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International Remittances: Information for New England Financial Institutions

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Each year, individuals in the United States send billions of dollars abroad. Most of these remittances are sent by immigrants to their home countries, and the majority of them flow through a handful of service providers who dominate this highly profitable business. As the immigrant population in the United States continues to grow, the volume of remittances climbs each year, reaching nearly $35 billion in 2004. Bankers and other financial professionals are taking notice, and financial institutions around the country are investigating ways to enter the market and capture a share of this growing source of revenue. To aid New England's financial institutions in their exploration of the remittance market, the Federal Reserve Bank of Boston has developed this report, intended to enhance the overall understanding of remittances and to highlight the potential costs and benefits of establishing a remittance program.

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Part I: Characteristics of the Remittance Market

Remittances Worldwide

International remittances are monies that migrants earn abroad and send back to their home countries. Most remittances are relatively small sums—a few hundred dollars sent home each month, typically to support family members, build savings, invest in a business, or repay a debt.[1] While each remittance is small, remittances are a major component of the international flow of funds because of the large number of remitters and the frequency with which they send monies. According to data from the International Monetary Fund, worldwide remittances to developing countries totaled $91 billion in 2003.[2] This figure represents the best available data on remittances. However, several factors, including payments made to non-developing countries and the widespread use of informal channels to remit funds, complicate data collection, and actual remittance flows may be double these official figures.[3] Data from other sources that measure transfers between individual countries reflect these higher volumes.

The bulk of the world's remittances are sent to developing nations. In 2003, IMF data showed that India, Mexico, and the Philippines were the largest recipients of remittances, with inflows of $10 billion, $9.9 billion, and $6.4 billion, respectively.[4] For developing nations, remittance flows represent a major source of international finance—in many cases, larger than total foreign aid and second only to foreign direct investment.[5] The countries sending remittances tend to be among the world's wealthiest. In 2003, U.S. remitters sent $34.1 billion, according to IMF figures, making it the largest source country of remittances. Saudi Arabian remitters sent $14.9 billion, while Switzerland ($11.9 billion), Germany ($9.8 billion), and France ($4.7 billion) rounded out the top five source countries.[6]

Over the past decade, the flow of remittances has experienced striking growth. Between 1990 and 2003, official data show that remittance payments grew 161 percent and year-over-year growth averaged 8.7 percent. In part, the growth reflects better data collection over time, as a larger fraction of remittances are sent through formal channels. However, the expansion of international migration has also contributed to the rise. In 1965, only 75 million people lived outside of their country of birth. By 2000, that figured had more than doubled, to 175 million, and today over 3 percent of the world's population lives abroad.[7] As more people have moved out of their home countries, remittances have increased. The trend is likely to continue. International migration is projected to remain high throughout the 21st century,[8] and remittance volumes are widely expected to continue to climb in coming years.

Remittances Sent from the United States

Obtaining accurate data on the U.S. remittance market presents a challenge. While

Table 1: Remittances to Selected Latin American Countries, 2001
Billions of U.S. Dollars

1.	Mexico	9.3
2.	El Salvador	2.0
3.	Dominican Republic	1.8
4.	Ecuador	1.4
5.	Jamaica	0.9
6.	Cuba	0.8
7.	Nicaragua	0.6
8.	Guatemala	0.6
9.	Colombia	0.5
10.	Honduras	0.4

Source: Orozco, Manuel, "Attracting Remittances: Market, money, and reduced costs," Report for the Inter-American Development Bank, January 28, 2002.

the IMF estimates that U.S. remitters sent $34.1 billion in 2003, the organization does not trace flows between countries, and there are no official figures on where U.S. remittances are sent. Data complications, such as the use of third-party countries during transactions, further reduce the accuracy of country-specific flows. However, using data collected from remittance service providers, researchers estimate that Latin America is the largest recipient of U.S. remittances. According to the Inter-American Development Bank (IDB), the United States sent $28.5 billion in remittances to Latin America and the Caribbean in 2003, accounting for 75 percent of remittances to this area.[9] Within Latin America, Mexico, El Salvador, and the Dominican Republic were the top three countries to receive remittances from U.S. remitters in 2001, according to research by Manuel Orozco,[10] a visiting scholar at Georgetown University and an expert on remittances. Flows to Mexico were by far the largest, topping $9 billion and dwarfing remittances to other countries (Table 1).

Table 2: Monthly Average Dollar Amount Sent in Remittances by Latin American Immigrants

1.	Nicaragua	$ 147
2.	Peru	$ 194
3.	Argentina	$ 194
4.	Dominican Republic	$ 205
5.	El Salvador	$ 243
6.	Colombia	$ 259
7.	Honduras	$ 267
8.	Guatemala	$ 267
9.	Ecuador	$ 281
10.	Bolivia	$ 284
11.	Chile	$ 305
12.	Paraguay	$ 309
13.	Brazil	$ 342
14.	Costa Rica	$ 367
15.	Mexico	$ 382
	Mean	$ 270

Source: Orozco, Manuel, "Remittances, costs, and market competition," Presentation at the Federal Reserve Bank of Chicago, November 14, 2002.

Given the large volume of remittances sent from the United States to Latin America, the remitting patterns of Latin American immigrants living in the United States have been widely studied. According to a 2003 national survey of Latin American households, 6 million Latin American immigrants, or 42 percent, send remittances on a regular basis, and two-thirds of these send money at least once a month. Those who have arrived recently in this country are the most likely to send remittances, largely because of their strong ties to their home countries. Almost one-half of Latin American immigrants who migrated to the United States in the last 10 years send remittances home compared with less than a quarter of those who arrived more than 20 years ago. [11] Orozco found that the value of the average remittance sent by a Latin American immigrant is $270; however, this figure varies by the immigrant's country of origin. Mexican and Brazilian immigrants tend to send larger amounts—on average about $350 a month. By contrast, immigrants from the Dominican Republic and El Salvador send closer to $225 a month, while Nicaraguan immigrants send only $150 a month (Table 2).[12] In addition to Latin America, Asia is also a major recipient of funds from U.S. remitters, with a significant volume of monies flowing to India, the Philippines, and Vietnam. Remittance flows to Asia have been less well studied than those to Latin America, and statistics on remitting patterns and flows are limited. However, a recent study by the Confederation of Indian Industry revealed that flows from the United States to India are sizable and growing. In 2003, remittances totaling $4.5 billion were sent from the United States to India—a 28 percent increase over flows in 2000. As to the frequency with which remittances are sent and the average size, studies have shown that in general Asian immigrants tend to send remittances less frequently, but include more money in each transfer. Orozco found that the

Table 3: Top Ten Largest Immigrant Groups, United States & New England, 2000

United States				New England			
	Country of Origin	Population	Percent of Foreign-Born Population		Country of Origin	Population	Percent of Foreign-Born Population
	Total	31,107,889			Total	1,376,317	
1.	Mexico	9,177,487	29.5%	1.	Portugal	101,980	7.4%
2.	China	1,518,652	4.9%	2.	Canada	98,853	7.2%
3.	Philippines	1,369,070	4.4%	3.	China	74,774	5.4%
4.	India	1,022,552	3.3%	4.	Dominican Republic	72,920	5.3%
5.	Vietnam	988,174	3.2%	5.	Italy	60,391	4.4%
6.	Cuba	872,716	2.8%	6.	United Kingdom	53,914	3.9%
7.	Korea	864,125	2.8%	7.	Brazil	49,246	3.6%
8.	Canada	820,771	2.6%	8.	India	48,322	3.5%
9.	El Salvador	817,336	2.6%	9.	Haiti	43,819	3.2%
10.	Germany	706,704	2.3%	10.	Poland	42,257	3.1%

Source: U.S. Census, 2000.

average remittance sent to India was $1,104. Pakistani immigrants typically remit $790, while Philippine immigrants send $397, on average.[13]

Remittances Sent from New England

While total remittance figures are unavailable for the region, it is estimated that New Englanders sent $775 million in remittances to Latin America in 2003, accounting for less than 3 percent of the total volume of U.S. remittances to this area.[14] The region's relatively small remittance volume is a reflection of the region's small share of the nation's total immigrant population. Only 5 percent of all U.S. immigrants, 1.4 million foreign-born persons, live in New England.[15] This 5 percent share is comparable to the region's share of the total U.S. population. Moreover, the region has a high percentage of older, more established immigrants, which also reduces the size of New England's remittance market, as these immigrants are less likely to send funds. Nearly one-quarter of New England immigrants have been in this country for more than 30 years. Nationwide, this fraction is only 15 percent.[16]

Most of the region's remittances are sent from the three southern New England states, where 92 percent of the region's foreign born live. An estimated $448 million was sent to Latin American from Massachusetts in 2003. Another $238 million was remitted from Connecticut, and $71 million, from Rhode Island.[17] In 2004, an IDB study found that 80 percent of Latin American immigrants in Massachusetts remit money regularly and that the state was the 12th largest source of remittances to Latin America. Connecticut ranked 27th.[18]

While small, New England's remittance market distinguishes itself from the rest of the nation in the composition of countries to which remittances are sent—a direct reflection of the region's unique immigrant population. In the United States, nearly one-third of all immigrants are from Mexico, decidedly the largest single country of origin. In New England, however, Mexicans make up less than 3 percent of all immigrants, and the region's foreign-born population is dominated by a diverse group of nationalities (Table 3).

Portuguese immigrants make up the region's largest foreign-born group. Canadians,

migrating across the region's northern border, are the second largest group, while immigrants from China, the Dominican Republic, and Italy account for the next three largest groups. In general, the region's major groups are not heavily represented in the country at large. Similarly, many of the nation's largest immigrant populations, including Filipinos, Vietnamese, Cubans, and Koreans, do not have a significant presence in the region. [19]

Seven of New England's ten fastest growing immigrant groups between 1990 and 2000 were from Latin America. According to official Census counts, 43,000 Dominicans and 33,000 Brazilians moved to the region, and the decade also saw waves of new immigrants from Mexico, Guatemala, Haiti, Colombia, and Jamaica (Table 4). Of note, the region's Latin American immigrant population also differs significantly from that of the country as a whole. Only a small percentage of New England's Latinos come from Central America, whereas 32 percent are from South America and 45 percent are from the Caribbean. By comparison, nationwide only 12 percent of Latin American immigrants are from South America and 18 percent from the Caribbean.

New England's remittance destinations correspond to its immigration trends. Although Mexico is the largest recipient of U.S. remittances, Mexican remittances are a relatively small share of the region's market. Rather, of the estimated $775 million of remittances sent from New England to Latin America in 2003, Brazil received the greatest volume, with close to $120 million flowing into this country. The Dominican Republic saw $109 million, while Jamaica received $88 million.[20] Because of its unique set of destination countries, New England provides a relatively large share of total incoming remittances in some countries. Nearly 25 percent of all remittances to Brazil originate in New England, as do 11 percent of those to Haiti, 10 percent of those to the Dominican Republic, and 7 percent of all monies sent to Jamaica and Colombia.[21]

Part II: Current Options for Remitters in the United States

Methods of Transfer

Today, individuals living in the United States can choose from a variety of service providers to remit funds abroad. In general, these options fall into three main categories: informal channels, wire transfers by money transfer companies, and remittance services at regulated

Table 4: New England's Fastest Growing Immigrant Groups
Ranked by Number of New Foreign-Born Persons in the Region

	Country of Origin	Population in 1990	Population in 2000	Difference	Percent Change
1.	Dominican Republic	27,689	71,262	43,573	157%
2.	China	41,283	74,944	33,661	82%
3.	Brazil	14,778	48,147	33,369	226%
4.	India	20,366	48,388	28,022	138%
5.	Vietnam	16,742	38,166	21,424	128%
6.	Mexico	7,993	27,874	19,881	249%
7.	Guatemala	9,597	28,129	18,532	193%
8.	Haiti	23,068	41,389	18,321	79%
9.	Colombia	17,431	33,876	16,445	94%
10.	Jamaica	25,095	38,740	13,645	54%

Source: 2000 Public Use Microdata Sample, 5% Sample, U.S. Census Bureau.
Note: Population numbers differ from those in Table 3, due to differences in the sample size.

financial institutions. Cost, convenience, reliability, and access vary among the three, and remitters weigh these factors, both for themselves and for their recipients, when deciding which to use.

"Informal channels" is a catchall category that includes remitting services and methods outside of the wire transfer and financial services industries. Approximately 17 percent of U.S. remittances to Latin America fall into this category, with mail and hand delivery being the most common of these conduits. [22] In the latter case, remitters may use a professional delivery agent—such as an Arab "hawala" or a Chinese "hundi"—to hand carry their remittances to the home country, or they may simply ask someone who is returning to the home country to deliver their funds. Informal channels are typically inexpensive and are often the best way to send funds to remote areas in the receiving country. On the downside, with the exception of professional services, mail and hand delivery are often slow, and monies are at risk of loss and theft, with few provisions for recovery.

For these reasons, most remitters prefer to use faster, more reliable channels to send funds, and the vast majority of remitters rely on the services of a money transfer company (MTC). MTCs are private, for-profit companies that specialize in wiring money abroad. While there are hundreds of local MTCs, Western Union and Money Gram are two of the largest and most well-known in the United States, and they control a significant portion of the remittance market. In 2004, Western Union operated 169,000 branches in 195 countries, controlled 12 percent of the global remittance market, and handled as much as 80 percent of remittances in and out of Latin America.[23]

The heavy use of MTCs by remittance senders stems from MTC's convenience and reliability. In the United States, MTCs have a strong presence in immigrant communities and are often located in grocery stores and other convenient places. Most are open evenings and weekends, and many provide one-stop shopping by offering other financial services such as check cashing and money orders. In the receiving countries, MTCs typically have extensive distribution networks to enable easy access to funds. Perhaps more important than convenience, MTCs have built a reputation for fast, reliable service. Funds are usually available to recipients in a matter of minutes, and losses rarely occur.

While quick and convenient, MTCs charge the highest prices for remitting funds. First, a service charge or fee is levied—in most cases, a flat fee, resulting in a regressive pricing model that enacts a sizable charge on small

Table 5: Cost to Send $200 to Latin America

	Mean	Minimum	Maximum
Fee	$ 14.07	$ 5.00	$ 36.00
Foreign Exchange Charge	$ 4.86	$ -	$ 18.29
Total	$ 16.32	$ 5.00	$ 37.37

Source: Orozco, Manuel, "Changes in the atmosphere? Increase of remittances, price decline but new challenges," Inter-American Dialogue, August 8, 2002.

Table 6: Average Fee to Send $200 to Latin America by Type of Institution

National Money Transfer Company	$ 17.85
Bank - Wire Transfer Service	$ 17.25
Money Order	$ 15.74
Ethnic Store	$ 15.32
Credit Union	$ 13.77
Bank - Targeted Remittance Program	$ 11.58
Mean	$ 16.32

Source: Orozco, Manuel, "Changes in the atmosphere? Increase of remittances, price decline but new challenges," Inter-American Dialogue, August 8, 2002.

remittances. In one extreme example, a remitter might pay $17 to send $50, a fee of 34 percent. A second charge is assessed via the foreign exchange rate. When remittances are exchanged from dollars into the home currency, companies can make additional revenue by offering customers a less favorable rate of exchange than the current market exchange rate. The difference between the actual and the assessed exchange rate at the time of transfer is kept by the service provider. On average, 2.4 percent of each remittance is taken for foreign exchange.[24]

Not unique to MTCs, this pricing system is also employed by banks, credit unions, and other remitting establishments. However, MTCs tend to charge higher prices than other channels. In a survey of 100 institutions that remit funds, the cost of remitting $200 to Latin America ranged from $5.00 to $37.37 (Table 5).[25] The prices varied systematically with the type of institution. National MTCs charged the highest fees, on average, followed by banking institutions' traditional wire transfer service. Other MTCs, represented in the Money Order and Ethnic Store categories, were in the middle of the pack. Banks with targeted remittance programs and credit unions had the lowest fees (Table 6).

Of note, the country of destination also significantly affects the price of sending a remittance. Markets with greater competition have lower prices. In a sample of remittances to 12 Latin American countries, Orozco found that the cost of sending money to El Salvador was significantly cheaper than sending it to Jamaica. Further investigation found that in El Salvador, Western Union controlled only 15 percent to 20 percent of the market and faced stiff competition from Gigante Express and several Salvadoran commercial banks. By contrast, in Jamaica, Western Union's affiliate, Grace Kennedy, was found to control 65 percent to 70 percent of the remittance market.[26] In the remittance market as a whole, competition has lowered overall prices. In a sample of four Latin American countries, the IMF found a 61 percent reduction in the prices of remittance services between 1990 and 2003. However, the price variation between destination countries remains great, and some have seen little change over time (Table 7).[27]

Despite declining prices, MTCs remain at the high cost of end of the remittance market, and regulated financial institutions are emerging as a low cost alternative. Until recently, if an individual used a bank to send a remittance, he or she employed the bank's wire transfer

Table 7: Cost of Sending $200 in Remittances from the United States via Western Union
(Percent of Amount Sent)

1.	Bangladesh	15.7
2.	Turkey	15.2
3.	Bosnia & Herzegovina	15.2
4.	Morocco	14.1
5.	Serbia & Montenegro	13.6
6.	Sri Lanka	13.5
7.	Philippines	13.4
8.	Tunisia	13.2
9.	Poland	13.0
10.	Jordan	11.3
11.	Syrian Arab Republic	10.9
12.	India	9.9
13.	Yemen, Rep. of	8.8
14.	Pakistan	8.5
15.	Dominican Republic	8.0
16.	Nigeria	8.0
17.	Indonesia	7.5
18.	Colombia	7.3
19.	Thailand	7.3
20.	China	7.1
21.	Jamaica	7.1
22.	Guatemala	6.0
23.	Mexico	5.0
24.	Malaysia	4.1
25.	El Salvador	4.0

Source: IMF World Economic Outlook, April 2005.

service. This service was designed for corporate customers making large international payments and was priced accordingly. For remitters, the resulting prices were comparable to those of MTCs. However, a new wave of remittance products priced for the individual sender is emerging in the banking world, offering some of the lowest fees in the market. Service charges average less than $10 per transaction, and foreign exchange rates are more favorable than those offered by money transfer companies.[28] As a result, a growing percentage of remitters are using bank and credit unions to remit funds.

Remitters are enticed not only by lower prices. As regulated financial institutions, banks and credit unions arguably provide the safest way to send money, as these organizations face high stakes and serious penalties for mistakes and losses. As such, they are exceedingly reliable. Additionally, banks and credit unions can offer their remittance customers a range of financial products not available at MTCs, such as savings and investment vehicles and home mortgage products.

However, bank remittance programs have several drawbacks. First, most programs are available only to banking customers. Remitters must have an account, or open one, to use most bank remittance programs. This qualification poses a barrier for remitters, particularly new immigrants, who are reluctant to open a bank account for a myriad of reasons, including unfamiliarity or distrust of banks, the expense of an account, or identification restrictions. Second, banks and credit unions tend to have more limited hours, a smaller presence in immigrant communities, and less institutional capacity to bridge language and cultural differences. As a result, many remitters are unaware that banks and credit unions offer remittance services. Finally, banks and credit unions currently have weaker distribution networks in receiving countries and longer processing times than money transfer companies.

A Closer Look at Banks' Targeted Remittance Programs

Notwithstanding the disadvantages, banks' share of the remittance market is growing. In 1994, only 4 percent of documented Mexican remitters used banks to send funds. By 2000, the fraction had reached 16 percent.[29] And as the volume of remittances climbs each year, so too does the number of regulated financial institutions entering the market. The majority of these "targeted" remittance programs are currently based on one of three models: bank-to-bank partnerships, ATMs, or money transfer networks.

Bank-to-Bank Partnerships

Several U.S. financial institutions have created low-priced remittance services by establishing a relationship with one or more foreign banks. Remittances are made by transferring funds directly between accounts at the partnering banks. Senders remit money from a bank branch in the United States, paying a flat fee to send up to a stated maximum. Recipients can usually access the money at the foreign bank within 24 hours. By employing financial institutions on both sides, these programs carry little risk for senders, recipients, and partner banks.

Because of the account-to-account nature of funds transfer, bank partnership remittance programs typically require senders to have an account at the U.S. bank and recipients to have an account at the partner bank. These stipulations present both an opportunity and a challenge for banks. On the one hand, by requiring users to be bank customers, these remittance programs can build a bank's customer base. Moreover, they may help tap a segment of the unbanked market, bringing unbanked individuals into the financial mainstream and providing them access to various financial tools. However, the account requirements also limit the customer base not only by restricting who can send remittances but also by limiting the population that bank

Bank-to-Bank Partnerships

Citizens Bank Program

To offer New England's Cape Verdean population a low-cost remittance service, Citizens Bank established a partnership with two banks in Cape Verde. The resulting remittance program allowed remitters to send an unlimited sum to Cape Verde for $10 per transfer. To participate in the program, both the sender and the recipient had to have an account at the partner banks. Remitting customers new to Citizens received an introduction to personal financial basics to help them manage their new accounts.

Wells Fargo Bank Program

Wells Fargo Bank's remittance programs rely on bank partnerships in several countries. Established in 2000, Intercuenta Express is a partnership of Wells Fargo and three Mexican banks: Bancomer, Banorte, and HSBC Mexico. The program allows remitters to send up to $3,000 a day to Mexico for an $8 fee. Users of the service are required to open a no-fee, no-minimum-balance account that is used solely to hold remittances. Recipients must have an account with one of the three banks in Mexico. Building on the success of Intercuenta Express, Wells Fargo has created similar programs for customers who wish to remit funds to India, the Philippines, El Salvador, and Guatemala. Each has a similar cost and account structure and is in partnership with one or more large banks in the receiving country.

customers can send funds to. To reduce this hurdle, the most successful programs have strategically chosen their partners—engaging with the largest banks in the receiving country, involving more than one bank, or identifying the bank that serves the areas where most recipients live.

Employing ATMs

Rather than foreign banks, some major U.S. banks and credit unions are turning to automatic teller machines (ATMs) to provide the necessary distribution network for their remittance services. To date, several large-scale ATM remittance programs, most servicing Mexico, have been established in partnership with foreign financial service providers who control a sizable network of ATMs in the receiving country. In an ATM remittance program, a customer creates a dedicated remittance account at the U.S. bank that can be accessed by two ATM cards—one which is kept by the sender and one which is sent to the recipient abroad. The sender puts money into the account via a credit card or other bank account. Once there, the recipient can withdraw the funds at a participating ATM or in some programs can use the card to debit the account at certain retailers. Typically, the recipient is not charged for the withdrawal; rather, a fee is assessed each time money is added to the account. Programs differ in how the foreign exchange rate is applied, with some banks charging it upfront and others, at the time of withdrawal.

Remittance services using ATMs have several advantages. The money is immediately available to the recipient once the sender has put it into the account, and ATM programs provide greater convenience than services that require in-bank transfers and pick-ups. With thousands of ATMs in the sending and receiving countries (most of which are available 24 hours a day), remitters and recipients have greater flexibility about when and where they send and receive monies. Despite this greater flexibility, one cited shortcoming of ATM programs is their limited value in areas where participating ATM machines are not available.

Some smaller banks and credit unions offer an informal type of ATM remittance service. Customers are allowed to set up two accounts—one for their own personal use and a second dedicated for remittance transfers. The bank issues multiple ATM cards for the second account, some of which have withdrawal capability only. The customer delivers the auxiliary ATM cards to friends or family members abroad and shares the pin number, allowing card holders to access and withdraw funds. Set up like a typical ATM card, a fee is assessed for each withdrawal, but fees are not charged when money is put into the account. These programs carry several potential risks. For one, the recipient has access to the entire sum in the account, and for this reason, banks encourage senders to maintain their main account separately. Second, the chances of fraud

Employing ATMs

Bank of America Program

Bank of America created the SafeSend program to provide a low-cost way to send remittances to Mexico. Enrollees open a SafeSend Transfer Card account and put money into this account via a credit card or an existing Bank of America checking account. A SafeSend Transfer Card is then sent to a designated recipient in Mexico, who can use the card to access the account at any one of the 26,000 participating ATMs or 120,000 participating merchants. Each time the sender puts money into the account, he is charged a $10 transfer fee, plus a 3 percent foreign exchange fee. The recipient is not charged to withdraw the money and can access up to $1,500 a day, but no more than $3,000 a month. Most recently, Bank of America announced that it would be eliminating both the transfer and the foreign exchange fees by the end of 2005 for SafeSend customers who have a Bank of America checking account.

Sovereign Bank Program

Recognizing the diversity of the immigrant population in its markets, New England's Sovereign Bank offers a product that can serve remitters of all nationalities. In partnership with American Express, Sovereign sells the American Express TravelFunds Card. The "next generation" of travelers check, this prepaid card can be used worldwide at ATMs and retailers that accept American Express. Though originally designed for travelers, Sovereign Bank also offers this product to remitters. Remitters can load the card at Sovereign Bank and send it to a recipient aboard. The initial set-up fee is $14.95, and up to a $2,750 balance can be carried on the card. A $5 fee is charged for every reload, and the recipient is charged $2.50 for each ATM withdrawal. The card is not tied to a specific account, and Sovereign believes that this feature makes the card a safer alternative to sending debit and other ATM cards abroad.

or abuse are higher as the bank has no knowledge of, or control over, secondary ATM card holders.

Money Transfer Networks

Some banks and credit unions are tapping into existing money transfer networks to provide remittance services to their customers. According to several surveys of remittance providers, credit unions consistently offer the lowest priced remittance services. Orozco found that credit unions typically do not charge more than $10 to send funds, and some offer the service for less than $7.[30] In part, credit unions are able to offer these low prices because of IRNet, the International Remittance Network. Developed by the World Council of Credit Unions, Inc. (WOCCU), IRNet is a worldwide network of credit unions that works in conjunction with several MTCs to provide credit-union customers with a remittance service.

When developing the program in 1999, WOCCU decided to capitalize on the existing infrastructure of Vigo Remittance Corporation, an international money transfer company. WOCCU contracted with Vigo and subsequently with several other money transfer operators to handle the electronic transfer of funds between members of the IRNet program. Today, IRNet permits remittance flows between 201 U.S. credit unions and credit unions in six Latin American countries. While a participating credit union must be involved in one part of the transaction, IRNet users may send and receive remittances from any location serviced by one of WOCCU's money transfer company partners. The service is offered to the members of participating credit unions and their families, and prices are low across the board—it costs $10 to send up to $1,000 to Mexico.[31]

An Opportunity for Banks

Regardless of how a bank or credit union chooses to structure its remittance program, the institution can expect a number of benefits from offering the service. From a financial perspective, the fee revenue can be substantial. Wells Fargo's program for Mexican remitters, for example, brought in over $100 million in revenue in 2003,[32] and the company reported double digit revenue growth in 2004.[33] Moreover, the revenue stream is highly stable. Sending money every month, remitters tend to be loyal customers, sticking with a remittance

service and recommending it to others.[34] Additionally, remittance flows tend not to be adversely affected by economic downturns in either the sending or the receiving countries. A recent study of Mexican remitters found that 76 percent of respondents cited health expenses, food, and daily maintenance as the primary reasons for remitting funds.[35] With family members reliant on these funds for basic needs, a majority of remitters make sending money a top priority regardless of other financial pressures. In fact, throughout the 2001 recession, although unemployment among the Hispanic population grew from 5.7 percent in 2000 to 7.5 percent in 2002, the level of remittances to Mexico and Central America rose nearly 40 percent over this same period.[36] Evidence also suggests that remittances are actually counter cyclical with economic conditions in the receiving country, rising when the economy worsens and the need for outside funds increases.

Remittance programs can also generate a new customer base for a bank or credit union's other products. The large numbers of remitting immigrants who are currently unbanked present a sizable untapped pool of customers. The Pew Hispanic Institute estimates that 43 percent of Latino immigrants do not currently have a bank account.[37] Applied to New England's population, this statistic suggests that there are at least 178,000 unbanked Latino customers in the region.

Mostly young and looking at growth in their earning potential, the unbanked are likely to increase their demand for loans, mortgages, and other bank products as they age. Remittance programs can help banks capture these individuals as customers by bringing them in the door and introducing them to the institution. Once they are customers, remitters have a high demand for other products and services. In fact, cross-sell averages for remittance program participants tend to be higher than those of other bank customers. In the Wells Fargo program, remitters use an average of 5.7 of the bank's products, compared with only 4.3 for all other customers.[38] Aside from the unbanked, remittance programs can bring in more customers by improving the institution's image in the community. By providing low-cost services to members of a specific community, remittance programs demonstrate a bank or credit union's commitment to serving the particular needs of its customers.

Finally, remittance programs may help fulfill regulatory requirements, specifically the community development test of the Community Reinvestment Act (CRA). The CRA encourages banks to meet the credit and financial services needs of their entire market, especially low- and moderate-income communities. Regulators have asserted that remittance programs can be considered a retail service under the regulation and may also qualify as a community development service if the program serves to increase access to financial services for low- and moderate-income individuals.

An Opportunity for Remitters

By offering a targeted remittance program, banks provide a valuable service to remitting customers, who benefit significantly from both cost savings and financial skill building opportunities. As previously discussed, most remitters use money transfer companies to send funds, with fees averaging 9 percent of each transaction. High fees are the number one concern among Latino remitters,[39] and in the aggregate, the effect of these fees is substantial. The Pew Hispanic Center has estimated that if the price of sending a remittance to Latin America was reduced to 5 percent of the transaction, remitters and their families would save over $1 billion a year.[40] With bank programs costing on average 35 percent less than services offered by money transfer companies, the substantially lower prices provide significant savings for remitting families. Such significant savings, in fact, that most Latin American remitters indicate they would switch remittance services to reduce fees,

and many would increase the amount they send. Researchers estimate that a 5 percent decrease in prices would raise the global remittance volume by $3.5 billion.[41]

Bank remittance programs also offer an introduction to the U.S. banking industry to new and unbanked immigrants. Individuals outside of the financial mainstream do not have access to the financial products and services that can allow them to build wealth, establish credit, and obtain reasonably priced loans. By bringing unbanked remitters in the door, remittances programs provide a first link to the financial mainstream. Most programs require users to open a checking or savings account, and all offer exposure to the types of savings, investment, and other financial products and services available in the United States. To aid in the learning process, some banks offer financial education classes for customers who come in via the remittance program.

Part III: Setting up a Remittance Program

While the potential benefits of developing a remittance service are great for financial institutions and their customers, remittance programs are not an ideal fit for every organization. Before establishing a remittance service, banks and credit unions should first examine the financial feasibility of a program, as well as assess their institutional capacity and their ability to manage various risks. This section explores the major categories of costs that banks and credit unions must address and offers several keys for success.

Operating Costs

The cost of operating a remittance program will vary for each financial institution; however, the typical cost structure mirrors that of the money transfer industry. Currently, money transfer organizations have four main areas of costs:

- customer service costs on the both the sending and receiving ends;
- the costs associated with the electronic transfer of the money;
- the need to have adequate capital on hand to back up each remittance; and
- the costs associated with setting up a distribution network in the recipient country.

In total, these costs average out to between $3 and $6 per transfer.[42]

The expansion of the Federal Reserve System's automatic clearing house service may help to lower one of these costs—the electronic transfer cost. The FedACH International℠ service was introduced in 2001 to improve the safety and efficiency of cross border payments with Canada. The system set up an international infrastructure that allows any U.S. bank to transfer money to a Canadian bank in a simple and low cost way. Touted as a tool for making cross border payroll payments, FedACH International℠ also facilitates remittances. Since late 2003, the Fed has been expanding the service to other countries. Switzerland and the United Kingdom were added in November 2003, and further expansions are planned to Austria, Germany, and the Netherlands.

Most pertinent to the remittance market, however, is the extension of the system to Mexico. In cooperation with the Central Bank of Mexico, the Fed began FedACH International℠ service to Mexico in February of 2004, allowing U.S. banks to send funds to Mexican banks for less than $1 per transaction and at a rate of exchange guaranteed to be within 0.21 percent of the Central Bank of Mexico's wholesale rate.

Despite its low cost, it is unclear how many banks will use FedACH International℠ to provide customers with remittance service to Mexico. Currently, only 50 U.S. banks use the service to Canada, mostly for payroll payments.[43] However, the total number of cross border payments to Canada is minor compared with those currently destined for Mexico, and more banks are expected to use the Mexican

service. As several large banks already have remittance programs in Mexico, FedACH International℠ is more likely to be used by small- to medium-sized banks, offering institutions that cannot support a full-scale program a way to provide a low-cost remittance service for their customers.

However, several aspects of the program dampen its desirability among remitters. Funds remitted via FedACH International℠ are not available to the recipient until one day after the transaction, slower than many wire transfer services. Additionally, the service requires that both the sender and the recipient have bank accounts. Given that more than 75 percent of citizens in Mexico City do not have a bank account,[44] this requirement could prove a barrier for many potential customers. Nevertheless, the Mexican government and other organizations are working to bank more Mexican citizens, and Mexican consulates are promoting the FedACH International℠ service to banks and potential users in the United States.

Adequate Market

While the cost of a remittance program is relatively moderate, its financial viability hinges on the presence of an adequate market for the product. Financial institutions contemplating a program must first assess the overall volume of remittances originating in their market. However, having a sizable remitting population is not always enough. Many remittance programs are built around distribution networks in a particular country, and these programs require a high concentration of remittances bound for that destination to make them financially advantageous. Thus, in scoping out possible programs and determining market demand, banks and credit unions should identify the remitting behavior of the specific immigrant groups in their community. Once a viable market has been identified, a distribution system must be established in the receiving country—one that is fast, reliable, and extends to the areas where recipients live. Thus, financial institutions must also be aware of the specific subregions of the country where remitters send their funds.

Analyzing the remitting population, New England's bankers may uncover opportunities to enter unsaturated markets. As previously discussed, the New England remittance market is not dominated by Mexican remitters, yet the vast majority of bank remittance programs in the nation are currently targeted at the Mexican community. By contrast, there are relatively few services for New England's prominent immigrant groups: Dominicans, Brazilians, Jamaicans, and others. New England's financial institutions may discover profitable opportunities to serve these populations, as well as niche groups unique to the region, such as Cape Verdean immigrants, 84 percent of whom live in New England.[45]

Institutional Capacity

Once the essential elements of a remittance program have been established, the success of the program depends on the financial institution's ability to build capacity along several dimensions. First, staff must have the necessary foreign language skills to assist program users who not speak English. Building a multilingual team may require the expansion of traditional hiring channels and a willingness to train individuals who have language skills but limited financial services knowledge. Banks must also be mindful of dialects or regional differences in a single language. For example, one Boston bank employs a staff capable of speaking nine different dialects of Chinese in order to serve its Chinese population.

In addition to language capacity, financial institutions must also learn the cultural customs and traditions of the target population, especially as they relate to banking. For example, some immigrant groups have an inherent distrust of banks as a result of poor banking regulation in their home country. Some groups do not believe in the payment of interest. Others have negative views on debt. To

gain these customers, financial institutions must be sensitive to these types of issues and willing to develop accommodations. To this end, some financial organizations have partnered with religious, social, and civic institutions, increasing their knowledge of a community's specific needs while establishing rapport and trust with the community.

Banks and credit unions must also be prepared to build the capacity of their customers. If remitters are unfamiliar with the U.S. banking system, banks may need to institute financial education training to complement their remittance program. This training not only acquaints remitters with the financial mainstream but also equips them to make informed decisions about their family's finances, helping them to build and maximize wealth. As remitters become more sophisticated users of financial products, their demand for bank products and services will likely increase.

Finally, an effective marketing campaign is a critical component of a successful remittance program. Currently, a disconnect exists between banks and remittance services. Few remitters are aware that banks can send money abroad, even among those who have bank accounts.[46] The absence of marketing, relative to that employed by MTCs, has contributed significantly to this lack of knowledge. To begin reaching remitters, financial institutions must identify the proper media outlets. Local newspapers, television channels, and radio stations that broadcast in the target group's native language are likely to be the most successful. Similarly, the most effective marketing materials, such as pamphlets, signs, and other sales tools, will be bilingual. Additionally, word of mouth around the neighborhood and among family and friends can be a powerful marketing channel. In fact, surveys have found that most remitters choose a remittance service on the advice of a friend or family member.[47] Sponsoring community activities and partnering with immigrant organizations can also build awareness, recognition, and goodwill for an institution, drawing attention to the institution's remittance program and other products.

Additional Considerations and Risks

Financial institutions face several other challenges to success in the remittance market. One hurdle is competition from money transfer companies. In many immigrant neighborhoods, there are multiple MTCs for every financial institution. Even in areas where banks and credit unions have a significant presence, shorter operating hours make them less accessible than the 24 hour convenience of MTCs. Further, MTCs do not have account requirements, and remittance programs that involve opening a bank account may turn away some potential customers. Fees and minimum balance requirements dissuade many remitters from opening a bank account, while the need to establish proper legal status is a serious impediment for others. In fact, a lack of proper identification is cited as the number one reason why immigrants do not open a bank account.[48] Banks must decide how they will handle account requirements and undocumented immigrants.

Alternative Forms of Identification

Nationwide, several alternative forms of identification are being used to bring undocumented immigrants into the financial mainstream. The most notable is the Matricula Consular card, a photo identity card issued by the Mexican government to citizens of Mexico who currently live in the United States. The card bears no legal status beyond its certification that the bearer is a Mexican citizen and that the Mexican government has confirmed the bearer's current U.S. address. However, an increasing number of banks are accepting the cards as a valid form of ID and allowing holders to open an account. Wells Fargo, for example, has opened over 400,000 bank accounts with the Matricula card.[49] In New England, 1,000 bank branches reported accepting the card in a

December 2003 survey.[50] Matricula cards have escorted many Mexican immigrants into the financial mainstream and allowed them to take advantage of remittance programs. However, Mexico is currently the only country issuing cards of this nature, although other countries are investigating the possibility of introducing a similar card for their nationals.

Some industry professionals are pushing for the acceptance of another identification tool with wider applicability—the ITIN. The Individual Taxpayer Identification Number (ITIN) is a nine digit number issued by the Internal Revenue Service to foreign nationals who are required to file taxes, but who are otherwise ineligible to obtain a social security number. The number is intended solely for reporting purposes related to federal taxes and does not give the holder any immigration or legal status. The IRS has cautioned against using ITINs in ways other than their stated purpose, noting that ITIN holders are not required to apply in person, and the IRS does not validate the authenticity of documents during the application process.

Currently, the Customer Identification Program of the U.S. PATRIOT Act, which establishes identification protocol for financial institutions, neither specifically allows nor explicitly prohibits the use of Matricula cards or ITINs as a valid form of identification. Rather, the rule leaves the decision to each banking institution, and each bank must determine whether the information contained in these forms of ID is credible and sufficient. Thus, some financial institutions have opted to use these forms of identifications. Others, in part concerned about their validity and in part worried that federal regulations will outlaw their use in the future, do not accept them.

Sources of Risk

Financial institutions must also consider several sources of risk that may emerge from remittance programs. First, remittance programs could be misused to facilitate money laundering or other illegal activities. To guard against this, many banks and credit unions limit the amount of money sent per remittance and limit the frequency of transactions. When suspicious activity is noticed among remitting customers, a financial institution is required to report it to the U.S. Treasury under the Bank Secrecy Act. Under the U.S. PATRIOT Act, financial institutions are also required to ensure that remittance programs are not used to fund known terrorists, and banks must check the names of senders and recipients against the terrorist watch list.

In addition to illegal activity, banks must also be cognizant of political, economic, and social instability in the receiving country that could have an adverse impact on the financial institution. To mitigate this risk, financial institutions are advised to monitor the relevant conditions in their remittance countries and establish contingency and exit plans. Similarly, remittance programs involving third-party providers, such as money transfer companies, introduce risk by placing part of the transaction process outside of the financial institution's control. Banks and credit unions with these types of programs should develop systems to monitor transactions. Finally, like any new product, a remittance program may not be successful, and financial institutions should discuss strategies to handle potential loss.

A Final Thought

The growing international remittance market presents potential opportunities for New England's financial institutions to grow their business and better serve their customers. Looking forward, however, it is unlikely that remittance programs, themselves, will generate sizable returns over the long term. As more players enter the market, the healthy profits once enjoyed by a handful of money transfer companies will continue to be eroded away by greater competition. Instead, banks and credit unions will see the largest long term gains from sales to the new customer base generated by

remittance programs. Acknowledgement of this trend is already popping up in the industry, with some banks rolling back fees or eliminating them altogether for bank customers. Thus, remittance programs are perhaps best viewed as one of the many ways a financial institution can reach out to immigrants and other under-served or untapped customer populations.

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