

**Testimony presented before the House of Representatives Financial Services  
Committee Subcommittee on Financial Institutions at the hearing titled  
“Remittances: Regulation and Disclosure in a New Economic Environment”**

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Dear members of Congress, the significance of international migrant transfers continues to pose important considerations for policy and the law in various respects. This hearing is a welcomed opportunity to focus on these issues, particularly in light of proposed legislation that seeks to address many of the areas needing policy reform. Despite the current global crisis, migrants continue to remit as much as they can, though their transfers will decline by 7% in 2009 from the previous year. Parallel to this trend is an industry for remittance payments that continues to strive to remain competitive while facing the hurdles of survival. Solutions to these challenges can be found in proposed “International Remittance Disclosure and Expansion Act of 2007”. This piece is critically important as it highlights key issues such as disclosure, credit union participation, financial literacy for migrants, and financial access for families of migrants.

I will focus my remarks on three particular issues, namely, the current patterns of remitting during a recessionary period, the state of the money transfer market and industry, and the roles of disclosure and financial literacy. These issues are of grave significance, and articulating them into policy solutions will bring much relief and benefit to millions of people and thousands of businesses.

**1. Current patterns in remittance transfers: declines in times of recession**

As the global economic recession continues to affect people worldwide, it is no surprise that in the United States, both native and foreign born people are suffering from its consequences. Immigrants from Latin America and the Caribbean will be able to remit **US\$64 billion in 2009, down from US\$69 billion in 2008, thus suggesting a decline in the flows.**

The relevance of remittances in the development and economic policy contexts has been underscored by the large volumes of money going to Latin America and the Caribbean. This flow of money emerges in particular as a function of greater labor mobility on a global scale. Remittance flows have grown dramatically over the past ten years, as shown in the table below.

**Table 1: Remittances to Latin America and the Caribbean, 2001 – 2008 (selected countries, annual data in \$ millions)**

Countries	2001	2002	2003	2004	2005	2006	2007	2008	Migrants (#)	(% GDP)	Avg. remitted
Argentina	100	184	225	270	780	850	920	955	318,333	0.34	250
Belize			73	77	81	93	100	110	45,833	8.30	200
Bolivia	103	104.2	340	421.6	860	989	1050	1097	507,417	8.06	180
Brazil	2600	4600	5200	5624	5793	7373	7166	7200	750,000	2.29	800
Colombia	1756	2431	3067	3857.30	4126	4200	4521	4842	1,513,095	2.31	267
Costa Rica	80.25	134.82	306	320	400	520	582	624	186,298	2.34	279
Cuba	930	1138.5	1194	1194	1100	1000	1000	1200	583,333	2.29	200
Chile							800	880	333,333	0.52	220
D. Republic	1807	2111.5	2216.55	2438.20	2560	2747	3120	3148	1,204,375	7.47	218
Ecuador	1430	1575	1657	1740	1827	2893	3118	2822	682,030	5.87	345
El Salvador	1911	220	2316.3	2548	2830	3316	3695	3788	878,748	18.35	359
Guatemala	584.3	1690	2106	2680.7	2993	3610	4128	4315	919,578	12.75	391
Guyana	90	119	137	143	260	270	423	415	206,834	36.73	167
Haiti	810	931.5	978	1026	1077	1100	1650	1870	1,277,626	30.01	122
Honduras	460	770	862	1134	1763	2359	2561	2707	930,874	21.60	242
Jamaica	967.5	1229	1426	1497	1651	1770	1860	2034	1,227,754	17.95	138
Mexico	8895	10502	13266	16613	20034	23053	26075	25145	5,646,015	2.47	371
Nicaragua	660	759	787.5	809.55	901	950	960	1056	691,253	18.13	127
Panama			220	231	254	292	340	325	108,333	1.55	250
Paraguay				506	550	650	750	700	191,538	5.68	305
Peru	930	1265	1295	1360	2495	2869	2900	2960	1,469,662	2.56	168
Suriname				50	55	102.3	115	120	40,000	6.16	250
T.& Tobago	40.9	58.5	88	93	97	110	125	130	43,333	0.64	250
Uruguay			42	105	110	115	115	130	43,333	0.51	250
Venezuela	136	235	247	259	272	300	331	832	424,119	0.35	163
LAC	24290	32045	38048	44997	52868	61531	68405	69605	20,223,049	0.34	280
R. Growth		32%	19%	18%	17%	16%	11%	2%			
# Countries	19	19	22	24	24	24	25	25			

Source: Central Banks, and IADB. GDP: ECLAC, Migrants: global migration database; Remittances: survey data and ECO, 2008.

However, a remittance decline is expected to apply to most migrant nationalities in the United States resulting from the recession. Specifically, as the crisis worsens, **migrants will reduce their flows by as much as 7 percent** due to job losses, lower earnings, and slower migration (including continued deportations). This decline is far less damaging than what is expected from diminished exports, yet it is not negligible.

We find that migrants have so far relied on their savings in order to maintain a sustained rhythm in sending money to their families, as was the case in 2008. However, in 2009, nearly **one million migrants who previously remitted will not remit. Specifically, only 40 percent of those unemployed will continue to remit, and 25 percent of those employed will remit 10 percent less than in 2008.** The implications of the crisis for Latin American economies are manifold. First, **about one million households who previously received remittances will not receive money in 2009, and another four million will receive 10 percent less.** This means that, overall these households will lose a significant source of their earnings, ranging from 7 percent to 65 percent of all income. Those countries that are more remittance-dependent will be the most affected. In turn, these

countries are also typically those with greater economic challenges, such as Haiti, Honduras and El Salvador.

Although the impact of the crisis is felt predominantly among those who will not receive money this year, the effect is also severe among those receiving a smaller amount of remittances. Thus, the effect of the crisis on remittance-sending patterns is manifested among nearly all remittance recipients.

**Table 2: Households affected as percent of all remittance recipient households**

	Total Households	Recipient Households	Affected Households	Percent affected
Nicaragua	1,158,545	650,000	32,723	5%
Honduras	2,563,591	833,167	39,212	5%
Dom. Rep.	2,477,294	941,372	73,650	8%
Guatemala	3,800,000	1,100,000	56,925	5%
Paraguay	1,432,276	458,328	30,000	7%
Haiti	2,408,716	891,257	49,208	6%

*Source: author's estimates.*

We put forth a policy and program analysis that aims to mitigate the effects of the downturn on declining remittances in remittance receiving countries. Despite continued policy recommendations and initiatives on leveraging the flow of family remittances to expand financial access, these efforts have not been enough. However, policy changes can still be made to mitigate the negative effects of a decline in flows. These include motivating migrants to invest back home, increasing financial literacy among migrants and relatives, offering greater financial services to remittance senders and recipients, and taking migration patterns more seriously.

## **2. Trends in remittance markets: the U.S. - Latin American and Caribbean corridor**

Within this context, the market for remittance intermediation between the U.S. and Latin America and Caribbean countries continues to show significant dynamism, even in times of crisis. For example, market consolidation continues to be a feature of competition. Currently, there are just over ten remittance service providers in each given corridor, which for the most part are money transfer operators. Nevertheless, compared to previous years the number of companies has declined, reflecting in part the consolidation in the industry and problems of liquidity among companies, as well as lower access to credit during the recession.<sup>1</sup> Some country corridors have suffered more from this decline than others, such as the U.S.- Mexico money transfer corridor. Another reason that many remittance service providers give to explain the drop in the number of companies is that many MTOs suffered from the closure of bank accounts, which affected their operations.

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<sup>1</sup> Orozco 2006.

**Table 3: Number of remittance service providers**

	2001	2002	2003	2004	2005	2009
Bolivia			18	18	14	
Colombia	4	16	37	37	29	13
Cuba	2	12	10	9	5	
Dominican Republic	30	36	34	31	25	15
Ecuador		13	34	18	19	12
El Salvador	21	26	24	29	15	11
Guatemala	22	30	32	30	14	7
Haiti	5	10	18	14	7	
Honduras		16	20	20	12	11
Jamaica	7	7	8	13	6	9
Mexico	25	49	69	51	56	19
Nicaragua	13	14	16	11	6	
Peru			23	24	13	11
Venezuela			18	10	8	

Source: Orozco, Manuel. Data compiled by the author.

Another important trend is the continuing price competition in the industry for the benefit of consumers. The cost of sending money to Latin America and Caribbean countries has dropped over time, but the magnitude has slowed significantly over the past three years. These costs have remained relatively stable, partly because the current business-agent based model of remitting has reached equilibrium between operating costs and revenue needs.

**Table 4: Cost of remitting US\$200 to selected Latin American and Caribbean countries**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bolivia			10.1	6.7	5.6	6.1	4.3		
Colombia	10.1	8.7	6	5.9	5	6.8	4.4	5.2	4.4
Cuba	13	12.9	12.4	12.4	12	12.4	12.8		17
Dominican Rep.	9.4	8.4	7.2	7.1	6.4	8.2	8.4	5.9	6
Ecuador		5.7	5.1	4.4	3.9	3.8	3.8	4.2	3.7
El Salvador	6.7	6.2	5.8	5	5.2	4.8	5.2	4.3	4.5
Guatemala	7.4	7.3	7.8	6.3	5.6		6.2	5.8	5.6
Haiti	9	8.1	10.4	7.9	6.7	7.2	7.3	5.2	7
Honduras		6.9	6.9	6.2	5.8	5.8	3.6	4.84	5.7
Jamaica	9.8	10	12.7	8.8	8.2	7.1	7.8	6.4	6.7
LAC	9	8.6	8.2	7.1	6.3	6.5	6.1	5.2	5.3
LAC with out Cuba	8.6	7.8	7.7	6.4	5.6				
Mexico	8.8	9.3	7.5	6.2	6	6.2	5.7	6.6	5.6
Nicaragua	7.5	7.5	7	6.7	5.2	5.2	4.7		
Peru			6.2	6.1	4.6	4.4	3.6	3.8	4
Venezuela			7.4	6.5	5.2		8.2		

Note: cost includes fee and commission.

### *Federal licensing as a mechanism to promote competition*

When looking at the current market, we find that while competition continues to maintain its rhythm of operation, the number of competitors has declined. The problems caused by regulations have raised questions by some businesses about the feasibility of introducing a federal licensing mechanism. This mechanism would promote greater competition among small and large companies who would face less cumbersome processes associated with license application on a state-by-state basis. Indeed a federal license would benefit small businesses. This change in turn will increase competition nationwide. To bring about greater impact, these benefits must be accompanied with strong regulatory criteria on how to operate nationwide in order to prevent financial losses. These criteria must consider measures that control and prevent cases where business may overstretch their service capacity and face payment liquidity problems. Thus, criteria about uniform methods of operation are essential, not only on compliance, but also on financial and consumer protection.

### **3. On disclosures for consumer protection for remittance transfers**

The decline of remittances and the current market trends pose opportunities for policy change and improvements that can mitigate the negative effects of the recession and the urgency of remittance-related changes. Policy initiatives on remittances should be geared toward addressing challenges faced by migrants, recipient families, the money transfer industry and governments at large.

The proposed “International Remittance Disclosure and Expansion Act of 2007” offers an opportunity for a holistic approach to tackle the challenges faced in the remittance market, including poor financial access for migrants and their families and uneven mechanisms on consumer protection or disclosure.

The provision of disclosures to remittance senders is an effective way to inform and protect consumers while encouraging competition among remittance service providers. The importance of disclosures cannot be emphasized enough, as they bring transparency and democratic tenets to a largely unregulated industry. Remittance service providers cater to the immigrant population in the United States, a particularly vulnerable community. Specifically, uniform disclosures among remittance service providers would educate consumers and allow them to make informed decisions when comparing the options available to them. As a result, remittance service providers will have to compete for their clients with transparent marketing strategies and competitive pricing.

Along those lines, there must be correspondence between the objectives of disclosure and the use of appropriate instruments that make disclosure successful and commensurable to what is feasible. Demanding disclosure on the foreign exchange is important yet cumbersome. Presenting information on exchange rates is technically difficult if the requirement includes printed signage. Because foreign exchange rates change at any time in a given day or hour, an agent entrusted with the change will have

to constantly be attentive to the fluctuations. Another challenge is that foreign exchange also varies not only within a corridor but among the paying partners of a given remittance service provider. In some corridors where agents are in charge of a busy activity in their trade, changes in foreign exchange are not feasible because of the level of effort entailed in keeping track and the costs of regularly printing this information. For example, a midsize company may pay money transfers through four different businesses in the remittance country of destination, and the foreign exchange will vary similarly.

Thus, an alternative to the proposed legislation should be explored and offered. For example, issues of disclosure can be addressed through the implementation of low cost technology initiatives. Such an alternative may include the adoption of an interactive switchboard telecommunication platform that provides the information to the consumer on a real-time basis. Introducing a *“remittance clearinghouse and switchboard”* is a mechanism to inform consumers about the cost of sending among different competitors, using telecommunications as the mechanism. The clearinghouse would function as a telecommunication switchboard that, through one free phone call, can identify any remittance transfer provider; guarantee that the information is exhaustive, up to date, and true; and service a particular neighborhood in a particular country to offer information about the fee and the foreign exchange offered. The consumer can thus better decide, before going to one particular outlet, which service provider is the most appropriate to her or him.

The end goal of disclosure is to improve knowledge and information about options in order to contribute to the use of lower cost methods and/or businesses when sending money. Disclosure is thus important, as it constitutes a feature that ensures fair access to financial services. A recent survey conducted by the Inter-American Dialogue<sup>2</sup> shows that cost plays an important factor in a consumer’s decision in choosing a remittance-sending mechanism. Although migrants do not see cost as a key issue constraining their choices, they are price sensitive and pricing disclosure will help them make more informed decisions.

We find that although the market share among MTOs is relatively stable, there is an increasing willingness among migrants to shift from current transfer methods, such as the wire transfer model, to new methods such account-to-account transfers via banks or the internet. These shifts are related to pricing. Thus, standards on price disclosure and effective financial education are two mechanisms to inform migrants about their remitting choices. In 2007, 49 percent of immigrants were satisfied with the mechanism they used to send remittances. In 2008, that percentage dropped to 23.6 percent. The amount of money paid by immigrants who were satisfied with their remittance-sending mechanism in 2008 (\$5.72) is substantially less than the amount of money paid by

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<sup>2</sup> IAD. Survey of migrants 2007; Supplemental survey 2008; Survey of migrants during the crisis 2009. (<http://www.thedialogue.org/page.cfm?pageID=32&pubID=1390>).

immigrants who were unsatisfied with their remittance-sending mechanism (\$7.32). The same trend was found in 2007.

**Table 5: Sending method**

	2007	2008	2009
Remittance market share of money transfer operators (%)	88	87	86
Cost of remitting (\$)	9.82	7.32	10

Source: Orozco, Manuel. Survey of migrants in the United States, 2007, 2008, 2009.

**Table 6: Relationship between willingness to take on a different transferring method and sending cost**

	2007		2008	
	Fee paid (\$)	(%)	Fee paid (\$)	(%)
Would not change transfer method	9.00	49.0%	5.72	23.6%
Would change from current transfer method	9.82	51.0%	7.32	76.4%

Source: Orozco, Manuel. Survey of migrants in the United States, 2007, 2008, 2009.

With increased transparency brought about by uniform disclosures, immigrants will be able to choose the most cost-effective options. This will increase competition among remittance service providers and create the incentive to lower prices across the board.

Detailing complicated pricing such as foreign exchange fees, price scales, fixed prices or fixed percentages allows immigrants to understand their financial transactions before agreeing to pay the remittance service provider. Disclosures work toward a broader understanding of the costs and benefits of different remittance-sending mechanisms, which factors into the expansion of remittance literacy. Once remitters can make informed decisions about the products and mechanisms they choose, general financial literacy can follow.

In this sense, making financial literacy a priority is among my policy recommendations. Financial literacy reaches beyond an understanding of the costs and benefits of remittance products to the ability to comprehend and apply the instruments of budget, savings, credit, insurance, and remittances. These tools help individuals create wealth and become informed participants in the financial system, thus gaining financial independence.