

A photograph of a utility pole with a banner for 'Upham's Corner Main Street Festival' and a Citizens Bank ATM sign. The banner is blue with a sun icon and text: 'Upham's Corner Main Street Festival an urban celebration'. The bank sign is green with 'CITIZENS BANK' and 'ATM' visible. The background shows a street scene with buildings and a tree.

Banking Unbanked Immigrants through Remittances

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Tanya Fernandes used to go to her local Western Union to take care of many of her financial services needs. She went there to cash checks, buy money orders, and send money home to her family in Cape Verde, Africa. She did not know that she had an option to pay less for these services until a family member told her about a Cape Verdean remittance program available at the Citizens Bank branch in the Upham's Corner section of Dorchester, Massachusetts. Investigating the program, Ms. Fernandes discovered a slew of other tools to conduct her financial affairs.

"This is great. I can send any amount of money to my family, and it costs only \$10," says Fernandes. "I'm so glad my uncle told me about this program. I have opened two accounts at the bank, and I am now saving money."

Ms. Fernandes is not alone. The establishment of remittance programs by mainstream financial institutions (MFIs) is becoming an important way of banking the unbanked immigrant population in the United States. Bringing this population and others who lack basic savings and checking accounts into the conventional financial world is a major goal of the community development field. It is an important step towards building individual and community

Who Are the Unbanked?

The unbanked are individuals who do not have a transaction account with a traditional financial institution, like a commercial bank, thrift institution, credit union, or securities operation. Transaction accounts form a comprehensive category comprising checking, savings, and money market deposit accounts, as well as money market mutual funds and call accounts at brokerage firms. Under this definition, 9 percent of all families are unbanked according to the 2001 Federal Reserve Survey of Consumer Finances (FRSCF).

The FRSCF found that most unbanked families have low to moderate incomes and are more likely to be young and nonwhite. In all, 5 percent of non-Hispanic whites are unbanked, compared with 22 percent of nonwhites and Hispanics as a group. Of the families whose income is in the lowest quintile, 31 percent are unbanked.

The table to the right, based on FRSCF data, shows the distribution of reasons why people do not hold checking accounts. While this portion of the survey deals solely with checking accounts, it gives insight into why people may not have a banking relationship at all. The FRSCF shows that of the 13 percent of families without a checking account, 50 percent of these had held an account in the past. When asked why they do not currently have a checking account, nearly 29 percent of the families claimed that they do not write enough checks. Another 23 percent said that they did not like dealing with banks, while 10 percent thought service charges were too high. Fourteen percent said they did not have enough money, indicating larger financial challenges for a significant portion of these families.

Why don't you have a checking account?

Reason	Percent
Do not write enough checks to make it worthwhile	28.6
Do not like dealing with banks	22.6
Do not have enough money	14.0
Service charges are too high	10.2
Cannot manage or balance a checking account	6.6
Minimum balance is too high	6.5
Do not need/want a checking account	5.3
Credit problems	3.6
No bank has convenient hours or location	0.4
Other	2.1

Source: Federal Reserve Survey of Consumer Finances, 2001.

assets to help sustain the economy in the primarily low- and moderate-income areas where many unbanked immigrants live. Remittances, the monies that many immigrants send back to their friends and relatives in their native countries, represent an innovative way to bank this population.

In 2002, close to \$35 billion in remittances was sent from the United States to other countries.

While a bank can remit money to practically any other bank in the world through wire transfer, few promote this service as a selling point to attract new customers. On the other hand, commercial service providers, like Western Union, widely advertise their remittance services. These alternative providers typically charge high fees and generally do not offer asset-building

tools, such as interest-bearing deposit accounts. Many immigrants are unfamiliar with the U.S. banking system and rely solely on these alternative providers for their financial needs. As a result, they often pay more for services and miss the opportunity to build a solid financial foundation.

Now, MFIs are starting to offer tailored remittance programs to target these immigrant populations, and they are doing so for good reason. First, these unbanked persons represent an untapped customer base for many MFIs. Second, the volume of remittances from the United States to other countries is sizable—close to \$35 billion in 2002—and it is expected to increase considerably in the coming years. Dilip Ratha, a researcher at the World Bank, notes, “With such large sums of money being remitted, and projections showing that the level will increase, policy leaders and banks are becoming very interested.”

Many MFIs, recognizing a business opportunity in this burgeoning market, are strategically offering competitive prices to remitters. Attracted by these low-priced services, many immigrant populations are entering the mainstream financial world and are being exposed to an array of financial services and products.

Remittance Programs Differ

While it is not clear how many MFIs are offering targeted remittance services, several established programs exist, including ones at Citizens Bank, Wells Fargo, and a network of credit unions. Most, but not all, programs require customers to open a bank account in order to remit funds. Some also require the recipient to open a bank account at the partnering foreign financial institution. Many remittance programs target one immigrant group, as they are typically a partnership between a financial



Tanya Fernandes regularly uses Citizens' remittance program to send money to Cape Verde.

institution here and one in the remitter's home country. Yet other programs have networks involving financial institutions in more than one country, allowing more than one immigrant group to participate.

Setting up a remittance program requires several steps for MFIs. They must first identify a need among their customer base and the potential to reach out to others in the surrounding community through their branches or

main office. They must hire bilingual staff, employing those that speak the languages of the targeted immigrant populations. They have to conduct outreach and financial education for the targeted groups through neighborhood organizations and branch locations. Finally, in order to offer competitive prices, they need to either tap into an existing remittance network or establish a partnership with a financial institution in the homeland of the targeted immigrant group.

"Having a solid partnership with a corresponding institution and knowing your community are key to keeping costs in line," says Raymond De Silva, senior vice president and regional manager at Citizens Bank and one of the leaders in developing his bank's remittance program. "Normally, it would cost about \$30 to send money without a formal partnership. But with banks working together, we were able to lower the cost for our customers to \$10. As more players get involved, costs may go down even further."

The Citizens Bank remittance program that Ms. Fernandes uses is a partnership

with two banks in Cape Verde: Banco Commercial Atlantico and Caxa Economica.¹ The program allows customers to remit funds to Cape Verde from anywhere Citizens has a branch location. Citizens' central wire department executes the transfers to the Cape Verdean banks; remitted funds are available to recipients in Cape Verde within 24 hours.

The program is popular among the region's Cape Verdean population because it costs only \$10 to transfer any amount of money—a substantial saving over alternatives. For example, sending \$2,000 to Cape Verde from the Western Union office in Dorchester costs \$114, or 1040 percent more than the Citizens' program. Additional charges can occur at the point of exchange. According to the company's currency exchange policy, "Any difference between the rate given to consumers and the rate received by Western Union will be kept by Western Union." When all costs are taken into account, the savings from using the Citizens program have enticed

¹ Dilip Ratha, a researcher at the World Bank, estimates that remittances to Cape Verde totaled \$80 million, or 14 percent of GDP, in 2002.



A Vision to Provide Banking Services to a Community



Victor Monteiro, branch manager at Citizens Bank in Upham's Corner.

In 1982, when Victor Monteiro first went with his mother to the bank in the Upham's Corner section of Dorchester, Massachusetts, they did not have a pleasant experience. As Monteiro recalls, "We had to wait almost two hours to get service because no one spoke our language." Both natives of Cape Verde, Africa, Victor and his mother speak Portuguese and Crioulo, a blend of Portuguese and West African words. Eventually, the bank found someone at its Codman Square branch who could translate, but by the time he got to Upham's Corner to help, Monteiro had already made up his mind. That day, as he and his mother were leaving the bank, he told her, "One day, I will be the manager of this branch, and we won't ever have to wait for service again."

Eighteen years later, Monteiro's dream came true. He is now the branch manager at the Upham's Corner Citizens Bank branch, and he is keeping that promise to his mother. Ninety percent of his staff speak the language of his customers, and he is working hard to meet the banking needs of his community. "Coming from the neighborhood, I already had a good sense of what some of the needs of the community were," says Monteiro. "Nothing is more pleasing to me than to see people come into the bank and express their happiness about the services they receive."

Upham's Corner is a vibrant commercial district where many in the Dorchester community go to shop and use other services. According to 2000 Census data, this neighborhood alone is home to about 2,900 Cape Verdeans, while the greater Dorchester area accounts for almost 9 percent of all Cape Verdeans that live in the United States (see table).

Starting a remittance program at the bank has been a key element in providing services to this population. Before the program was introduced in 2000, many of Citizens' Cape Verdean customers relied on wire transfer service providers to send money to Cape Verde. Eventually, recalls Monteiro, "A few customers asked why we couldn't provide the service. I thought to myself, why not?"

Monteiro brought the idea to his colleagues, and they were receptive. They formed a group that worked with Citizens' international office to develop a relationship with a couple of financial institutions in Cape Verde. The end result was a remittance program that costs his customers only \$10 per transaction to send any amount of money to Cape Verde. Today, through word of mouth, many Cape Verdeans in the area have found out about the remittance program.

"I hear so many stories about how people back home need the money and how it costs so much to send it," says Monteiro. "Now, I tell them to come on by and check out our service. People are always pleased that they don't have to pay an arm and a leg to send money to family members in need."

Expanding his outreach, Monteiro is also working with a local neighborhood group, the Massachusetts Association of Portuguese Speakers, to conduct financial education classes and to introduce the remittance program to others. Yet his network can reach only as far as these other networks extend. A significant percentage of Cape Verdeans are still relying on fringe providers for their financial needs. Some may not want to deal with banks, while others may not yet know about the program.

But, according to Tanya Fernandes, a bank customer and frequent user of the remittance program, "Everyone knows Victor. I think it's only a matter of time before others hear about it and start using the service."

U.S. Cape Verdean Population, 2000

	Nation	New England	Massachusetts	Boston	Dorchester	Upham's Corner
Population with Cape Verdean Ancestry	77,103	64,899	45,125	11,060	6,686	2,913
Percent of Total U.S. Cape Verdean Population		84.2%	58.5%	14.3%	8.7%	3.8%
Cape Verdeans as a Percent of Total Population in Each Geographic Area	0.03%	0.5%	0.7%	1.9%	7.3%	22.2%

Source: U.S. Census Bureau, Boston Redevelopment Authority.

many Cape Verdean remitters to become bank customers.

Citizens decided to implement this targeted remittance service after several customers went to the Upham's Corner branch manager and asked him to consider doing it. With 53 percent of the branch's customers and over 20 percent of the neighborhood being of Cape Verdean descent, the bank saw it as an opportunity to increase business. As Victor Montiero, a native Cape Verdean and manager of the branch, explains, "It made perfect business sense. Our customers wanted it, and we knew this was a bigger opportunity because of the large Cape Verdean presence in Dorchester."

Both immigrants and their families in Cape Verde are being introduced to the banks' other products.

In order to participate in the program, remitters must open a bank account at Citizens, and each new account holder receives one-on-one training at the branch. Moreover, the remittance recipients must open an account at one of the partnering banks in Cape Verde. As a result, both immigrants here in the United States and their friends and relatives in Cape Verde are being introduced to basic savings and checking accounts and have access to the banks' other products like loans, lines of credit, and interest-bearing financial instruments. Since the program started three years ago, 1,000 formerly unbanked Cape Verdean immigrants have become Citizens customers.

Most of the new account holders are finding out about the program by word of mouth, a cost saver for Citizens. The bank does not have to advertise the program and can offer new customers a range of other products and services. Delighted with the program's success to date, Citizens is investigating ways to offer similar programs to other groups. The bank is currently looking at opportunities to build partnerships with financial institutions in other countries.



The Strand Theatre is a landmark in Upham's Corner, where many residents take advantage of a local bank's remittance program to send funds to Cape Verde.

Smaller MFIs Offer Programs through Networks

Some smaller MFIs are forming partnerships in order to offer remittance programs. One example is the International Remittance Network (IRnet), a network of credit unions that offer low cost remittance services to their immigrant customers. IRnet is coordinated by the World Council of Credit Unions, Inc. (WOCCU), an organization that advocates and provides development services for credit unions around the world.

An electronic funds transfer service, IRnet operates in over 40 countries across Asia, Africa, Europe, and Latin America. IRnet credit union members can access remittance services at over 3,000 locations in 36 states and are allowed to send up to \$1,000 a day for \$10. Currently, 200 credit unions are part of the network, and money can also be sent and picked up at many non-credit union locations that have the IRnet system in place. In New England, the Digital Federal Credit Union in Marlborough, Massachusetts, is part of this network.

In order to use the IRnet service, remitters have to be in the “field of membership” or a “potential member” of an affiliated credit union. These definitions typically include the immediate family and relatives of members, or employees of a company that has an affiliated credit union. Recipients in foreign countries, however, are not required to hold an account at an IRnet credit union. Still, recipients are exposed to a credit union’s products and services when they pick up their funds.

“Once many of the people in the countries we serve see how efficient and safe the remittance service is, they think about other credit union services,” says David Grace, financial services manager at WOCCU. “To date, we have banked 28 percent² of the people in Central America that use our remittance service.” The dollars involved are significant. According to Grace, “Last year, we did a total of \$50 million in remittances, \$20 million of it to Central America, and this year the number is expected to increase fivefold, to \$250 million.”

Reaching Out Makes Good Business Sense

The opportunities for MFIs to tap into unbanked immigrant markets are astounding. As many MFIs have already figured out, reaching out to these segments of the population can make good business sense. Wells Fargo, a financial services company headquartered in San Francisco, reports successful results from its remittance program called InterCuenta Express. Started in 1995, the program is a partnership between Wells Fargo and Bancomer, Mexico’s largest bank. The program requires both remitters and recipients to open an account with the bank in their respective countries. These new customers are becoming major consumers of the banks’ other products. Jane Hennessy, international marketing and product manager at Well Fargo, notes, “Our remittance program customers use an average of 5.7 of our products, while the figure for our other customers is 4.3.”

² This figure represents 1,800 to 2,000 people based on data from research by Louis DeSipio of the University of Illinois on the remittance behavior of Latino immigrants.

So why aren’t more MFIs offering remittance services? One reason is that some MFIs may not have the demand. Many may not have branches that are located in a concentrated immigrant community where they would benefit from offering this kind of product. Additionally, many MFIs simply don’t know about the business opportunity that this kind of product presents. “This is a targeted operation,” says Hennessy. “You have to be persistent to tap into many of these emerging markets, and you don’t want to necessarily publicize your strategy or any detailed results. But we certainly work with Hispanic media and community groups to let people know we have a cost effective, safe, and convenient way to send money to Mexico.”

**In 2002,
remittances to
developing countries
accounted for
42 percent of these
countries’ total private
capital inflows.**

Finally, as discussed earlier, there are some key steps needed to implement a remittance program, and some MFIs may not realize that they are doable. “Some banks may not be used to thinking outside the box because they are comfortable where they are,” says De Silva. “Yet there needs to be an emphasis on the services that an institution can bring to a community and help to make it better, while at the same time bringing in more business.”

MFI programs can also have economic impacts for individuals and communities here in the United States and in developing countries. For one, there is a lot of money at stake. “There are tremendous economic implications for the mostly low-income immigrant people that use these services,” notes Roberto Suro, director of the Pew Hispanic Center.

In their report, *Billions in Motion*, Suro and his colleagues estimate that close to \$1 billion a year could be saved by U.S. and Central American households if remittance fees were lowered to 5 percent of the transaction cost. The savings are even higher if remittances to Africa and Asia are taken into account. Putting this money back into remitters’ pockets could go a long way toward helping to build community assets in areas where unbanked immigrants and their families and friends live around the world.

Additionally, when recipients in developing countries spend their remitted funds at local businesses buying food, clothing, and other life necessities, the influx of capital can spur job creation and economic activity. As Ratha reports in his 2003 study on worker remittance flows, remittances to developing countries accounted for 42 percent of these countries’ total private capital inflows.

These remittance programs are bringing many unbanked into the mainstream financial world and giving them options for asset building. Questions still exist about the most effective way to assist unbanked populations, and MFIs may not be the best solution for each individual. Yet the more information that people have about the resources available to them, the better able they will be to make decisions about where to go for their financial services needs. MFI remittance programs are one way to bring this knowledge to unbanked immigrants.

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