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Changes in the Atmosphere? Increase of Remittances, Price Decline and New Challenges

By Manuel Orozco, Inter-American Dialogue

Introduction[1]

Migrant remittances continue to play an important role in many Latin American countries. The reasons are not purely economic, but are tied also to the extent of transnational links established between the migrant community and the home country.[2] Increased market competition, as well as the initiatives of international development organizations in partnership with migrant communities, have promoted development and reduced transfer costs.

This paper reports on the continued increase in remittances to Latin America, but also analyzes cost changes and the entry of new players, such as banks, into the Mexican market. The analysis looks at data on prices and exchange rates provided by over 100 money transfer institutions and compares it with data collected in November 2001, later released in a report in February 2002.[3] It also provides an overview of the entry of more than thirty U.S. banks offering money transfer services. As the section will show, some of these institutions are offering competitive prices.

This report will highlight some of the challenges posed to money senders and immigrant communities. In particular, two important issues emerge: the current effects of the regulations imposed by the U.S. Patriot Act of 2001; and the effect on the Latino community of the entry of banks into the remittance business. It is also important to stress that despite new technologies and increased competition, remittance transfer remains expensive for both senders and recipients.

Despite hard times, flows continue

One of the dramatic consequences of the terrorist attacks in September 2001 was the worsening of the economic recession in the United States. The immediate effect was the layoff of thousands of manufacturing and service workers. Cities like New York and Washington, and particularly those connected to the tourist and entertainment industries, were hard hit after September. Hispanics, native- and foreign-born, were affected significantly. According to the Bureau of Labor Statistics, the Latino unemployment rate rose from 6.2 percent in July 2001 to 7.6 percent in July 2002. From October 2001 to July 2002 there were 127,000 more unemployed Latinos.

Table 1. Unemployment among Latinos

	Employed (thousands)	Unemployed (thousands)	Unemployment Rate
Jul-01	14,814	979	6.2
Oct-01	14,903	1104	6.9
Mar-02	14,743	1,165	7.3
Apr-02	14,877	1,279	7.9
May-02	14,963	1,122	7.0
Jun-02	14,959	1,187	7.4
Jul-02	15,066	1,238	7.6

Source: Bureau of Labor Statistics

Some experts estimate that the income of Latinos may fall by 3 percent in 2002.[4]

One interesting development is that, despite hard times, Latino immigrants have continued to send remittances to

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This is the second in a series of research papers on remittances to Latin America that the Inter-American Dialogue plans to publish over the coming months.

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REMITTANCES PROJECT

Foreword

This Inter-American Dialogue's research series on remittances focuses attention on expanding links between migrants and their countries of origin. These ties (involving both household and business sectors) have taken on a growing economic importance. Family and worker remittances and, although to a lesser extent, the donations of migrant associations, are making crucial contributions to subsistence and economic growth in many countries. They exceed aid flows in Central America and the Caribbean, are often larger than import earnings, and in some countries, surpass the value of all government spending on social services.

The series addresses remittances in a comparative context, and emphasizes the policy issues posed by these flows—for the governments of Latin America, the Caribbean, and the United States, as well for businesses and donor agencies. A continuing concern is how to reduce the costs of sending remittances and make them more valuable to individuals, families, communities, and nations.

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Peter Hakim
President

Manuel Orozco
Director, Central America Program

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their families in Latin America. Data from money transfer companies shows that Latin American immigrants in the United States continue to send regular amounts without any decline during 2002. Table 2 shows the average transfer sent by individuals to selected Latin American countries.[5]

Table 2. Average individual amounts sent to selected Latin American countries in 2002

	Avg.
Argentina	198
Bolivia	276
Brazil	376
Chile	303
Colombia	256
Costa Rica	350
Dom. Rep.	199
Ecuador	295
El Salvador	287
Guatemala	269
Haiti	162
Honduras	257
Jamaica	263
Mexico	378
Nicaragua	146
Panama	222
Paraguay	304
Peru	191
Venezuela	228

Source: National Money Transmitters Association. Data provided to the author.

Moreover, according to data from the central banks of main Latin American recipient countries, remittances continue to enter their economies, and in some cases have increased significantly, as in Guatemala. Table 3 shows the quarterly flow of remittances to six countries. As the table shows, remittances in the third quarter of 2002 increased from the third quarter of 2001.

The continuity of remittances suggests that the lines of communication between immigrant communities and home countries are strong enough to endure hard times. It also suggests that obligations to relatives cannot be neglected. Considering that low or negative economic growth in these countries has resulted in higher unemployment rates, the flow of remittances has been more necessary than usual.

Prices decline, but . . .

Cost is an important factor in money transfers to Latin America. Sending money is a costly affair and in some cases extremely so. Importantly, however, costs have declined in the past three years, and continue to do so among both large and small companies. Data compiled in November 2001 for over

"The lines of communication between immigrant communities and home countries are strong enough to endure hard times"

Table 3. Quarterly flows of remittances (in US millions)

	2001-3Q	2001-4Q	2002-1Q	2002-2Q	2002-3Q	2002-4Q
Jamaica	247	246	265	296	304	362
Guatemala	131	133	289	357	456	477
El Salvador	476	513	447	522	473	493
Dominican Rep.	384	601	440	439	429	631
Mexico	2358	2245	2174	2578	2553	2509
Ecuador	355	332	321	338	365	408
Colombia	NA	NA	507	545	583	637
Bolivia	NA	NA	20	18	22	21

Source: Central banks of each country

70 companies showed that the average cost to customers to send $200 to Latin America was $17.46.[6] New data gathered during November of 2002 show that there has been a slight but significant decline. Average charges have fallen to $16.02, a 9 percent decline (see Tables 4 and 5 for a descriptive summary).

The reduction of fees charged in the United States by money transfer companies is key to the decline in charges. Increased competition in the market, as well as public

Table 4. Average Charges to Send $200 to Latin America (in dollars and as %)[7]

	Nov-01	Percent	Nov-02	Percent
Total charge	17.46	8.77	16.02	8.01
FX* charge	4.73	2.44	2.97	1.48
Fee charge	15.33	7.66	14.05	7.02

Source: Data compiled by the author.
*FX = foreign exchange

“Cost is an important issue in money transfers to Latin America”

Table 5. Descriptive Statistics of Charges to Send $200 (November 2002)

	Mean	Percent	Minimum	Maximum	Std. Deviation
Total charge	16.02	8.01	5.00	37.37	5.88
FX* charge	2.97	1.48	0	18.29	3.90
Fee charge	14.05	7.02	5.00	36.00	5.27

Source: Data compiled by the author.
*FX = foreign exchange

Figure 1. Charges to send $200 to Latin America

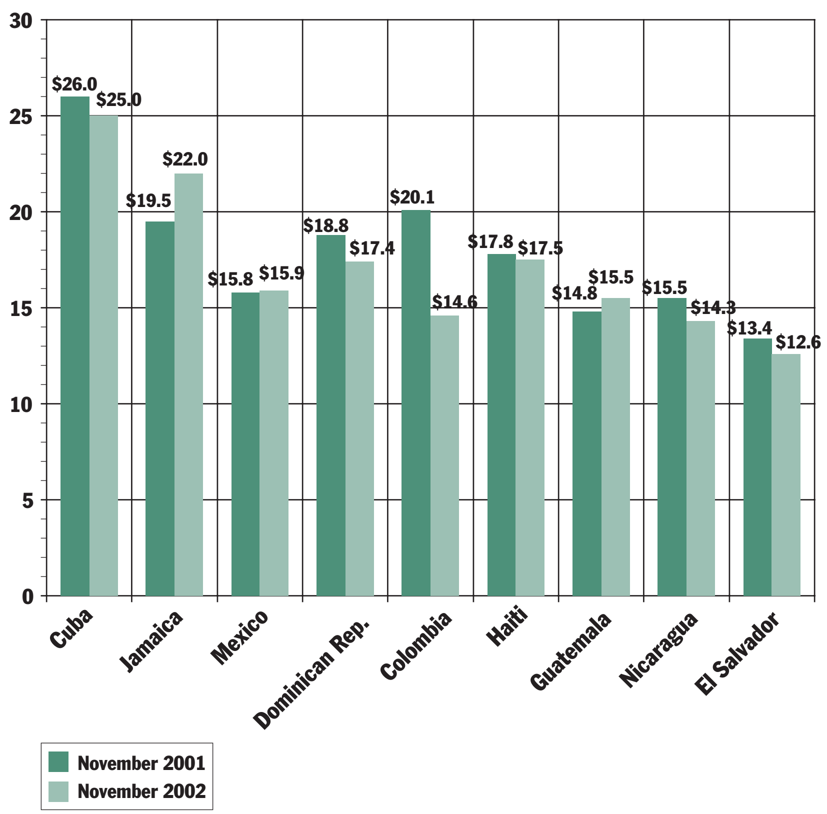
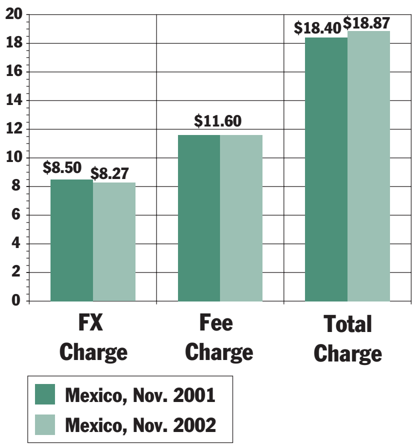


Figure 2. Average charges to send $300 to Mexico



pressure from the U.S. Congress and institutions like the Inter-American Development Bank, have helped provide more cost-effective service to Latin American immigrants.

Three important aspects of these changes are: first, that charges varied from country to country; second, that speculation in the exchange rate by companies declined overall; and third, charges to Mexico did not decline, but rather may have increased.

The decline in prices varied from country to country. Cuba is the most expensive, ranging near $30. Jamaica experienced a significant increase in prices, whereas most other countries did have declines, with two exceptions.

Mexico and Guatemala showed a slight increase in the amounts charged during the period studied. The figure below shows charges incurred in sending $300 to Mexico. As Table 2 shows, the average amount sent to Mexico was over $300.[8]

These values reported are unweighted averages. In other words, they do not reflect variations among companies' market shares. Companies typically do not reveal this information, although in some cases it can be obtained.[9] Moreover, the increases may reflect new companies seeking to speculate with exchange rates while offering lower transfer fees. This can be observed in the following table. While Western Union charges, for example, were higher overall than those of other types of companies, their exchange rate was far more competitive than that of other institutions like banks or ethnic money transfer stores.

Table 6. Charges incurred to send $300 to Mexico by type of institution

	FX charge	Fee charge	Total charge
NMTO*	8.99	12.09	21.08
Ethnic Store	6.80	12.21	18.05
Bank as MTO	NA	10.00	10.00
Bank as Bank	8.38	9.56	17.01
Credit Union	8.55	10.00	18.55
Money Order	NA	17.00	17.00
Western Union	6.54	12.49	19.03

Source: Same as Table 4.
*NMTO = National money transfer operator.

Charges vary depending on the business offering the transfer. Credit unions and Latin American banks working as money transfer operators offered the most affordable transaction services. The decline in prices has also been more pronounced among those types of businesses that have traditionally offered lower charges.

This latter point is significant because in the past six months, banks and credit unions in particular have increasingly sought to offer money transfer services to Latinos. The World Council of Credit Unions, for example, reported that as of January 2003, there were 170 credit unions with over 700 points of service in the United States. It is likely that the number today is greater than that figure.[10] Although they may not represent more than 15 percent of the money transfer industry, their increasing participation,

> **"Credit unions and Latin American banks offered the most affordable transaction services"**

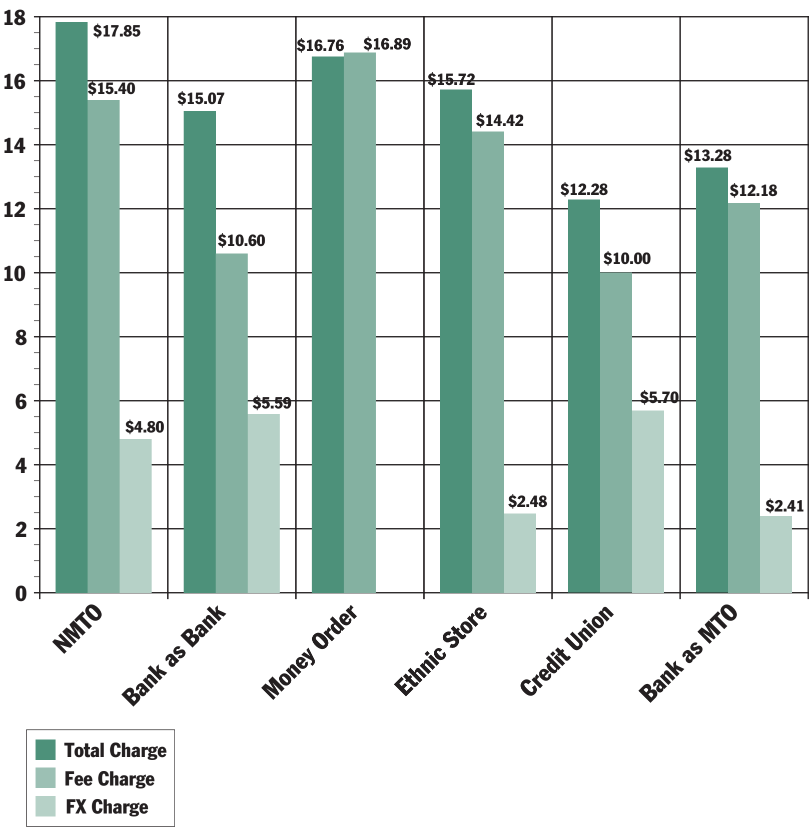
popularity and marketing outreach may signal a shift in the industry.

Banking on remittances? U.S. banks entering the market

Despite the fact that remittances occur on a daily basis, the participation of U.S. banks in transferring money has been limited. Traditionally, banks have used conventional wiring mechanisms that are extremely expensive for individuals and more suited to corporations transferring large sums of money. This has left money transfer institutions to take care of workers' remittances. Banks have realized, however, that the pool of remittance money leaving the United States for Latin America and the rest of the world is significant. They have also recognized that a large number of senders could be potential clients of their institutions, either because they are "unbanked" or because banks could better serve them. Moreover, banks have come to accept alternative forms of personal identification to attract migrants whose legal status is unclear. In particular, the identification card issued by the Mexican Consulates, known as *matrícula consular*, has received significant acceptance by a growing number of banking institutions.

"Banks have realized that the pool of remittance money leaving the United States is significant"

Figure 3. Average Charges to Send $200 by Type of Money Transfer Institution



Except for money transfer agencies—like MoneyGram and Western Union, ethnic stores like Gigante Express and Quisqueyana, or money order companies like Raza Express—there were no banks traditionally involved in transfers. Banks from the Dominican Republic, El Salvador, Guatemala, and Honduras, among other countries, have opened branches in the United States, but they have operated only as money transfer agents and not as banks.

In the past year, however, a growing number of U.S. banks have entered the remittance market through various types of money transfer technologies, often based on the use of "smart cards." So far, these new players are primarily concentrating on the Mexican market and maintain a small market share (probably less than 5 percent). Prior to 2001, there were few U. S. banks and credit unions offering money transfers to other countries at low costs. Examples are Harris Bank and credit unions like the Latino Credit Union.

The most widely publicized case of a bank entering the remittance process is Wells Fargo. Various media outlets covered this event.[11] Although Wells Fargo initiated a program in 1996 targeting the transfer of remittances to Mexico, in 2001 it fully released its product, Intercuenta Express, charging $10 for amounts under $500. Since then, more than thirty banks have become involved in remittance transfers. These banks include First Bank of the Americas, Banco Popular, Citibank, Elgin State Bank, Bank of America, and Harris Bank.[12]

This report looked at thirty banks remitting to Mexico, particularly from Chicago and California, in the past six months.[13] The four most popular methods are: a) the offer of debit cards which can be used by the recipient in ATMs in Mexico, b) U.S. banks operating as money transfer agents with arrangements with Mexican banks (generally, Bancomer and Banamex), c) traditional wire transfer (SWIFT) and d) alliance between banks and money transfer operators. The charges have varied; Table 7 offers the average charges for each of these three transfer methods. As the table shows, debit cards offer the lowest cost. For this service, some companies are offering a very low fee and profiting instead from the exchange rate. In the majority of cases, however, those with access to a debit card are usually required to have a bank account with the institution in the United States.

Recently, Bank of America and Citibank introduced new programs that utilize ATM technology to transfer remittances. Bank of America's SafeSend program and Citibank's Money Card each issue debit cards to a designated person in Mexico upon enrollment of a person in the United States. SafeSend charges $10 per transfer while Money Card charges $7.95 per transfer, plus a $5 monthly maintenance fee. As indicated above, however, there are other fees associated with these new programs that advertise themselves as low cost alternatives (See Table 1 in Appendix).

For example, some banks charge extra fees for withdrawing money via ATMs when a) a sender or recipient contacts a person in

"A growing number of U.S. banks have entered the remittance market"

Table 7. Charges made by banks to transfer remittances, by method employed

	Charge (fee and exchange rate diff.)
Debit Card withdrawal at ATM	6.06
US Bank as MT, pick up at Mexican Bank/Agency	15.70
Traditional wire transfer (SWIFT)	39.75

Source: Data compiled by the author based on the review of 35 banks offering money transfers to Mexico. For the listing and prices offered see Appendix, Table 2.

The cost of sending remittances continues to decline, but it still needs to be more affordable

the bank for inquiries regarding the remittance, b) a recipient withdraws money more than once using the card during a specified time period, c) a sender is not affiliated with the bank, d) a sender opens an account. Finally, some programs also charge monthly maintenance fees. In some cases, the added costs are significant and make this option less competitive (see Appendix).

Money transfer operators such as Cofía and Uniteller have begun operating within banks that offer their remittance services. For example, both Cofía and Uniteller operate within Chicago-based Second Federal Savings, while only Uniteller operates within Park Federal Savings and Mid-America Bank. Cofía has independent offices throughout the United States and also in Puebla, Veracruz and Oaxaca, Mexico. As of late November 2002, Cofía announced that it expects to formalize a joint agreement with Cibao (another well-known MTO that overwhelmingly serves the Dominican population, see Appendix) to operate in New York at the beginning of 2003. An important initiative that has gained strength is the alliance between the World Council of Credit Unions and Vigo Corporation. The World Council developed the IRNet initiative of transferring remittances from credit union to credit union[14] and made an agreement with Vigo to perform the actual transfer while the credit union attracts customers into their system. The strategy has been successful for credit unions in the United States and some Latin American countries (El Salvador, Mexico and Guatemala). The number of credit unions connecting through the IRNet initiative has grown to nearly 200.

Several new banking options have also emerged recently, particularly in the Chicago area. For example, Second Federal Savings currently offers an "amigo card" option, which allows the account holder to receive an additional ATM card to send to a family member in Mexico. Another Chicago area bank, Elgin State Bank, implemented in late November 2002 another option for customers who remit to their home countries on a regular basis. It is similar to the "amigo card" in that it issues two ATM cards, but Elgin issues one card to the individual in the United States and one directly to the person in Mexico. Unlike other financial institutions, Elgin State Bank formally registers both ATM cardholders with the bank.

One of the main rationales for bank involvement in the remittance market is to attract Hispanic customers. According to *Bloomberg*, Wells Fargo, Bank of America Corp., Citigroup Inc. and other U.S. banks "plan to spend at least $8.5 billion through 2005 to attract Hispanic customers as revenue from investment banking and corporate lending lag."[15]

New Challenges

The cost of sending remittances continues to decline, partly due to competition and new technologies, but it still needs to be more affordable. At the same time, other challenging issues remain on the table. First, the effects of new regulations on the industry and on consumers must be addressed. Second, the significance of the entrance of banks remains to be seen. In particular, will banks expand initiatives to bank the unbanked both in the United States and Latin America?

Money transfer companies, particularly those operating from abroad, have argued that antiterrorist efforts have adversely affected their interests in at least two ways. First, according to money transfer companies, banks have closed accounts held by money transmitters, arguing that such businesses are inadequately equipped to control money laundering.

Second, legal and regulatory requirements have stiffened since September 11. Because law enforcement and regulatory officials are concerned that money transfer agencies are potential conduits for terrorist activities, regulations have increased. The U.S. Patriot Act, enacted on October 26, 2001, forces money transmitters to spend on more compliance technologies. State regulators, for example, have adopted stricter rules of compliance to follow the Office of Foreign Assets Controls (OFAC) requirements.

The Patriot Act also criminalizes the informal sector. Although it is important to encourage senders to use formal financial institutions to transfer remittances, this decision has implications. In countries like Cuba and Haiti, most money transfers are informal, and formal institutions do not have the capacity in the short term to absorb the demand. Among many immigrant communities, the use of informal institutions is a strategy of social capital formation to strengthen relationships with the home country. Finally, many of today's ethnic stores emerged from the informal sector.

The long-term impact of the banking industry on decreasing costs and attracting Latinos into the financial network remains uncertain. The efforts are recent, so any interpretation of their success or failure must be qualified. It is important to study how banks are providing services, their level of transparency (that is, no fine print), and whether they are aiming to attract Latinos as customers. Wells Fargo, for example, claims to have attracted over 35,000 money senders, but it is uncertain whether incentives are being applied to incorporate them into the formal banking services.[16]

Methodology

The collection of data for this report consisted of interviews with central bank officials, company officials and other interested parties. Moreover, information regarding money transfers involved direct contacts with over 100 money transfer companies (by phone or site visits in Miami, New York, Washington and California) about:

- 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.

Officials were asked about the costs of sending $200, $250 and $300. Banks on the receiving end were also contacted about the exchange rate they offered. This data was then compared against the November 2001 data and used to analyze 70 companies. Two sets of comparisons were made, June 2002 and November 2001 data compared against the same companies; and comparisons between the new companies from the June 2002 dataset with the November 2001 data.

Notes

1. Many thanks to Michelle Lapointe, Seth Kroop and Stephanie Larson for research assistance in data collection and the preparation of this report.

2. Manuel Orozco, "Globalization and Migration: The Impact of Family Remittances in Latin America." *Latin American Politics and Society Journal.* University of Miami: Summer 2002.

> **"The impact of the banking industry in decreasing costs and attracting Latinos remains uncertain"**

3. Orozco, "Attracting Remittances: Market, Money and Reduced Cost." Washington, DC: February 2002.

4. Alan B. Krueger. and Jonathan M. Orszag. *Hispanics and the Current Economic Downturn: Will The Receding Tide Sink Hispanics?* Pew Hispanic Center report, Washington, DC: 2002.

5. Survey estimates have usually shown average figures between $200 and $300.

6. Orozco, op.cit.

7. Total charges do not reflect the sum of the exchange rate and fees because in some countries, remittances are delivered in dollars and there is no commission.

8. Interviews and contact with officials from MoneyGram, Western Union and the National Money Transmitters Association.

9. Market share data can be obtained for some companies and estimated weights can be applied to some companies that reflect a type of group, representative of a particular segment of the market. However, this is still an unreliable procedure dependent on expert-generated data. Only one company remitting to Mexico has a market share larger than 30 percent, the others may have less than 5-7 percent of the $9 billion market.

10. Credit Unions Using IRNet, http://www.woccu.org/prod_serv/irnet/culist.htm. Interview with David Grace.

11. *The Tampa Tribune*, May 22, 2002; Associated Press, May 22, 2002; *Business Wire*, October 27, 1997 and July 11, 1996.

12. *Business Wire*, July 30 and April 23, 2002; *The American Banker*, May 9 and April 24, 2002; *PR Newswire*, May 9, 2002; *The Financial Times*, May 28 and April 29, 2002.

13. We appreciate the assistance of Juan Matus of the Mexican Consulate in Chicago who helped to identify U.S. banks sending remittances.

14. Orozco, "Remittances and Markets: New Players and Practices" in *Sending Money Home: Hispanic Remittances and Community Development*, Rowman & Littlefield, 2002.

15. Scott Silvestri, "Citigroup, Wells Fargo Buy and Build to Attract Hispanic Savers." *Bloomberg*. January 15, 2003.

16. John Authers, "Banks look to cash in on the flow of money to Mexico." *Financial Times*, August 8, 2002, p.15.

Appendix

Table 1: Remittances Via ATM/Debit Cards and Resulting Fees for Sending $300 to Mexico

Company	Withdrawal Fees	Subject to additional withdraw fees from Mexican ATM	Number of ATM/Debit Cards issued with account	Average Exchange Rate of Two Major Mexican Banks[17]	Interbank Exchange Rate 30-Jan-03[18]	Exchange Charge Plus Fee Charge	Other Fees
First Bank of the Americas, Quickcash	$1.50 for first 4 withdrawals/month ($1.50 extra) after 4 withdrawals in a month	X	2	10.78	10.86	$3.85	
Banco Popular, Acceso Popular	$1.00 (2 free Banco Popular ATM withdrawals per month)	X	2	10.78	10.86	$3.35	
Fifth Third Bank	$3.00	X	1	10.78	10.86	$2.35	
Michell Bank	$2.50	X	2	10.78	10.86	$4.85	$3 to open a cash deposit only account
Citibank, Money Card	$7.95	Not at Banamex	1	10.78	10.86	$10.30	$5 monthly maintenance fee
Elgin State Bank	$1.50	X	2	10.78	10.86	$5.35	
Bank of America, Safe Send[19]	$10.00 per transfer ($15 if not BofA cardholder); $3 per withdrawal, and one free withdrawal per transfer	X	2	10.78	10.86	$12.35	$12 to open account; $3 fee if ATM withdrawal is used more than once per transfer

[17]Average Exchange rate of Bancomer and Banamex for 30-Jan-03. The bank that owns the ATM usually applies the exchange rate at the time of ATM withdrawal. Therefore, this average approximates exchange rate received by a customer accessing his remittances through an ATM.

[18]Banco Central de Mexico Official Exchange Rate.

[19]Other fees that apply: A US$4.00 Representative Assisted Fee will be charged each time You or the Recipient talk directly with a person. This fee will be waived for the first 4 such calls each annual period beginning with the enrollment date. A US$1.00 Automated Inquiry Service Fee will be charged each time the Sender or the Recipient make an inquiry using a voice response system. This fee will be waived for the first 2 inquiries following a transfer of money to the Card account. A US$0.50 ATM Balance Inquiry Fee will be charged each time the Sender or the Recipient makes a balance inquiry through an ATM. This fee will be waived for the first 2 balance inquiries following a transfer of money to the Card account. A US$3.00 Fee for Statement Copy Request will be charged each time the Recipient orders an additional statement to be printed and mailed to the Recipient.

Table 2: Remittances Sent through American Banks and Picked Up at Mexican Banks/Agencies and Resulting Fees for Sending $300

Company	Transaction Fee	Exchange Rate 30-Jan-03	Interbank Exchange Rate[20]	Exchange Charge Plus Fee Charge	Other Fees	Affiliated Bank/ Agency in Mexico
Second Federal Savings, Coofia	$15.00	10.68	10.86	$19.97		Uses many different recipient agencies
Second Federal Savings, Uniteller	$10.00	10.79	10.86	$11.93		Uses many different recipient agencies
Park Federal Savings Bank, Uniteller	$10.00	10.72	10.86	$13.87	MX$10.00 when money is picked up in Mexico.	Uses many different recipient agencies
Wells Fargo, IntercuentaExpress to Bancomer	$10.00	10.56	10.86	$18.29		Bancomer
Wells Fargo, Dinero al Instante	$10.00	10.65	10.86	$15.80		Banamex

[20]Banco Central de Mexico Official Exchange Rate.

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1211 Connecticut Avenue, NW, Suite 510
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PHONE: 202-822-9002 ■ **FAX:** 202-822-9553
EMAIL: iad@thedialogue.org ■ **WEB SITE:** www.thedialogue.org