying a significant pool of thousands of dollars, and using a fax machine, these individuals transmit messages to their Cuban counterpart with the coordinates of where to deliver money and to whom. In other cases, the individuals who have less capital available travel with greater frequency and arrange the money to be delivered by their relatives. In general, regular *mulas* tend to travel to Cuba twice a month.

Finally, *mulas* may be sporadic travelers or entrepreneurial travelers. The sporadic traveler is a person who is approached by an entrepreneur to arrange delivery of money. Instead of earning a salary for the operation, their trip is paid for in exchange for carrying money and in-kind remittances. There are many individuals, particularly low income Cubans and the elderly, who find this to be a practical and useful means to enable them to visit their relatives in Cuba. These sporadic or occasional *mulas* may only conduct such operations once a year.

It is also important to stress that many of the formal money transfer businesses make use of the *mulas* as their distribution network in Cuba. The main reason for this is that given the regulatory constraints as well as the capital investment requirements to establish agencies in Cuba, it is more convenient for the licensed business to rely on the *mula* to deliver the money. In this sense, there is a semi-formal money transfer process in place.

Central to the existence of *mulas* is trust. People who send remittances to Cuba rely on *mulas* because of their reputation, low cost and relative efficiency in delivering the money within a reasonable amount of time (no more than three days following arrival to the country, unless outside Havana). The popular consensus of the work performed by a *mula* is shared widely in the community, further reinforcing their reputation. *Mulas* as well as sporadic travelers are intertwined in social networks of various kinds, from neighborhood links to work connections to national bonds.

Source: (Orozco, 2002c).

What is the current outlook for competition in the Latin American market? In order to understand the nature of competition in a given nation where remittances are received, this section examines variables such as the level of market concentration, efficiency in transfers, the regulatory environment, the diversity of players, and comparative costs. There are basically three stages of market competition: mature, consolidating, and underdeveloped markets.

i) Mature markets

In a mature remittance transfer market a relatively stable balance between supply and demand has been reached. Specifically, there is no scarcity of investment for innovation or expansion, consumer costs are relatively low, competition is consolidated among a small number (no more than ten) of relatively large companies, the regulatory environment is internalized by the players as part of a standard business behavior, and there is also an enabling environment allowing other smaller players to participate in the industry. Currently there are no mature remittance markets in Latin America. Mexico is perhaps approaching maturity; however it is still a consolidating market because transaction costs are expensive in some areas, there is insufficient information about the market and customers are not fully informed of their options.

Figure 2: Remittance transfers to Mexico: by method employed

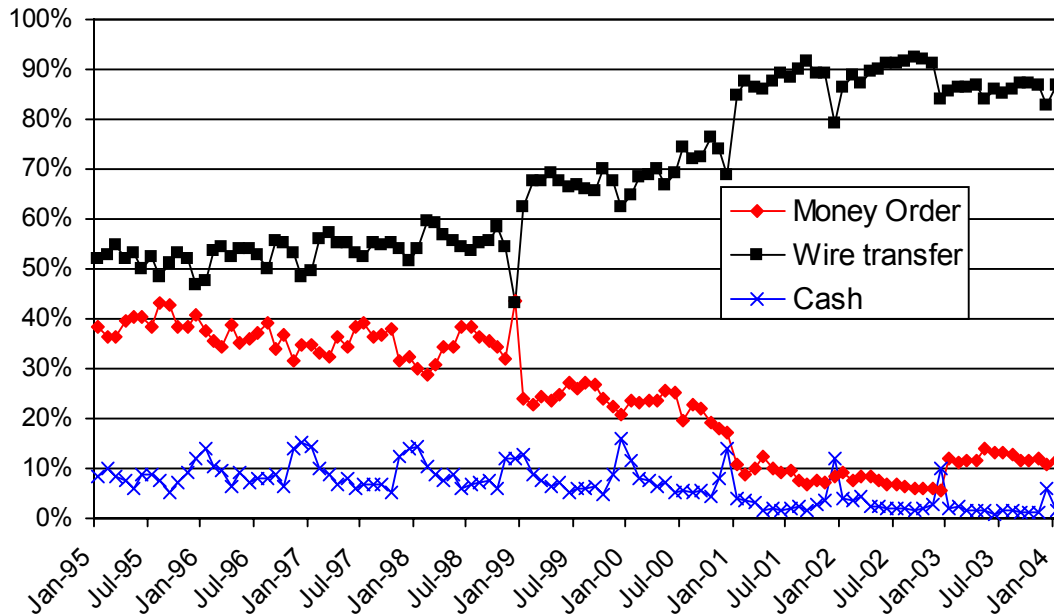
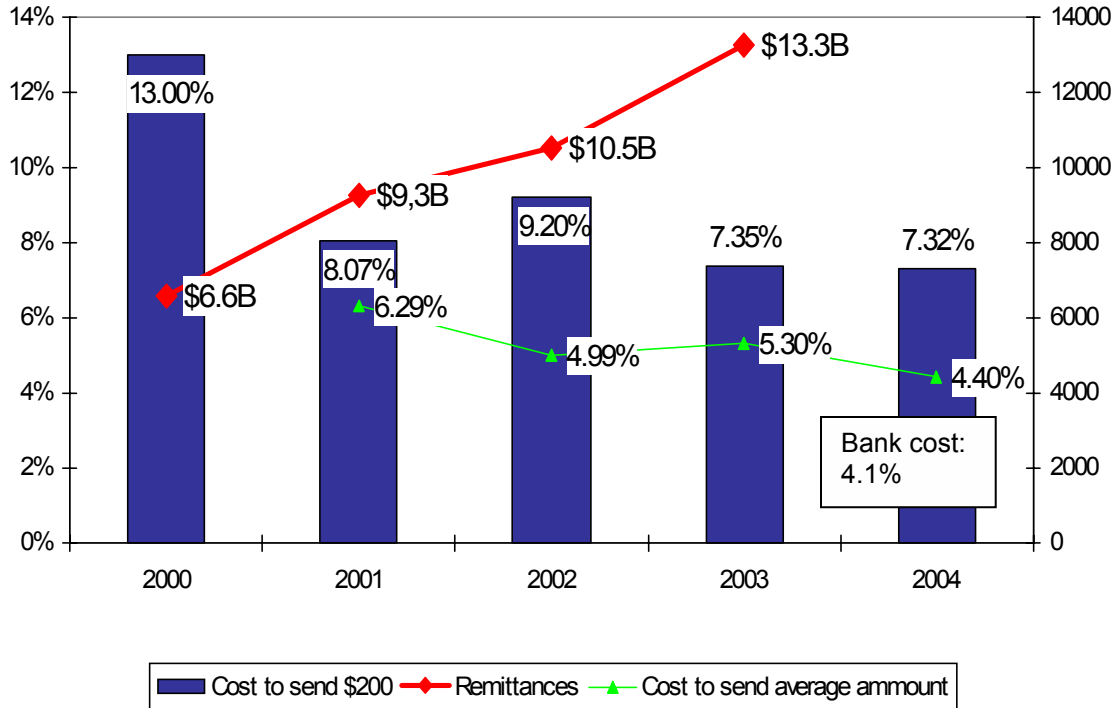


Figure 3: Remittances to Mexico: Volume and Costs



ii) Consolidating markets

In a consolidating market, traditional players face a shifting composition of market share. Concentration occurs mostly from the consolidation of firms that expand market share or purchase existing businesses or agents. The industry seeks more cost efficient transfer mechanisms through investment in innovations such as store value cards, debit cards, and wireless Internet technology. The Mexican case illustrates a market that is an aggressively consolidating though still competitive market. There are at least 50 money transfer businesses competing in Mexico for a share of a \$14 billion market in remittance receipts which represents potential earnings of nearly one billion dollars. Companies offer discounted exchange rates or fees, particularly for customers dealing in larger sums. They share profits with distributors, seeking to expand their networks or forge alliances. Businesses have adopted electronic cash transfers as they have become speedier and more cost effective, shifting away from the traditional personal delivery or money order methods. For example, from January 1995 to January 2004, electronic transfers grew from 50 percent to 86 percent of total transfers, against money order withdrawals. Nonetheless, the vast majority of remittances, even when they are collected at bank branches, are received as cash rather than as deposits into accounts with financial institutions of any sort.

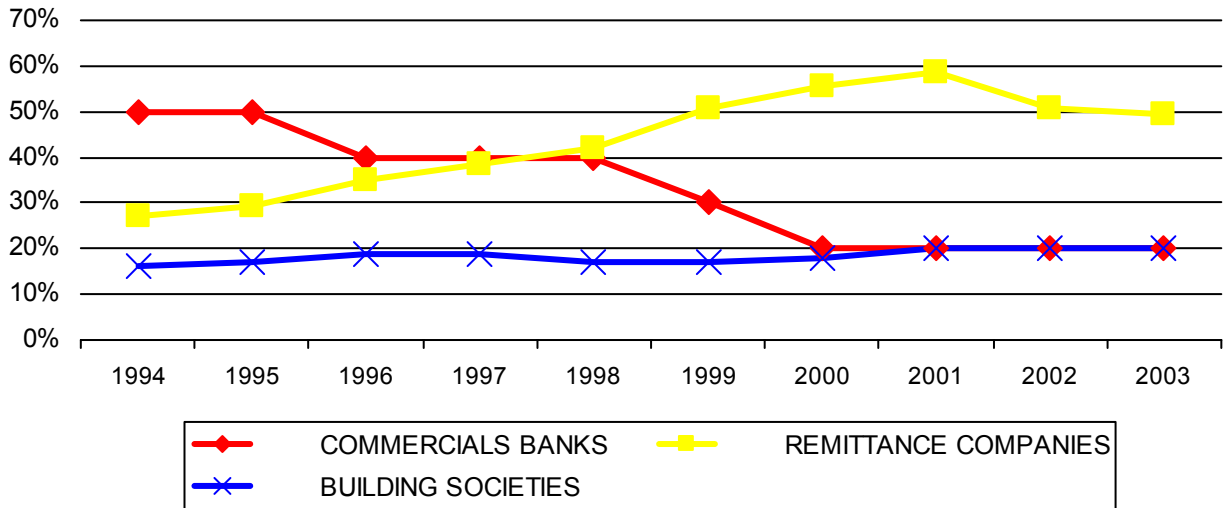
Eight companies control the lion's share of the U.S.-Mexico remittance channel: Western Union; Dolex; Vigo; MoneyGram; Sigue; Ria Envia; Orlandi Valuta; and Mexico Express. Each holds between 5 and 15 percent of the market. At the receiving end, major banks, for example Banamex and Bancomer, compete to offer efficient and widespread distribution networks that will attract business from firms that dispatch remittances from the United States. Meanwhile, in the United States, as mentioned before, several large banks—Citibank, Wells Fargo, Bank of America, and Harris Bank—as well as a variety of smaller institutions like Mitchell Bank of Milwaukee and a number of credit unions have entered the market over the past three years. As will be discussed further in the second section of this study, financial institutions overall remain small players on the sending end of the U.S.-Mexico remittance channel.

El Salvador, the Dominican Republic, Guatemala and Jamaica are also consolidating markets in the U.S.-Latin America corridor. In the longstanding Dominican tradition, remittances were originally sent via a trusted traveler who would hand carry and deliver money to a relative. In the past 15 years, the market has become much more formalized, and the money now usually transits through a licensed money transfer business. Some of these businesses were previously informal entrepreneurial operations that eventually became competitive members of the industry. Significantly, few money transfers to the Dominican Republic are now conducted through informal services.

Ten major Dominican competitors exist, six of which are among the largest in the money transfer industry (Quisqueyana, Vimenca/Western Union, MoneyGram, La Nacional, Pronto Envio, Remesas Dominicanas). Unlike companies based in other countries, these businesses are organized into an association, Asociación Dominicana de Empresas Remesadoras de Divisas (ADEREDI), that represents their interests. They are relatively more expensive than the Latin American average in part because the businesses still deliver the money to the recipient's household as was customary in the days of the informal industry. However, their prices have declined due to competition with each other. Generally, these companies charge less than 10 percent (see chart below). The average amount transferred is \$200.

Jamaica is another case of a consolidating market. In contrast to a competitive market like Mexico, a single company, Western Union, largely controls Jamaican money transfers. One reason for this is the role of Grace Kennedy, Western Union's counterpart on the delivery side, that delivers not only remittances but an array of services in several English Caribbean countries. Competition has become stiffer in the past three years, however, as commercial banks and building societies have sought to play a role in this market, shrinking Western Union's market share in Jamaica from a high of 60 percent in 2001 to 49 percent in 2003.

Figure 4: Remittance Transfers to Jamaica



iii) Underdeveloped markets

Many of the country corridors for Latin America are in embryonic stages when it comes to competitive structure. Many remittance receiving countries rely on informal mechanisms, as in the case of Haiti, Cuba and Nicaragua, or the market is heavily concentrated, such as in Guyana. In Bolivia, Peru, Honduras, and Venezuela, competition is starting to take off, as U.S. companies explore partnerships with institutions in those countries, or small businesses seek to enter the market with high-tech devices such as internet based transfers utilizing debit cards.

Cuba is as an example of an embryonic and underdeveloped market. Remittances to Cuba have historically faced two sets of constraints. First, the U.S. government restricts the amount that an individual can send to Cuba, capping it at US \$1,200 per year. Until recently, businesses in the U.S. were not allowed to offer remittance transfers to Cuba. Over the past five years, however, there has been a proliferation of small businesses (many of them travel agencies) applying for licenses to transfer money. Second, on the receiving side, transactions in Cuba are controlled by state-run businesses, thus reducing opportunities for market competition. These two elements have led Cuban immigrants in the U.S. to use alternative, informal means, transferring money through couriers known as “mulas.”

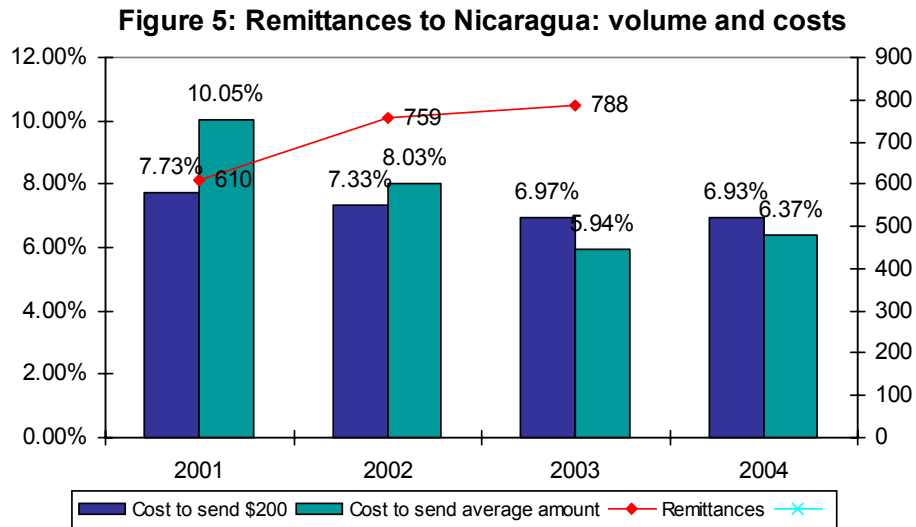
In fact, competition for the money transfer business to Cuba is for practical purposes limited to mulas. Some companies also offer transfers through regulated channels, including

market leaders El Espanol, Western Union, and MoneyGram, but the market constraints affect pricing and have made Cuba one of the most expensive places to send money.

Another case characterized by a high degree of informal mechanisms is Haiti. Of the nearly US \$900 million transferred annually to Haiti, the largest remittance transfer companies—Western Union, CAM, Unitransfer, and Bobby Express—combined, only account for perhaps \$400 million. As a result of the disadvantageous economy of scale, companies raise their transaction costs, leading to a vicious circle in which the incentives for senders to use informal mechanisms are increased due to higher costs imposed by companies.

A single company, Western Union/Grace Kennedy, controls perhaps two-thirds of all transfers to Guyana. However, there is some competition from banks that receive deposits from immigrants. In all, about eight players compete in the Guyana market: Western Union/Grace Kennedy, Laparkan, MoneyGram, National Pride, ScotiaBank, GBTI, and NBCI (Orozco 2002e).

Nicaragua is a similar case of market concentration. Remittances arrive from at least two countries, the United States and Costa Rica. Remittances from the United States come predominantly from the Miami metropolitan area, Los Angeles, and San Francisco. In these cities, transfer companies compete with small entrepreneurs, “encomenderos,” who hand deliver remittances throughout Nicaragua. Many licensed businesses are labor intensive and do not utilize electronic transfers, which tends to increase costs and make the transfer slower and less secure. Western Union may control the largest share of the Nicaraguan market, but as in Haiti and Cuba it competes with informal groups. Vigo (through the credit union system), MoneyGram and Envios 22-24 also compete in this market.



The money transfer business from Costa Rica is also significant. A number of companies and banks, as well as the post office, offer remittance services. As in the United States, costs from Costa Rica are high, and even more taxing considering that Nicaraguans' earning power is far lower in Costa Rica. In Costa Rica the major companies are Western Union, Bancrecen (Agencia Mercury), BancoUno, Correos de Costa Rica, Banco Nacional de Costa Rica, Remesas del Caribe, Servi express and OMS Delivery (Orozco 2003b).

It is interesting to note that the market share held by Western Union in most countries has gradually declined to below 20 percent. However, the volume handled by the firm has not declined significantly as remittance flows have steadily increased.

Overall, the relatively small decline in transfer costs may indicate that companies have reached a threshold in reducing operation costs. The intermediation process derives its price structure from fees and exchange rates. These are used to generate profits and to pay for operating costs, which include the costs of commercial (payment to agents and marketing), financial (processing and money transfer), regulatory (compliance) and administrative (data transfer, office maintenance and equipment) operations. As noted above, the finance ministers and central bankers of the G-7 industrialized democracies, including the United States, have embraced the view that reduction in prices will go hand in hand with greater involvement by banks and other financial institutions. In the U.S.-Mexico channel, which has seen the heaviest involvement of banks on both ends of the remittance process, the average costs charged by banks at the beginning of 2004, 4.1 percent of the amount transmitted, was not significantly below the 4.4 percent charged by wire transfer services for the average remittance which is now approaching \$400. Bank fees are typically structured to favor the customer who sends fewer remittances in larger sums, and as a result these costs are substantially below the prices paid by a remitter sending a \$200 remittance via wire transfer services, 7.32 percent.

c) Transaction costs and changes over time

The volume of remittances to Latin America has grown considerably, reaching \$38 billion in 2003. This report analyzed an immigrant's cost to send money in February 2004 using a pool of 84 firms offering remittance transfers. The selection was based on a 2003 industry study, which was later followed-up to include new companies. Those studied represent the most active businesses in the market, as well as some new entrants (see methodological note).

The analysis of companies operating from the United States to 14 Latin American countries showed that the average cost to send \$200 in remittances was 7.6 percent of the amount

Figure 6: Cost to send remittances to Latin America, February 2004 as percent of amount sent

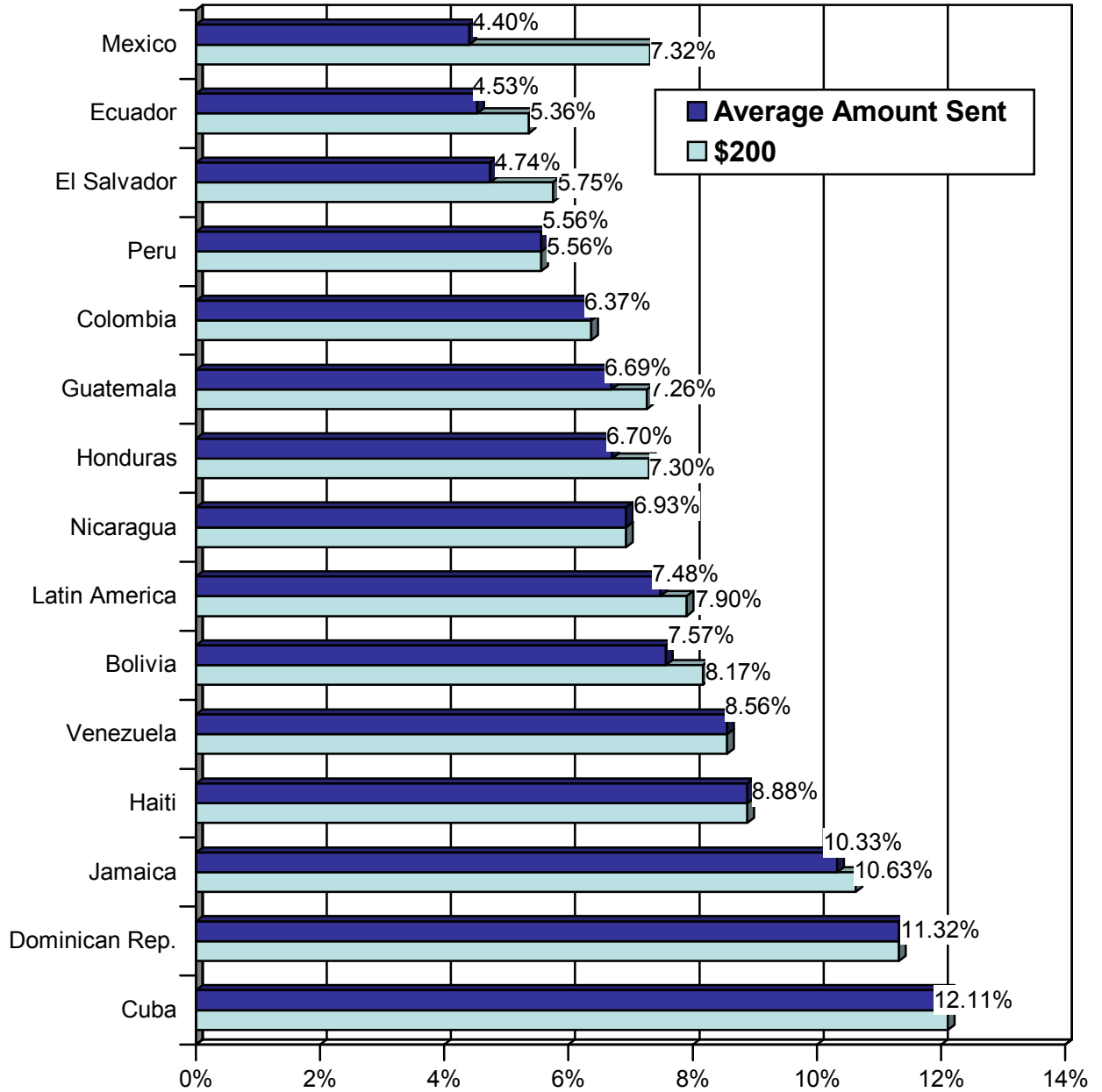
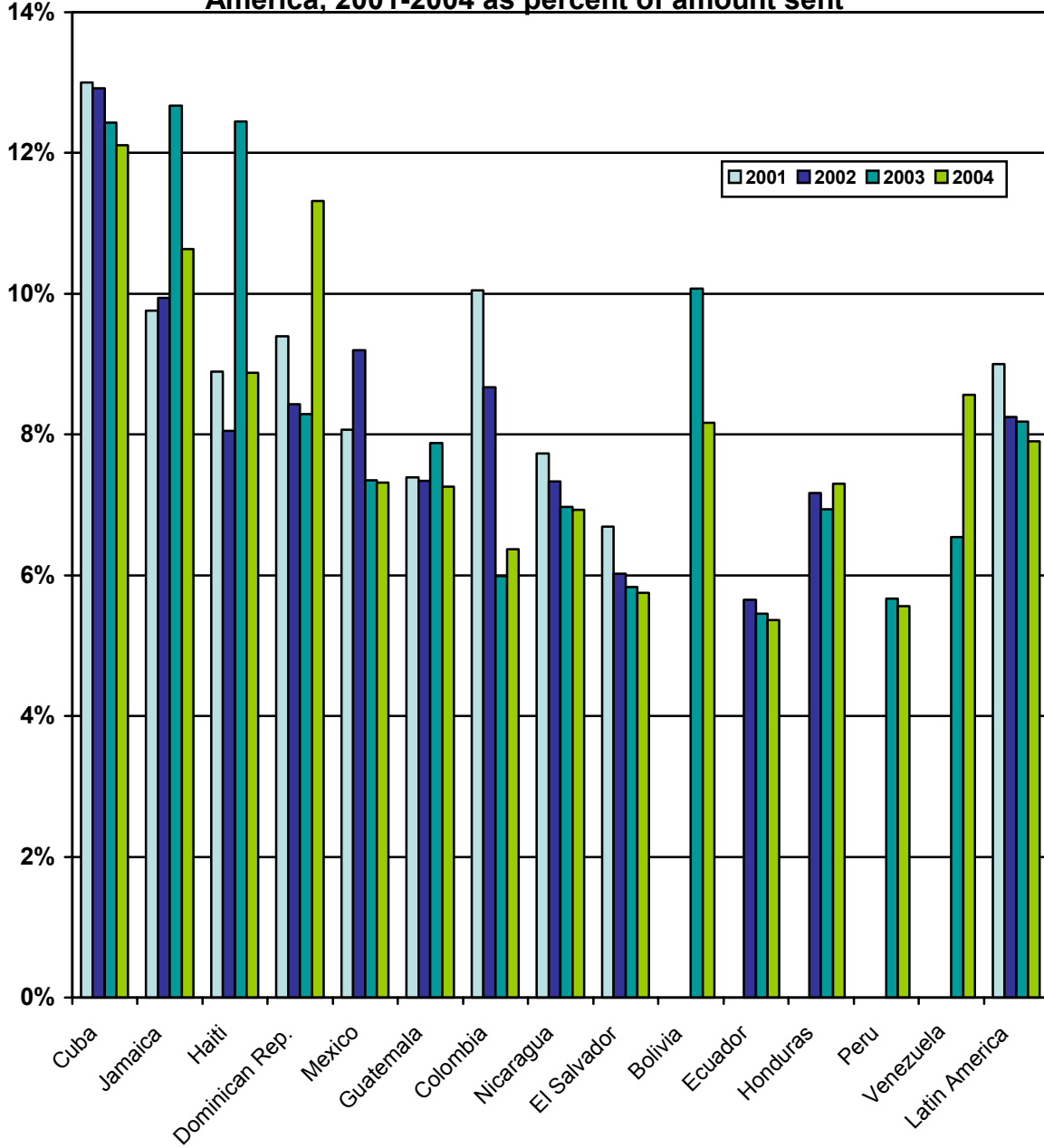


Figure 7: Cost of sending \$200 in remittances to Latin America, 2001-2004 as percent of amount sent



transmitted. This number, however, varied from a high of 12 percent to Cuba to a low of 5.4 percent to Ecuador. The cost generally dropped when the amount sent was greater than \$200. In the case of Mexico, the average cost of sending \$400 was 4.4 percent.

Two cost comparisons were used, \$200 and the average amount sent by immigrants to a given country. This was done to control for differences within subsets of senders: at least 40 percent of immigrants send less than \$200, even though the average amount sent varies from \$150 to \$400. The figure above shows the distribution of cost across the fourteen countries. As will be discussed later, transfer costs varied in some cases due to market concentration as well as volume. In other cases, such as in the Dominican Republic and Venezuela, variation was caused by foreign currency crises. These costs represent more than two billion dollars in payments to wire transfer businesses by a consumer population largely composed of low-income immigrants. Costs have declined slightly over time; when comparing the average amount sent by immigrants over a period of 27 months, costs have fallen from 9 percent in November 2001 to 7.6 percent in February 2004.² This decline was also observed for transfers of \$200.

An exception to this trend occurs in the Dominican Republic, where the current foreign currency crisis — resulting from the bankruptcy of four major banks — has affected the cost of sending money. Before the crisis, the cost of money transfers to the Dominican Republic, in relationship to the principal amount sent, was 7 percent in fees and 1 percent from the exchange rate. The exchange rate commission has now increased to 4.6 percent. Other, less marked increases have occurred for Honduras, Venezuela, and Colombia.

Another important finding from this analysis is the price differential among cities in the U.S. In areas with higher concentrations of Latino immigrants from a particular country, prices tend to be lower than the national average for transfers going to that country. Thus, a significant number of immigrants from the same country of origin in one city are paying less than their compatriots in other cities.³ Consequently, demographic concentration, which powerfully influences demand, affects pricing in the remittance industry.

² The author has collected data on remittance transfers since June 1999, and systematic dataset sets have been built for Nov 2001, June 2002, Nov. 2002, June/July 2003 and February 2004.

³ Data collection included pricing data from the top four cities of residence of major Latino groups.

Table 2: Transfer costs to send \$200

	US	Chicago	Houston	Los Angeles	New York	Wash. DC	Miami	Boston
Jamaica	10.63				7.79		8.27	11.92
Dom. Rep.	11.32				9.87		11.37	
Mexico	7.32	7.23	7.30	6.12	7.81		7.72	
Guatemala	7.26	6.63	7.01	7.04	7.01			
Colombia	6.37	8.01	8.01	8.01	8.58		5.83	
El Salvador	5.75		5.19	4.57	5.44	6.06		

2. BANKS AND REMITTANCES

This section examines how financial institutions have responded to the marketplace of remittances. According to a survey by the Pew Hispanic Center and the Kaiser Family Foundation, 43 percent of Latino remittance senders do not have bank accounts (Suro, 2002). In contrast, 68 percent of African-Americans and 93 percent of non-Hispanic whites have accounts.

**Table 3: Remittance senders with bank accounts
(by percentage)**

Do you have a bank account?	Yes	No
Colombia	47.00	53.00
Cuba	58.30	41.70
Ecuador	65.00	35.00
El Salvador	35.70	64.30
Guatemala	31.20	68.80
Guyana	72.00	21.20
Honduras	29.30	70.70
Mexico	24.80	75.20
Nicaragua	50.70	49.30
Dominican Republic	62.00	38.00
Average	47.50	51.50

Source: Data reported from survey of immigrants in New York, Los Angeles and Miami commissioned by the author, administered by Emmanuel Sylvestre and Assoc. Partial results reported in Orozco, Manuel (2004), *Distant but close: Guyanese transnational communities and their remittances from the United States*, Inter-American Dialogue, Washington, DC. January 2004.

However, not having a bank account does not mean that these individuals do not need financial services such as check cashing, savings, payments and credit (Caskey 2001). Immigrants do use deposit institutions like banks or credit unions, but in conjunction with other, higher cost institutions. Constance Dunham, a senior financial economist at the Office of the Comptroller of the Currency, observes that while people who do not have bank accounts will go to a bank to cash checks, they leave with the cash rather than depositing it in the bank, thus incurring higher costs (Dunham 2001). Check cashing at an institution other than a bank is even more expensive, with fees of up to 3 percent of the face value of the amount cashed (Rhine 2001, 61). When those funds are sent abroad, they face an average of 8 percent in additional fees, sometimes paid to the same provider. Their credit needs are met by institutions that are less convenient and more expensive than community or commercial banks or credit unions. Finally, 14 percent of the unbanked population accrues savings, even though they do not have savings accounts (Dunham 2001).

Various factors explain why many immigrants do not have bank accounts. A 2002 study of remittance senders by the Pew Hispanic Center and the Multilateral Investment Fund of the InterAmerican Development Bank found that many immigrants fail to understand and are suspicious of bank pricing structures. The study also found that until the Mexican *Matricula Consular* became widely accepted by banks, lack of proper identity documents was an important factor and remains so for immigrants of other countries. Finally, the study showed that many immigrants are passive consumers who rely on word-of-mouth referrals in choosing financial services rather than a systematic exploration of the available options (Suro 2002). Another important reason why many immigrants do not have bank accounts is because they believe they will return home soon. Yet in the case of Mexican immigrants, the average length of residence in the U.S. is more than 10 years (Bendixen 2001; Townsend 2001).

The recent experience of inserting individuals into the U.S. financial system, either through offering electronic fund transfers or through outreach to immigrant communities (see below), has been positive. Both measures have been successful in building or increasing assets among low income individuals (Schreiner 2001). By conducting and analyzing interviews with 60 financial institutions, this report seeks to answer two questions: To what extent are banks inserting themselves in the remittance transfer industry? Are banks and other depository institutions offering financial products to immigrants? These institutions are among 100 banks and credit unions that accept the Mexican *matricula consular*, an identity card issued by consulates as a legitimate form of identification. They were asked whether they offer remittances to Mexico and what the costs (fee and exchange rates) were for these services, as well

as what method of transfer they use. Moreover, officers at 22 institutions (eight credit unions and 14 banks) were interviewed in depth about their efforts to offer remittance transfers as well as bank accounts. The results of this data collection follow.

a) Banks and credit unions and the remittance transfer industry

Financial institutions are interested in offering remittance transfers for two reasons: the revenues to be gained from selling remittance services, and the opportunity to attract new customers for traditional depository and loan products. Credit unions and banks that accept the Mexican consular ID were asked about the extent to which they offer remittance transfers and whether they encourage immigrants to open bank accounts. One-third of these institutions served as money transmitter operations (MTO), either in partnership with companies like Uniteller, Maniflo, BTS, or Vigo, or using their own transfer platform, as in the case of Citibank. Despite the fact that they all accepted the consular ID card, nearly half of the institutions did not at the time have a dedicated platform for remittance transfers; instead, they offered regular wire transfers through SWIFT.

Table 4: Type of institution offering remittances

	Percent
Bank as MTO	29.0
Bank as Bank	46.4
Credit Union	14.5
Bank offering ATMs	10.1
Total	100.0

Source: data compiled by the author based on inquires to 60 banks.

Nearly three-quarters required customers to have a bank account in order to make transfers. One-third offered to issue ATM cards for use in Mexico by the relatives of immigrants. One-third made direct transfers from a U.S. bank to a bank in Mexico through a remittance transfer operation.

Table 5: Percent of banks offering remittance related services

Remittance transfer offered only to institution's members	73.9
Issue an ATM card for relative in Mexico	31.9
Allow bank-to-bank deposits	34.8

Source: data compiled by the author based on inquires to sixty banks.

In terms of transfer costs, bank charges for money transfers were one percent higher than charges reported a year ago, but lower than the average cost for using a money transfer company. It is important to note that most of these banks operate in small cities, where because of lower volume remittance transfers are more expensive. Costs for credit unions were lower than a year ago and lower than those of money transfer businesses (see Table 6). Debit card withdrawal continued to represent the least costly of all transfers, although this method was used predominantly by small community banks.

Table 6: Charges made by banks and credit unions to transfer remittances to Mexico (by method used)

Method	2003		2004	
	Dollar Charge (fee and exchange rate diff.)	Percent of amount sent*	Dollar Charge (fee and exchange rate diff.)	Percent of amount sent*
Debit Card withdrawal at ATM (Community banks)	7.4	1.5%		1.5%
US Bank as MT, pick up at Mexican Bank/Agency	16.2	3.4%	17.7	5%
Credit Union as MT	21.4	5.3%	16.6	4%
Traditional wire transfer (SWIFT)	38.3	10%	51.6	13%

Source: For 2003 Orozco, Manuel. *Changes in the Environment*, Washington, DC: Inter-American Dialogue, 2003. * Average amount sent to Mexico is \$400

One of the competitive advantages of banks and credit unions in the remittance business is that they can offer more than one remittance product to immigrant customers. Currently, as discussed in the first section, most remittance transfers are cash-to-cash. However, banks offer other options, such as transfers to and from deposit accounts (see Table 7 below).

Table 7: Available types of transfer operations

Type of transfer	Bank or Credit Union	MTO	Unlicensed
Cash-to-Cash	✓	✓	✓
Cash-to-Account	✓	✓ [some companies]	None
Account-to-Account	✓	None	None

Some banks that accept the Mexican consular ID and are developing a remittance business offer transfers through dual ATM cards or store value cards. Most of these institutions are following a grassroots marketing strategy, with the goal of earning the trust of the prospective customer. Moreover, the majority of these institutions state that they are satisfied with the growth in their transfers.

i) Remittance services offered by banks

Large players like Bank of America, Citigroup, US Bank, and Wells Fargo, as well as smaller local and regional institutions such as Mitchell Bank of Milwaukee, First National Bank of Omaha, and North Shore Bank of Wisconsin, all issue debit cards. National banks distinguish themselves from other institutions in that they have formed relationships with Mexican counterparts to facilitate wire transfers and allow recipients to access funds through their ATM networks. Several banks have adopted dual approaches to remittances. This section examines services at both large and small banks.

Large banks in particular issue specially designed debit cards for sending and receiving remittances. Wells Fargo's Intercuenta Express, for example, is an account-to-account service allowing customers at Wells Fargo branches to pay \$10 to transfer up to \$1,000 directly into their beneficiary's BBVA-Bancomer account in Mexico. Wells Fargo also offers Dinero al Instante, a cash-to-cash service initiated in spring of 2002 and based in California, Arizona and Texas, which, for a \$10 fee, allows non-customers to wire money to Mexico.

For a \$12 fee, Harris Bank offers a standard wire transfer that can be retrieved at BBVA-Bancomer. The bank also offers debit cards; in this case, the customer buys two cards and sends one to a friend or relative in Mexico for use at ATMs. US Bank offers Secure Money Transfer (SMT) for withdrawal at an ATM in Mexico at a cost of \$8 for account holders and \$10 for non-account holders. Another type of transfer is through L@ Red de La Gente (The People's Network), a cooperative network of credit unions, savings and loans, and other independent financial organizations in Mexico that formed a partnership in November 2001 with BANSEFI (National Savings and Financial Services Bank), a government-owned banking institution. The partnership has established over 750 network branches throughout Mexico. Transfers sent directly into a People's Network account cost \$6 or \$8 for a cash withdrawal. Bank of America offers SafeSend store value cards, which recipients can use to withdraw funds at PLUS- and Visa Elektron-networked ATMs, or to purchase goods from any merchant that accepts Visa. Users may also withdraw money from any Santander Serfin ATMs free of charge. If the ATM does not

belong to Santander Serfin, the user pays a 10 peso fee. There are no charges for purchases from merchants.

Citibank's Global Transfer charges a fee of \$5 to send remittances into a Banamex account or as a cash transfer. For account-to-account transfers, recipient households can use a debit card called a Tarjeta Tricolor at many points of sale in Mexico. There are no fees for ATM withdrawals using this card, and it is reloadable, so remittance recipients can use it as a regular debit card. Global Transfer is also linked to a special Access account, which offers other features. An alternative to specially designed cards is standard debit cards. Wisconsin's North Shore Bank offers two debit cards for use in Mexico that charge a \$5 fee per transaction.

The Bank of Belton, Kansas, targets Mexican immigrants who transfer money to their relatives. It is one of six U.S. banks that has signed up for the Federal Reserve's Mexico automated clearinghouse (ACH) system, through which money is sent to the Federal Reserve, then is transferred to the Central Bank of Mexico. The two central banks jointly set a foreign exchange rate cheaper than that charged by the traditional wire transfer services. Bank of Belton is currently in the pilot stage of using the ACH.

Marketing tools

Banks market their remittance services through special promotions, sponsorship of community events, local partnerships, and radio advertising. There is a consensus among the banks that immigrants respond better to grassroots appeals. Banks rate participation in community events as their most successful marketing strategy.

Bank of America's approach, for example, is a combination of Spanish-language advertising and street promotion at flea markets in communities that make little use of banks. According to a market representative interviewed for this study, this market segment does not respond to general media campaigns; further, many newly arrived immigrants distrust banking institutions because of their vulnerable immigration status. In order to reach this reluctant community, the bank sets up booths at Mother's Day, Independence Day and Cinco de Mayo celebrations.

At a more local level, Mitchell Bank's marketing objective is to promote trust in financial institutions and community awareness that the most cost effective way to send remittances is through the bank. Mitchell Bank has created a full-service branch at the predominantly Hispanic South Division High School in Milwaukee's South Side, which is staffed by immigrant high school students; it has proven to be a useful tool to promote remittances. Mitchell's

advertisement on Telemundo featuring its Hispanic employees explaining the remittance products has been effective as well.

Harris Bank/Bank of Montreal's strategy is also grassroots oriented. At community festivals, for example, the bank distributes promotional items like T-shirts that advertise the linkages between the home country and services offered by the bank. The bank also promotes its money transfer services at branches that have a concentration of Hispanic customers, to give remittance products a boost.

North Shore Bank in Wisconsin opened a branch at the El Rey supermarket, and collaborates with four churches comprising a total of 4,000 parishioners in sponsoring church events aimed at signing people up for savings, checking, and mortgage accounts. North Shore also retains an advertising agency that works with the Hispanic market.

The Atlanta-based United Americas Bank markets its remittance products as part of a broader package of financial services that it offers, working in conjunction with local organizations such as the Latin American Association, the Mexican-American Business Association and the Georgia Hispanic Chamber of Commerce to organize seminars and educational activities.

US Bank works with supermarkets, *carnicerías* and other businesses that cater to Hispanics, and collaborates with non-profit organizations to offer financial education sessions, at times held in US Bank branches. It distributes promotional fliers, and tellers may be seen wearing badges with the motto, "\$8 to Mexico, Ask Me How?"

Outcomes

Remittances have not performed as well as expected by the banks. Harris Bank's Ernest Helling notes that results have been mixed at various branches largely reflecting the extent to which word-of-mouth communication in different communities has succeeded in attracting new customers. advertising. Overall remittances at Harris Bank have registered double-digit growth since the service began in 1999. According to officials at First National Bank of Omaha, at least 40% of bank clients use their remittance services, which they, too, attribute to word-of-mouth advertising.

Bank of America has been opening over 5,000 SafeSend accounts per month and expects the numbers to grow because the card is now tied to direct deposit accounts. And according to US Bank's Hispanic Market Manager, the bank has had some success in remittances, but not as much as it would have liked. From September 1, 2003, when it was launched, to December 31, 2003, the secured money transfer product made over 1,000 transfers.

Wells Fargo has had greater success with remittance products, having placed branches in locations with highly diverse populations. Its marketing efforts have proven successful, according to officials for Cross-Border payments. They noted double-digit growth in revenues, transaction volume and planned acquisition growth.

On a much smaller scale than the national banks, Mitchell Bank reported 125 remittance accounts with 100-155 transactions per month. United Americas Bank noted that 50 percent of its client base holds accounts bearing a secondary ATM card used in remittances, but that the wire transfer service initiated last year, which is offered through Vigo, is not heavily used.

ii) Remittance services offered by credit unions

Credit unions belonging to the World Council of Credit Unions (WOCCU), an industry association, established a partnership for remittance transfers with the Vigo Corporation, and the majority have been offering Vigo remittance services through the International Remittance Network (IRnet) since 2000 (Orozco 2003). The standard fee is \$10 for sending up to \$1,000.

Santa Cruz Community Credit Union (SCCU) launched its remittance service in 2000, then switched to Vigo in April 2002; this service is only available to credit union members. Greater El Paso's Credit Union (GECU) introduced IRnet's Vigo product to members in December 2000—making it the first credit union in Texas to offer the service. Notably, 90 percent of the remittances sent from Laredo, Texas, where transfers have been available since 2001, go to the Philippines. Chicanos por la Causa Federal Credit Union (CPLC FCU) began offering the service to members in 2002. For over a year and a half, Midwest Industrial Credit Union (MICU) has used the Vigo service, but has not limited it to members.

The Latino Community Credit Union (LCCU), based in North Carolina, has offered transfers through Vigo since 2000, and also offers its members a Visa ATM check card when they open a checking account. Members can put a second person in the home country on the account, enabling them to access funds at any Plus network ATM. Coast Hills Credit Union (CHCU) began using Vigo transfer services in January 2002, and has recently lowered its fee from \$10 to \$8 (to send up to \$1,000), which is below market rate.

Marketing tools

The LCCU in North Carolina uses the most novel marketing tools, including promotional offers to encourage repeat customers. For example, a member can win a shirt or a food basket simply by making a certain number of transfers within a given period and being entered into a raffle. The majority of credit unions rely on more traditional marketing strategies. SCCCU puts

English-language advertising inserts in customer statement envelopes and displays bilingual posters in branch lobbies. They have also placed ads in Spanish-language publications, on Spanish-language television and radio, and in cinemas in South County. Likewise, CHCU's Marketing Department places bilingual inserts in customer statements, and advertises the service in the credit union's newsletter.

LFCU also advertises in its newsletter, which circulates three to four times annually and includes some Spanish-language articles. They distribute the newsletter at institutions such as schools and representatives give off-site presentations about the service. CPLC FCU also places ads in Spanish-language newspapers and distributes fliers. MICU includes bilingual inserts in statement mailings and gives off-site presentations at which representatives distribute information. GECU has an internal marketing strategy that includes posting bilingual signs in the credit union's offices and training its employees about the service.

Outcomes

Most credit union officials interviewed felt that they had achieved expected results so far, but recognized room for improvement. They cited the need to extend hours of operation, for example. An official at LCCU considered that the greatest barrier to success was that the credit union is closed on weekends when many remittance transactions take place. Meanwhile, retail establishments that serve as agents for wire transfer services typically are open on weekends. As a credit union at the high end of the spectrum, GECU averages close to seventy transactions per month at about \$300-\$500 each. Ninety-five percent of GECU remittances go to Mexico, with the remaining 5 percent going to other countries in Latin America, Europe, and India. CHCU's remittance performance is about average. The credit union sent 268 transactions through VIGO in 2002 and 394 in 2003. Officials at Arizona-based CPLC FCU reports 355 transfers worth \$150,000 in 2003. MICU enjoys an advantage in that there are only two other outlets in Omaha using the Vigo service. It has been sending between 25 and 35 transactions per month.

These findings demonstrate that diverse financial institutions now offer remittance transfers as a financial service. The next question is whether they are bringing immigrants into the banking system by offering other financial services. The next section will address that issue.

b) Remittance senders and the banking system

The initiative to "bank the unbanked" Latino remittance senders gained popularity no more than four years ago. A number of institutions, governmental and private, have taken concrete steps toward this goal. As mentioned above, this study included interviews with

officials at 22 banks and credit unions, who were asked about the type of remittance transfer service they use, whether they offer other financial services and how they were reaching out to the community.

These interviews suggest that bankers in small and large institutions are seeking to capitalize on money transfers as a way to increase their assets, by attracting immigrants to open deposit accounts. The three largest banks involved in this kind of initiative were Bank of America, Citibank, Harris Bank and Wells Fargo. These are institutions with assets of more than \$100 billion. Each has either developed partnerships or made major acquisitions in Mexico which have facilitated the roll-out of relatively competitive transfer services. As noted above, there are also midsize and smaller financial institutions participating in this business, both banks and credit unions

Financial institutions catering to immigrants focus on three areas: building relationships, addressing the specific preferences of this new customer base (expanding hours, hiring bilingual tellers, and opening branches near immigrants' residences) and developing new product and approaches. The end result is an increase of at least 400,000 new customers in banks and credit unions. That amounts to about 5 percent of the estimated eight million Latino immigrants who lack bank accounts.

i) Financial products offered by banks

Executives at financial institutions often stress that their interest is not exclusively on transfers, but on establishing a long-term relationship with the senders. Banks are approaching this objective both by targeting specific strategies to the Hispanic market, or by relying on their regular marketing tools to attract Hispanics.

Taking a realistic approach about what to offer and how is central to success in offering financial services to immigrants. Banks offer products that are customized to immigrant remittance senders who can only afford accounts with limited fees. Many banks encourage Hispanic immigrants to start off with more simple products and services, like checkless checking and savings accounts, before advancing to more sophisticated ones. Some banks offer products specifically oriented to this sector, like home loans and credit builders, while others make it a policy not to offer special products once a relationship has been established. All of the banks interviewed accept Mexico's consular ID as a valid form of identification to open an account. Certain institutions also accept the tax identification number.

Many of the banks understand that these customers often are establishing a relationship with a financial institution for the first time and in response develop initiatives to increase

financial literacy and build confidence. Many of their marketing strategies expand on strategies they used to promote remittance services: community events and partnerships, television and radio advertising, as well as bilingual literature and Spanish-language banners at branch offices. Banks that have not marketed remittances undertake different strategies, such as setting up branches in factories that employ many Hispanics. Degrees of success varied among the institutions interviewed. Some consider cross-selling strategies to have been effective while others are less satisfied. Officials frequently noted that their outreach efforts were constrained by limited marketing budget and manpower.

At most banks studied, remittance senders are screened to determine their needs. A gradual approach is taken to introducing them to other financial services and products. The most common products used by Hispanic immigrants are savings and checking accounts with affordable rates, and credit builder products. Several of these banks have also begun offering first-time home buyer loans and other small loans.

Bank of America's Nuevo Futuro account, initiated in March 2004, specifically targets Latinos by waiving monthly fees for customers who maintain an active SafeSend account, a savings account, or a direct deposit account. Nuevo Futuro is a way for a customer to establish a banking relationship, begin building a credit history and access other banking services. The strategy involves graduating customers to become full users of the broader financial services over time.

In light of their success with Global Transfers, which also required customers to have a bank account, in November 2003 Citibank introduced a new product, Access Account. This account reflects a flexible and creative approach to banking; it is a "checkless" account — customers can make deposits and payments using a debit card, without having to maintain a minimum balance. There is a \$3 monthly fee which is waived if the customer uses direct deposit. Officials expressed optimism that Access will cause growth in new accounts and intend to extend this product to other countries.

Savings and checking accounts, ATM cards, and remittances are the services that US Bank most commonly offers, although the bank has recently seen a growing demand for home mortgages. US Bank also offers business products to Hispanics, and has revised its secured VISA and secured loan standards to provide greater opportunity for establishing credit.

Harris Bank makes all of its financial services available to remittance customers. Twenty-three branches currently accept the Federal Electoral Institute of Mexico identification card and the consular ID. Harris Bank provides Hispanic immigrants with services such as checking, money orders up to \$1,000, and pre-paid debit cards that can be used at ATMs, local

businesses, and for payment of accounts and public services. Savings accounts, cash guaranteed loans, loans for higher education, personal credit lines, credit lines guaranteed for the liquid value of an individual's house, and mortgages are attractive to immigrants. The bank offers a first-time lender program that specifically targets clients with no credit history. Harris creates for them a credit report based on the customer's phone bill, car insurance, or similar payment record, and uses it to make small loans.

Security Savings Bank in Kansas opened a full service branch next to the cafeteria in the Tyson Fresh Meats plant in Holsom, which has an 80 percent Hispanic workforce. Every week a bilingual associate holds a mandatory training session for new hires on the importance of establishing a banking relationship, how to create a credit history, and the requirements for buying a home. In July 2002, Security Savings opened two check-cashing ATMs at the Tyson plant to serve employees who do not yet have checking accounts; the individual endorses his or her payroll check, places it in the machine and receives cash back, thus saving \$2 to \$5 in check-cashing fees per paycheck.

Security Savings also offers several types of savings accounts and free checking with no service charges, minimum balance or limitation on number of checks written. The bank provides home equity lines of credit and takes full advantage of government programs like the First Time Home Buyer program.

Mitchell Bank offers a range of services to the Hispanic remitting sector. The bank has offered low balance and no-fee savings and checking accounts since August 2000 to the students and their families who use the Cardinal Bank that Mitchell set up in South Division High School. CD secured loans and credit cards are also available to this sector.⁴ While the bank has always made loans when secured by bank deposits, since June 2003 it has begun to issue loans even where there is no need for a loan, in order to build the customer's credit. This is done by means of CD secured loans; Mitchell lends to its client money that the client has placed in a CD, and then reimburses itself through that account and reports the transaction. Other services include \$.50 money orders intended to attract clients away from checking cashing operations. The bank also conducts loan closings in Spanish, pre-approves customers for home mortgages and works with bilingual home inspectors. They review loan applications free of charge and provide the maximum dollar amount that an individual is qualified to borrow under the Community Mortgage program. Since October 2002, the bank has helped nearly 240 individuals obtain ITIN numbers they needed to establish banking relationships, pay taxes, and access other services. The bank

⁴ CD secured loans are financial instruments that act as collateral for a loan. These loans are tailored as a term note through the maturity of the CD for maturities varying for less than one year.

prepares tax returns at no charge, offering to arrange for direct deposit of Earned Income Tax Credit (EITC) and Child Care Credit into the customer's account. The objective is to encourage people to use the tax credit to begin a banking relationship rather than spending all of the money.

United Americas Bank emphasizes to new immigrants the importance of credit in the United States and offers a wide range of credit products to its predominantly Hispanic clientele. Since its opening in 1999, UAB has offered two special products: a mortgage for first time home buyers requiring an ITIN, and a secured credit card as a means to establish credit. UAB The most basic account is the ATM account, which can be opened with a Mexican consular ID. Customers pay a \$10 monthly maintenance fee and must have a minimum deposit of \$100 to open the account, but are not charged check-cashing fees. The account works well for immigrants with low levels of education because it relieves them of the need to write checks. UAB later graduates customers into one of two types of checking account, and offers a standard savings account requiring an ITIN or Social Security number. Other products include free notary service, personal and business money market accounts, IRA, business and corporate checking, senior citizens account, minor or student savings account, certificate of deposit, and home equity.

Central Bank of Kansas City (Missouri) has also made an effort to enroll immigrant customers. Central Bank has offered a credit development loan for people without a credit history for four years, which has become very popular with Spanish-speaking clients. Customers in this program request to borrow a certain amount and after six to twelve months of making payments have established credit. The loan proceeds are used to purchase a CD, which then becomes collateral for the loan. The customer ends up with a CD, giving them a head start on a down payment for a house, a car loan, or other major purchases. In addition to the credit builder, most Hispanics want savings rather than checking accounts, to avoid paying fees.

Commercial Federal Bank offers typical banking services like mortgage and consumer loans, and checking and savings accounts. The bank also offers small loans and uses pre-paid gift cards as giveaways. Clients usually start with remittances and then move on to loans, credit cards, and lines of credit. Special services include small loans of \$500 for six months of satisfactory checking account performance. The bank offers secured credit cards as low as \$300 which can be used to pay rent or buy plane tickets.

First National of Omaha offers free checking with no minimum balance, and only requires a \$25 deposit to open a savings account. The bank also offers a First Time Home Buyers Loan and other programs with no money down or low payments, as well as business loans of as low as \$1,000 to \$2,000.

North Shore Bank first realized the potential of the immigrant sector a year and a half ago when they invited the Mexican Consulate to conduct a four-day consular ID distribution drive. The bank currently offers ITIN checking accounts with free checking. Savings accounts require a \$100 minimum, but most customers maintain balances of several thousand dollars. North Shore recently became an ITIN certifying agent for the IRS and will offer application services soon. The bank uses bilingual deposit slips and other documents, and has a Spanish language site on its web page where it advertises a special account that includes two ATM debit cards. The bank recently received ITIN mortgage approval and people have begun to apply. North Shore plans to launch 100 percent home equity loans.

Marketing tools

Banks have extended remittance-marketing strategies to other services. Bilingual mailers, Spanish-language print, television, and radio advertising, community participation, and local partnerships, including with Mexican Consulates, are all effective. Banks also rely on word of mouth; at least seven bank respondents cited informal networks of family and friends as being vital to expansion. Banks use both common and unique marketing strategies.

US Bank uses both radio and print advertising, but officials find that radio is more effective. Likewise, Harris Bank's radio spots reach a broad audience, while television has a more limited reach and is too expensive. In contrast, both Mitchell and United Americas Banks advertise on Spanish-language television, which for Mitchell is more effective than Spanish-language newspaper ads. According to Security Savings Bank, both television and radio had proven good mediums, drawing positive community response. In this case, a Tyson plant branch manager used her own weekly Spanish-language radio program to address banking issues. Another instance of staff involvement is First National Bank of Omaha's Business Development Officer, Daniel Padilla, who authors bilingual articles in Omaha's only Spanish newspaper. FNB avoids television and radio ads on the grounds that its customers distrust these mediums.

Many banks use financial literacy initiatives and/or bilingual materials, including websites, targeted at Hispanics. Bank of America's marketing materials provide bilingual information and visuals intended to appeal to Hispanics, as well as Spanish-language materials on financial literacy. Harris Bank's community strategy works through their branches. Products and Spanish-language materials are promoted to the Hispanic community on the website, by bank employees, and through a call center. Marketing focuses on values of family and loyalty. Mitchell Bank advertises only in Spanish, and also uses ITIN applications to attract potential customers.

Security Savings markets to Tyson employees through mechanisms ranging from cafeteria table-top advertising to free cakes to posters displayed on the premises. More substantively, it also offers financial literacy seminars at the plant, churches (especially Catholic Churches), Chamber of Commerce activities, and service clubs like Rotary and Kiwanis.

Most banks interviewed advertise at ethnic, religious, or community events and/or through ties to local organizations and businesses. Bank of America in Phoenix sponsors Banco Musical, an event featuring norteño and tejano music, at which it has a booth offering new account promotions. Prior to the event, street teams canvassed local flea markets to sign people up for Nuevo Futuro SafeSend accounts. During Hispanic Heritage Month and on Cinco de Mayo, US Bank participates in community celebrations, marketing its services through booths and stage announcements. Booths feature promotional items or games that offer a free financial check-up as a prize.

As noted above, Mitchell Bank has an effective outreach strategy through its high school branch, Cardinal Bank, and its informational presentations at church and community meetings. Financial education seminars in Spanish that focus on home buying are held at both the Cardinal branch and the bank offices. The bank has also partnered with the United Migrant Opportunities Services at the Volunteer Income Tax Assistance (VITA) site. Low income individuals are given free tax assistance while a Mitchell Bank employee encourages them to open deposit accounts for their earned-income and other tax credits and tax refunds.

Chicago's Harris Bank likewise conducts community outreach efforts in local churches, community groups, and high schools, although targets vary within the city. While outreach focuses on financial education in general (such as seminars on financial administration, credit, and mortgages), the bank also promotes its services. United Americas Bank works in conjunction with local Atlanta organizations such as the Latin American Association, the Mexican-American Business Association, and the Georgia Hispanic Chamber of Commerce to organize seminars and educational activities. It also sponsors events such as monthly breakfasts at the Mexican-American Chamber of Business. UAB participates in the local Consumer Credit Counseling Service chapter by offering classes using its Money Smart curriculum.

Commercial Federal sponsors a Día de los Muertos celebration at the Des Moines Art Center and participates in Omaha's Cinco de Mayo celebration, setting up booths to advertise its services. Commercial Federal is a member of the Denver Hispanic Chamber of Commerce and plans to co-sponsor future events with that organization.

Many banks find that their Hispanic clients want individual attention, which can be more time consuming. One bank representative estimated that the average new account takes 20 to 35

minutes to set up, whereas Hispanic customers were more likely to take an hour. Bank respondents consistently emphasized the need to establish trust with Hispanic customers.

Banks also create packages to market their services. Like the Neuvo Frontera account, Wells Fargo has a bundled service option, the Gold Pack. Gold Pack includes Intercuenta Express, a checking account, discounted money orders, check-cashing, and insurance services. The package is intended as a relationship-building product. Wells Fargo considers it a success but will continue adjusting it until the right mix of products is found that will sell the bank, rather than the product, in the consumer's mind.

Outcomes

Measuring the success of outreach efforts to attract new accounts is challenging. In part, banks are only beginning to track the presence of Hispanics in their institutions, and usually rely on surname lists to identify them, which is not always accurate.

Bank of America reports a steady rise in both SafeSend accounts and general banking services. Hispanics represented about 20 percent of new accounts in 2003. The bank has opened 50 banking centers in Texas and plans to open 30 to 40 more branches in predominantly Hispanic communities this year. US Bank saw a 12 percent increase in its Hispanic market share since launching an outreach initiative in 2001. Since then, 56 percent of all non-account holding remitters have converted into regular customers. Wells Fargo reports that it has attracted 250,000 new accounts since offering Intercuenta.

Mitchell Bank reports that 70 percent of regular bank customers and 90 percent of Cardinal branch customers previously had no banking relationship. Seventy-five percent of the main bank's accounts are now Hispanic. Its Cardinal branch at the local high school has created 600 new accounts in three years, and conducts an average of 240 to 260 face-to-face transactions per month. Five years ago, the bank had 7,500 transactions per month; now it has 20,000.

First National Bank of Omaha has opened approximately 700 new accounts in the second half of 2003 using either ITINs or the Mexican consular ID.

Security Savings estimated nearly 2,000 accounts have been opened at the Tyson branch.

ii) Financial products offered by credit unions

Like banks, credit unions offer a variety of products and services to their immigrant members. Topping the list of products they offer are no- or low-fee savings and checking accounts, services to establish and build credit, and small loans. Other products include home equity lines of credit, IRAs, and auto loans.

The LCCU began phasing in its financial services and products in 2000. LCCU's top priority is to provide a safe place for first time account holders to deposit their money. Its second priority is to help them develop financial independence. LCCU's primary services are personal, consumer, and car loans at affordable rates. They also offer free check cashing (which they subsidize), direct deposit, a checking account with a free Visa ATM check card, and a free interest-bearing savings account that includes a debit card.

CHCU offers savings accounts and checking accounts with no minimum opening balance and a free ATM/Visa check card. In addition, they offer small loans, mortgages and home equity lines of credit. To open an account, an individual must have a Mexican consulate ID or ITIN and another form of ID. Currently, CHCU is working on a new project with UCLA and the Ford Foundation to open First Accounts.

SCCCU offers a variety of options for low income clients, including its Special 10 checking account and a Starter Community Visa Card (with a \$250 limit) to members who have a limited credit history and are seeking to build one. Through the Community Partnership Loan Program, SCCCU collaborates with community-based organizations to provide loans to their clients who might not otherwise qualify. Its first shared initiative is with the El Pajaro Community Development Corporation (EPCDC), and will provide micro-enterprise loans to start up businesses working with the EPCDC.

GECU's low income customers have access to a share account and check cashing, which requires a \$20 opening deposit. They use the consular ID to identify the member and require an ITIN. GECU also offers a high-risk credit card CD builder that requires a \$50 minimum opening deposit with a 12-month minimum; after completing the CD time period, the immigrant's rate is lowered. Through the Credit Union Service Organization (CUSO), a for-profit entity formed by eight credit unions, GECU offers affordable housing solutions. CUSO, which is currently seeking non-profit status, works with first time home buyers or residents in the Colonia to establish home ownership.

CPLC FCU also offers an array of products. In the early 1980s, they began using the consular ID to enable Mexican customers to open accounts, and later began accepting ITIN numbers to open interest-bearing accounts. In 2003, they became the first credit union in Arizona to offer loans to establish credit using ITIN numbers, and they also accept Mexico's Federal Election Institute voter card as a valid ID. CPLC FCU offers a no restrictions checking account, which comes with a VISA debit card. The account is fairly simple and thus attractive to their 2,400 members, 95% of whom are Spanish-speaking. Since the CPLC FCU's establishment in 1979, it has offered loans, including share secured loans, to establish and rebuild credit history.

Because a client's own money is used as collateral, they pay a lower interest rate. CPLC FCU makes small loans, and offers competitive interest rates on new and used auto loans.

MICU has been working with the Hispanic immigrant community since 1999. To open an account, an individual must have a social security number and a photo ID. MICU does not accept either the consular ID or the ITIN. The checking account has only overdraft fees and expects to offer a debit card sometime in April 2004. MICU offers a wide variety of savings accounts, including a Youth Program and a Holiday/Vacation Savings program.

LFCU offers free checking and a MasterCard debit card. Savings accounts are most commonly opened for remittance customers. Laredo offers new and used auto loans with fixed rates from 12 to 72 months, in addition to personal and equity loans. Finally, LFCU offers free notary services, along with money orders and travelers' checks for a fee.

CHCU started its program for the Oaxacan community at the Care Center in 2003. Seventy-five percent of individuals who open accounts at the Santa Maria branches are Spanish-speaking. The new First Account Program's success in the Oaxacan community will be evaluated at a later point prior to expanding the program to other locations.

SCCU attributes its success not only to advertising that it accepts the consular ID, but also to its financial workshops and partnerships with community organizations. This combination of community outreach and development activities has been effective. Approximately 35 percent of SCCU's membership is Hispanic and 75 percent is low-income.

GECU and CPLC FCU also report success with their outreach efforts. GECU officials, however, feel that they could do more and are hoping to increase outreach in the future. CPLC FCU reports an increase in the number of loans, primarily personal and auto, as compared with other lending institutions that have not been growing due to a sluggish economy. MICU's outreach efforts have been effective, although officials note that it is hard to expect immediate results from marketing. New accounts are increasing, but loan volume has been stagnant due to the economy. Over the past two years, 75 percent of new members have been Hispanic. LFCU has seen significant growth in loans, credit cards, and check and debit cards; however, officials are disappointed in the rate of growth in Hispanic membership.

3. U. S. GOVERNMENT INITIATIVES

Private financial institutions are developing programs to incorporate immigrants partially in order to capitalize on remittances and the immigrant population's asset building capacity, but they are also influenced in this direction by policy makers, primarily at the Treasury Department,

the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank (FRB), who have made the connection between remittances and banking.

a) The Federal Reserve Bank

The Federal Reserve has consistently sought to promote financial literacy and banking access for low income individuals through a series of initiatives such as electronic deposit funds. This interest has more recently been extended to monitoring remittances and increasing the number of Latino immigrants with bank accounts. The FRB has endeavored to reduce transaction costs for remittances by implementing the Automated Clearinghouse system (ACH) in conjunction with the Mexican Central Bank, and to increase immigrant financial literacy through its community affairs programs.

The ACH is part of a larger effort begun in 2001 to offer automated batch processes to Canada and five European countries. The Federal Reserve acts as a wholesale provider of the ACH to the banks. ACH is an electronic, automatic batch processing system, similar to direct deposit, but broader in scope. The ACH lets banks originate credit payments by sending them to the Federal Reserve for processing via the same method used for domestic transactions. Its batch format allows for cost savings compared to originating single items.

All banks can access the Federal Reserve, making the system attractive to small and medium-size banks that do not have foreign exchange capabilities and would normally depend on intermediary businesses like money transfer organizations or banks with an international presence. As of February 6, 2004, six banks had signed up for the service. The Federal Reserve is selling the service in Mexico through banks at the low cost of \$0.67 per transfer. Ben S. Bernanke, a governor of the Federal Reserve Board, said the provision of ACH services to Mexico “will support U.S. banks' ability to serve immigrants by allowing remittances to be sent to foreign banks at low cost.” Speaking at a conference on financial access for immigrants held at the Federal Reserve Bank of Chicago in April, 2004, Bernanke said, “the Federal Reserve is attempting to support banks' efforts to better serve immigrant populations, with remittances and other money transfers being a key area of interest.” Given that remittance sending is “the most important type of financial transaction for many immigrants and their families,” Bernanke concluded: “This fact engenders both a challenge and an opportunity. The challenge, for regulators, researchers, and immigrant advocates, is to ensure that remitters can send funds to their home countries conveniently, safely, and at a reasonable cost. The opportunity, primarily for banks and other mainstream financial institutions, is to find ways to leverage immigrants' need for

remittance services into a broader relationship, one that will both be profitable for the bank and will also provide immigrants and their families with greater financial access.” (Bernanke 2004)

b) The Federal Deposit Insurance Corporation

An immigrant’s primary challenge to entering the banking system is to obtain the proper forms of identification. The FDIC, following the recommendation of the Department of Treasury, has recognized the consular ID as a legitimate alternative for banking purposes and has even encouraged its use. A major initiative undertaken in Chicago serves as an example of the FDIC’s activities. Working with the Mexican consulate, the FDIC introduced the consular ID to eight major Chicago banks while encouraging them to enter the remittance market, increase competition for remittance senders, and bring non-account holders into the banking system. According to FDIC officials, these banks began to tap into the market by using single or double debit cards and single transfer fees. FDIC also works with the IRS to use the Earned Income Tax Credit to promote financial education and provide tax references to open bank accounts. At the same time, the FDIC encourages banks to accept ITIN numbers for individuals seeking to open interest-bearing accounts. Over the years these banks have come to embrace both forms of identification, with the result that 86 out of the 118 banks that accept the consular ID are located in the Midwest.

In May 2003, the FDIC and the Consul General of Mexico in Chicago launched the New Alliance Task Force (NATF), a coalition of over 30 banks, 25 community-based organizations and government agencies that are organized into four working groups: Financial Education, Bank Products and Services, Mortgage Products and Social Projects. The Task Force holds quarterly meetings to take an inventory of who is doing what in Chicago, share best practices, and report on new laws.

c) The Treasury Department

When the Treasury Department advised Congress in October 2002 that under the terms of the USA Patriot Act a consular identity card could be used to open an account with a financial institution, it played an important role in opening access to U.S. banks for Mexican nationals who otherwise lack proper identity documents because of their immigration status.

Wayne A. Abernathy, assistant secretary of the Treasury for financial institutions, explained the decision during Congressional testimony in 2003:

“What I am saying is that illegal aliens in this country will be able to continue to have access to financial services, as they have had for the history of this country, that we did not see and saw no mandate from Congress to say that access to the financial services

should be denied to people who are in this country illegally, or they are here without appropriate documents, the same way we do not put that barrier at the grocery store or any other vital services that are needed to conduct your day to day life." (Abernathy 2003)

Treasury Secretary John Snow addressed the department's broader aims in a statement issued following a meeting of the G7 finance ministers and central bank chiefs on April 24, 2004:

"We also stepped up our work on remittances. Remittance flows, at nearly \$100 billion globally, exceed total official development assistance and are critical sources of income for millions of households in many developing countries. Yet, many barriers exist that make sending money expensive and limit the potential development impact of the funds. We are each working to address these barriers in our own countries. Today, we committed together to work with other governments, the private sector, and the MDBs [multilateral development banks] to broaden access to financial services in developing countries. This means facilitating greater competition in remittance services, encouraging increased participation in the formal financial system, and promoting financial deepening in the recipient economies." (Snow 2004)

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METHODOLOGICAL NOTE

Transaction costs or “pricing dataset” of money transfer companies, banks and credit unions

The collection of pricing data for this report consisted of interviews with government officials at FDIC, Federal Reserve Bank, bank, credit union and money transfer business officials and other interested parties. Information regarding money transfers was collected through direct contacts with 84 money transfer companies and 60 financial institutions (by phone or site visits in Miami, New York, Washington and California) who were interviewed on the following topics:

- fees,
- exchange rate applied,
- transfer method employed,
- whether the money was delivered in dollars or local currency,
- how the money was delivered,
- locations on the receiving end,
- additional charges made.

Tellers were asked about the costs of sending \$200, \$250 and \$300. Central Banks and commercial institutions on the receiving end were also contacted about the exchange rate they offered. This data was also compared to data from July 2003, June 2002 and November 2001.

Interviews of bank and credit union officials

Representatives of 14 banks and 8 credit unions were interviewed about remittance transfer services, financial products for immigrants, marketing strategies and evaluation of success. The questionnaire consisted of 10 questions.