



**Appleseed Testimony
Subcommittee on Financial Institutions and Consumer Credit**

**Hearing Entitled "Remittances: Regulation and
Disclosure in a New Economic Environment"**

June 3, 2009

My name is Annette LoVoi, and I serve as field director for Appleseed, a national legal advocacy organization with 16 public interest law centers across North America. On behalf of Appleseed's Board of Directors and staff, I thank the Committee for inviting our testimony. Appleseed's testimony today will address three topics: 1) the importance of disclosures to remittance consumers; 2) the level of disclosure Appleseed believes is necessary for consumers to make informed decisions in the marketplace; and 3) the feasibility of designating a federal regulator to oversee the remittance industry.

Appleseed appreciated the opportunity to work with you two years ago when we provided testimony at your invitation to the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology at its May 17, 2009, hearing entitled, "Remittances: Access, Transparency, and Market Efficiency: A Progress Report."

Appleseed reaffirms our commitment to your efforts to improve transparency, efficiency and consumer protections for remittance markets, and we are eager to work with you as you introduce an expanded version of your 2007 legislation. In our view, such industry standards are long overdue. Appleseed believes that requiring the pre-transaction disclosure of remittance cost and service information preserves one of the basic principles of the free market – full information for consumers – that will consequently lower the cost of remittances as we have been observing, encourage competition and enhance consumer confidence in financial services.

The Importance of Disclosures to Remittance Consumers

Appleseed is now in the sixth year of a project to bring Latin American immigrants into the mainstream financial system, helping them to avoid predatory and other high-cost financial services and enabling them to build credit and assets. Based on this wealth of experience with immigrant financial access and in response to the current economic environment, Appleseed is expanding its client focus to address the financial access needs of the working poor and the general low-income population.

Appleseed is motivated in our work by recognition that remittances are perhaps the preeminent tool – and sometimes the only tool - for lifting families out of poverty. Many remittance recipients live on the knife's edge, facing economic and attendant personal devastation if monies are not received on time, in an accessible manner, in the full amount promised by a relative working far away. The families we contacted in Chicago say that the most common reason for sending remittances is to cover daily family expenses; other purposes include medical expenses and emergencies. A mother receiving remittances needs money for food, milk and medicines – cost items that cannot wait. Consumer confidence is undermined by unexpected and unexplained pick-up and other fees, incomprehensible exchange rate calculations, and unknown final delivery amounts.

Remittances are both a form of human aid and wealth transmission. International consumer remittances, money sent by family members working abroad to relatives in the developing world, reached an estimated \$283 billion in 2008.¹ Remittances have surpassed foreign aid to many countries.² Despite recent reports of volume decreases in certain remittance corridors due to economic and political issues, remittances continue to be a major global economic development force.

But the markets do not consistently work to provide the predictability – on time, accessible, full amount received – that senders and receivers alike find desirable.

As highlighted in an Appleseed study of the U.S.-Mexico remittance market, *Creating a Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market* (2005), remittance transactions do not meet the same pre-transaction disclosure standards as many other financial transactions. Three key challenges in comparing available remittance products are: inconsistent foreign exchange rates that make it cumbersome for consumers to compare prices and find the best deal; inconsistent access to pricing information prior to initiating a transaction, with some service providers refusing to provide cost and exchange rate information over the telephone; and differing disclosure requirements from state to state.

This market is dynamic and has continued to evolve since our 2005 study, as colleagues on the panel have documented; research has indicated that competition has improved pricing in this market. We have also seen an expansion of remittance options to include

¹ Dilip Ratha, Sanket Mohapatra, Zhimei Xu. "Outlook for Remittance Flows 2008-2010: Growth Expected to Moderate Significantly, but Flows to Remain Resilient." Development Prospects Group. Migration and Remittances Team, Nov. 11, 2008.

² *Sending Money Home: Worldwide Remittance Flows to Developing and Transition Countries*. IFAD, 2007. p.6.

card based, online, and mobile banking services. But it is important to note that the success of competition does not negate the importance of universal disclosures; in fact the many and diverse options make it that much more important to provide consumers with consistent and comparable options.

To better understand effective and meaningful disclosures in the remittance context, Appleseed launched the Fair Exchange Project, with the support of industry, community, policy and regulatory partners in April 2006. Its mission was to design and test a disclosure template that was compatible with the market environment. One premise of the Appleseed initiative was that offering clear pre-transaction disclosures for remittance transactions could increase the market share for financial institutions committed to providing full, up front disclosure to consumers—benefiting both consumers and the bottom-line.

Our research, as detailed in our April 2007 report, *The Fair Exchange: Improving the Market for International Remittances*, shows that consumers want information about the total cost of remitting money. Consumer focus groups conducted by Appleseed found that when participants were shown various pre-transaction posted disclosures, they chose a disclosure with more information over those that offered little data. These focus groups provided valuable information for developing the Appleseed Fair Exchange disclosure template.

Through the focus groups, we strived to understand the immigrants' remittance practices and priorities and to test their reactions to the new pricing disclosure template. Participants were asked to rank a variety of factors affecting remittance transactions on a scale from most important to least important. Of the factors presented, the top three were **security, reliability, and cost**.

Notwithstanding their previous sense of comfort with the transaction information, when participants viewed the disclosure templates, they found them extremely beneficial. The discussions revealed that participant expectations of the marketplace were quite low. When presented with higher standards of disclosure, they quickly embraced them.

As one participant shared, "I would not like just one business to use this [disclosure template.] I would like all businesses to use this!" Among the other focus group findings:

- Participants in each of the focus groups stated that they would prefer to use a business that **posted a pre-transaction pricing and service disclosure** over one that did not.

- All of the participants liked the idea of a **clear, uniform, pre-transaction disclosure**.
- Participants chose **more detailed transaction information** rather than the simplest version.
- Participants focused on the **actual value of the funds received** by their family member in local currency.
- **Predictability of the transfer** is a high priority for the participants. Having an official disclosure helps them not only compare services, but also feel secure that the service they choose is providing a guarantee to meet their expectations. As one participant commented, "Inevitably tellers make mistakes regarding the information they are conveying. Having a disclosure table would prevent those human errors."
- Participants felt that confusion over remittance fees would be alleviated with **pre-transaction disclosures**.
- Better disclosures would also make the process of comparing prices **less cumbersome for consumers**. A group participant explained, "You have to go everywhere to get information...Stores don't often give information over the phone -- they say come on into the store and they'll give you the information."

Appleseed's Fair Exchange pilot report, *Remittance Transparency: Strengthening Business, Building Community - Pilot Results from the "Fair Exchange" Effort to Improve Pricing and Service Disclosures for International Remittance Transactions* (January 2008), presents the results of the pilot of its international remittance disclosure template with five industry partners. The pilot provides compelling evidence that making remittance pricing and service information more readily available to customers is a good business move and that consumers find the information useful and want to see it at multiple locations:

- 78 percent of those who checked the disclosure found it helpful.
- 84 percent wanted to see the disclosure in all store locations.

Making remittance pricing and service information more readily available to customers is not only fair and consistent with federal financial services disclosure standards, but also relevant to consumer use and demand of services. The piloting businesses saw merits in establishing disclosure standards. Costs to implement the pilot were manageable. Businesses finding the disclosure information helpful cited benefits of building trust and saving time by having fewer customer questions. The findings

provide compelling evidence that disclosures make good business sense. Offering improved pre-transaction remittance disclosures meets a consumer need, supports competition and benefits positive market players.

The Level of Disclosure Necessary for Informed Consumer Decision-Making in the Marketplace

The work of Appleseed's affiliate Chicago Appleseed Fund for Justice has demonstrated that there is a market-based incentive for businesses to adopt consistent and complete pre-transaction disclosures for international remittance transactions. As a contributing affiliate to Appleseed's report *The Fair Exchange: Improving the Market for International Remittances* (April 2007), Chicago Appleseed's focus group demonstrated the importance of remittance transactions to immigrant consumers and the multiple priorities that affect decisions to use one service over another. The disclosure templates presented to focus group participants address many of those priority issues, including information on fees, the exchange rate, date of availability, and a subset of locations for pick up of the funds. Consumers in the groups wanted the information and expressed a preference for businesses that would provide it.

Furthermore, in Appleseed's *Immigrant Use of Financial Services and Unmet Needs: A Survey of Mexican Immigrants at the Mexican Consulate in Chicago* (December 2008), gauged the financial services used and unmet financial needs of the Mexican community in the Chicago area to better determine their access to and use of financial institutions in the United States and Mexico. The survey was distributed to the Mexican community at the Mexican Consulate in Chicago last year. The survey results show that many consumers do not truly understand the pricing structure of their remittance service prior to using it. Therefore, it is important that the remittance options available to consumers have transparent pricing, not only stating the fee, but also the spread between the current exchange rate and the actual rate used for the transaction. Ideally, of course, consumers seek to know the amount that will actually be available for pick-up. Clear and transparent consumer information will foster trust between consumers and the financial services and money transfer industries.

Essential Elements of Disclosure

The Appleseed Fair Exchange pilot program designed and tested a disclosure format that could be used as a potentially workable disclosure model. The Appleseed Fair Exchange disclosure, which was developed with industry, community and regulatory input, provides an example of how transaction information could be posted (See Appendix A for Appleseed format). The disclosure fields should include at least a sample of locations where the money can be received if pricing varies by location and

the corresponding fee, exchange rate, when funds are available for pick-up, type of transaction (in other words cash to cash, cash to account, card to card, etc.), fees to receive the money (including fees charged by financial institutions or local agents), and sample transaction amounts to illustrate the amount of foreign currency to be received. The locations for pick-up are important, as pricing can vary based on the place the money is picked up. We suggest that the legislation could identify essential elements and direct the Federal Reserve Board (Board) or appropriate federal agency to promulgate disclosure templates easily downloaded and customized by providers.

Remedies Process

The work of Chicago Appleseed has demonstrated that many low-income immigrant financial services consumers lack not only understanding of remedies but lack remedies themselves in many cases, and are therefore reticent to address problems. Lack of remedies can lead to complicated escheat situations where property lost to a low-income immigrant consumer is never claimed by a remittance sender or recipient. Appleseed is alerting the Committee that there are not clearly explicated federal standards, understood both by institutions and consumers, in this arena, and state law inconsistencies and procedural hurdles further confuse the situation. When transactions go awry, consumers need recourse that is clear and understandable.

Disclosures Must be Provided Visually

Appleseed believes that whether access is via traditional wire transfer or emerging technologies discussed below, disclosures must be visual. In our work, we have identified the major ways to provide visual accessibility: 1) physical posting via signage or other of top three markets; 2) provision of an electronic portal that a customer can access at point of sale or via internet; and 3) transmission via cell phone.

Level of Disclosure

Our suggestions for the level of disclosure are:

- **Require Disclosure Prior to Transaction.** Consumer disclosures should be posted at agent or branch locations and be available to consumers prior to initiating a remittance transaction. In instances when a transaction is initiated outside of a branch location, disclosure should be provided electronically or via the technology used to initiate the transaction.

- **Include Top Three Countries to which Remittances are Sent.** In branch or agent locations we recommend requiring posting of disclosure information for the top three countries to which remittances are sent.
- **Provide for Error Resolution.** Disclosure standards should also include provisions for error resolution, such as when the designated recipient in the foreign country does not pick-up transferred funds.
- **Include Pickup Time in Disclosure.** SEC. 918. REMITTANCE TRANSFERS (a) DISCLOSURES REQUIRED FOR REMITTANCE TRANSFERS (2) (C) (i) (II) Recent versions of proposed legislation require disclosure of the expected date of delivery of funds; Appleseed recommends the addition of **time** of expected delivery of funds as we have found that the date and time are vital for consumers who face difficult transportation logistics and expense to collect their funds. Funds may not be available until late in the day or on a subsequent day, important information for recipients traveling long distances to pick up the funds.
- **Provide Foreign Language Remittance Disclosures.** The legislation should modify SEC. 918 REMITTANCE TRANSFERS (b) FOREIGN LANGUAGE DISCLOSURES to require remittance transfer agents to offer remittance disclosures in the languages of the top three countries to which remittances are sent and require the Board to develop remittance disclosure templates in foreign languages to assist providers in accommodating minority-language customers. Many successful agents already cater to dominant language customers, but customers speaking non-dominant languages can remain uninformed about fees, exchange rates and other important decision criteria.
- **Delete Optional Compliance.** The “if possible” phrase in SEC. 918. REMITTANCE TRANSFERS (a) DISCLOSURES REQUIRED FOR REMITTANCE TRANSFERS (2) (B) (ii) is a loophole that may in some cases be necessary, but in others, could excuse non-disclosure inappropriately.

As an example of genuine impossibility, we understand that the central banks of some countries may not publish exchange rates until funds arrive in that country, and thus it may not be possible to disclose to the consumer how much money will be delivered. Yet, we fear that the “if possible” phrase could be misused if providers cite it as an excuse to avoid checking the current rate or establishing rates at the beginning of the day.

Electronic Considerations

We recognize the following electronic considerations related to disclosures:

- **Provide for Electronic Disclosures.** In the case of on-line transactions that are not conducted through an agent or branch location, there should be a provision that the disclosure could be made electronically.
- **Address Emerging Technologies.** Newly-emerging technologies with increasing remittance volume have the potential to bolster remittance market competition through services that extend far beyond those available at traditional bricks and mortar financial institutions or MSBs. Your legislation should clarify that remittance transmissions originating in the U.S. or U.S. territories via cell phones, prepaid cards, the internet and other emerging technologies must meet the same disclosure and other requirements as traditional wire transfer remittances. Based on our work, regulation of these vehicles demands legislative consideration, as they are understudied and somewhat unregulated, with complex conflicts of laws and jurisdictional issues. In general, consumers lack information about how to pursue a remedy when international transactions go awry, and it is all the more complicated when transactions are conducted via the web or cell phone.
- **Direct Development of Disclosure Templates Available via Internet Download.** Consistent with our point above urging required visual disclosure, we envision a system whereby agents could download disclosure templates via the internet that are then customized by the provider.

The Feasibility of Designating a Federal Regulator to Oversee the Remittance Industry

Appleseed recommends that the Board or the appropriate federal agency be granted rule-making authority to delineate posting requirements and define the format of the posting. Appleseed has found that state regulation of consumer disclosure produces varying and inconsistent standards that confuse both the industry and consumers. Developing consumer disclosures should be a collaborative process to ensure that the final posted disclosure format addresses concerns of consumer and immigrant organizations and banking, credit union and remittance industry representatives.

- **Direct Development of Regulatory Requirements.** Add a new subsection (a) (4) to SEC. 5. EXPANSION OF FINANCIAL INSTITUTION PROVISION OF REMITTANCE TRANSFERS (a) PROVISION OF GUIDELINES TO INSTITUTIONS to direct that regulators provide clear, non-ambiguous guidance about regulatory requirements.
- **Consider Bank Secrecy Act Implications.** Some providers serving immigrants are unclear about the provisions of the Bank Secrecy Act (BSA) or anti-money-

laundering rules. The providers may interpret identification or records maintenance requirements in an overly-broad way that creates deterrents to serving immigrant markets. Lack of knowledge about how to apply the rules may have the inadvertent effect of discriminating on the basis of race or ethnicity in ways that financial institutions may not take into account. The simple provision of regulatory guidance could lead to more fluid, accessible markets and reduce the potential for discriminatory effects.

- **Study Consumer Protections and Disclosure, Particularly Among Emerging Remittance Vehicles.** Appleseed recommends adding a provision requiring the Board or the appropriate federal agency to undertake a study and report back to Congress by one year after the date of passage on how to implement consumer protections and disclosures, focusing in particular on emerging remittance vehicles.
- **Provide Consumer Disclosure Education.** We applaud the consumer information focus of SEC. 5. EXPANSION OF FINANCIAL INSTITUTION PROVISION OF REMITTANCE TRANSFERS (c) ASSISTANCE TO FINANCIAL LITERACY COMMISSION. The language should be clarified to require that the Board, U.S. Treasury Department, National Credit Union Association (NCUA), and the federal banking and financial agencies educate consumers about the disclosures and the effect of seemingly small differences of exchange rates and fees on the amounts available for pickup. Most importantly, consumer education should be required regarding the importance of exchange rates in affecting the overall cost of the transaction and the sum of money remitted to the recipient. We encourage you to broaden the legislation to authorize the Board to contract with non-governmental organizations (NGOs) working in communities around the country to conduct education about the disclosure template as part of consumer financial education initiatives.

Thank you for your time and consideration. I, and other staff at Appleseed, as well as the twelve Centers in the U.S. and Mexico working on our financial access project, stand ready to assist the Committee as you move forward in creating a competitive free market for remittances predicated on full disclosure of information.

Fair Exchange Pilot Sample Disclosure Template

COUNTRY: Mexico

SERVICE: Name of Remittance Service

TELEPHONE: 1-800-736-3669


Description					Sending \$300 with fees included	Sending \$200 with fees included	Sending \$100 with fees included
Pick Up Location	Cost to Send \$1-\$300	Exchange Rate (pesos)	Available for Pick Up	Type of Transaction	Fee to Receive Money	Pesos Received	Pesos Received
Pick Up Location 1	\$10	10.96	Same Day	Bank Account*	0	3178.40	986.40
Pick Up Location 2	\$9	10.90	Next Business Day	Cash	0	3171.90	991.90
Pick Up Location 3	\$8	10.95	One Hour	Cash	25.00 pesos	3172.40	982.40

* Note: A monthly fee may apply. A United States bank account is required to use this service. A monthly fee of \$5.99 includes free checks, direct deposit bill-pay and a savings account.

United States House of Representatives
Committee on Financial Services

“TRUTH IN TESTIMONY” DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: Annette LoVoi	2. Organization or organizations you are representing: Appleseed		
3. Business Address and telephone number: <table style="width:100%"><tr><td style="width:50%">Appleseed (Field Department Offices) 327 Congress Avenue, Suite 200 Austin, TX 78701 512.542.9082</td><td style="width:50%">Appleseed (National Offices) 727 15th Street, NW, 11th Floor Washington, DC 20005 202.347.7960</td></tr></table>		Appleseed (Field Department Offices) 327 Congress Avenue, Suite 200 Austin, TX 78701 512.542.9082	Appleseed (National Offices) 727 15th Street, NW, 11th Floor Washington, DC 20005 202.347.7960
Appleseed (Field Department Offices) 327 Congress Avenue, Suite 200 Austin, TX 78701 512.542.9082	Appleseed (National Offices) 727 15th Street, NW, 11th Floor Washington, DC 20005 202.347.7960		
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2006, related to the subject on which you have been invited to testify? <div style="text-align:center"><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</div>	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2006, related to the subject on which you have been invited to testify? <div style="text-align:center"><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</div>		
6. If you answered “yes” to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. Not applicable			
7. Signature: 			

Please attach a copy of this form to your written testimony.