Worker Remittances:
Issues and Best Practices

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This testimony points to key policy issues linking remittances to banking. Specifically, it addresses issues of competition, transparency, information and value to the money people send. There is growing recognition of the importance of remittance transfers as a financial service. Of the $32 billion in remittances sent to Latin American and the Caribbean in 2002, $25 billion came from Latinos in the United States.

Immigrants invest time and labor to send economic assistance to their home country relatives and households. Among immigrants, issues surrounding remittances relate to the costs and mechanisms of sending.

However, a policy and social advocacy approach requires paying attention to several aspects, including costs, transparency of service, knowledge about diversity of services, and service value-added. This testimony will address best practices in these areas. It is essential to identify immigrant market preferences, which are defined in a transnational and low-income context.

More importantly, the testimony stresses that linking remittances to banking services benefits businesses, governments, and society as a whole. This issue goes beyond financial benefits, and brings to attention security in money transfers and the importance of addressing remittances in a global context, beyond Latin America.

a) ***Transparency, information, and value added***

Although significant attention has been paid to reducing transaction costs in money transfers, is important to consider other issues, including transparency in services offered, access to information, and the value added to remittances through banking.

Government policies could play a facilitating role in the transfer process so that costs are dropped and money gains greater value through savings and credit institutions. Governments can help expand the choices available to the senders and receivers of remittances in various ways:

a. by educating senders and recipients about financial matters;
b. by facilitating competition among banks and other money transfer businesses organizations that serve remitting and receiving communities (i.e., addressing legal and policy barriers to competition);
c. by informing publics about best practices;
d. by motivating banks to adopt money transfers as a strategy to bank the unbanked

a. Financial education

Financial education is a key factor in enabling individuals to expand their economic opportunities. Governments, philanthropic foundations, nonprofits, and banks, all play a role. Banks can take a lead by publishing their materials in Spanish, and by organizing outreach programs at Hispanic high schools and with hometown associations.

Financial education is a central aspect to the link between remittances and financial services, particularly among those without access to a banking institution. Many groups already offer classes on financial literacy, and could become a permanent community resource for financial education. Hometown associations, because of their links with the immigrant community, would be another other logical candidate for further promotion of financial literacy.

b. Promoting competition

Promoting competition is an important way to reduce costs. Immigrants send money through small businesses, large corporations, and even individual entrepreneurs. The costs of sending depend on the presence of informal networks, market concentration or level of competition, technology, and the presence or absence of banking institutions.

One of the most significant changes in the remittance market has been the decline in transfer costs, partly influenced by competition. Four years ago the cost of sending remittances to different Latin American countries averaged about 15 percent of the amount. Those transfer costs have declined. In 1999, for example, Western Union charged $22.00 for transferring up to $200.00. By 2001 that charge dropped to $15 and in 2003, fell again to $10 (Orozco 2003).

These changes signal an increase in the number of companies in the remittance market and reflect more price competition resulting from businesses searching for new customers, including from among their competitors' clientele. The drop in Western Union prices shows that the company has had to reduce its transaction costs and adjust to increasing competition as well as pressure from clients, social groups, and legal demands.

Mexico experiences a high level of competitiveness among large and small businesses. At least six corporations – Western Union, Dolex, Vigo Corporation, Ria Envia, MoneyGram, and Mexico Express – compete and may hold at least 60 percent of the remittance market share. Four years ago, no more than three companies held that share of the market.

Competition is also present in El Salvador and Guatemala. In both countries, most of the remittance flows are handled by fewer than ten companies. In El Salvador, for example, four Salvadoran banks compete with Western Union and Gigante Express. In Guatemala, three banks compete with King Express and Western Union.

Table 1: Market competition and prices

	Number of money transfer companies holding 50% or more of market share		Cost of sending money to selected countries (as percent of principal sent)	
	1990s	2002	1990s	2003
Mexico	3	8	15	5
El Salvador	3	6	15	5
Dominican Republic	6	8	15	8
Guatemala	3	6	15	6
Jamaica	2	3	15	9

Source: Orozco, Manuel, various publications and data compiled by the author.

In other countries, however, competition is controlled by a few companies, as is the case in Jamaica, Nicaragua and Guyana, where prices are higher than average. Governments and private sector officials can explore ways to increase competition. On the side of governments, it is important to find ways to reduce the presence of monopolies or small oligopolies that tend to increase prices because they have no real competition. Transfers to the Dominican Republic are expensive, due not only to the presence of oligopolies, but also to the control of agents in the United States that charge exorbitant commissions for each transfer.

Competition is thus hindered by commercial agents that exchange their customer stock for high commission rates. A solution to this problem is for private sector businesses can find ways to enter in the market by forging alliances with foreign companies and financial institutions in order to increase capital and market their products to sending and receiving households. Moreover, government oversight is another important step to address the problem of agent commissions.

c. Facilitating innovation

Sending and receiving households have different market than the average U.S. citizen or middle-class Latin American household. Therefore, innovative forms of money transfer can be essential for price reduction.

One innovative alternative is the use of new technologies in money transfers, such as debit cards, store value cards and smart cards. (see section on best practices).

A second innovation is to help enable alternative savings and credit institutions in Latin America and the United States to participate in the market as money transfer agents. In some countries, savings and credit cooperatives and microfinance institutions are restricted in the kind of financial operation they can perform. Reviewing legislation and strengthening these alternative institutions will be an important innovation.

A third innovation is internet technology. One emerging technology, Wi-Fi (Wireless Fidelity) allows the rural sector to place telephone calls through low-cost wireless Internet telephony, using low cost computer servers and terminals. Wi-Fi enabled computers send and receive data securely, reliably, and quickly, through radio technology – indoors and out, anywhere within the range of a base station. A Wi-Fi network can be used to connect computers to each other, to the Internet, and to wired networks.

This system has a strong potential to be used for money transfer managed by microfinance institutions. Linking Wi-Fi technology to remittances and microfinance institutions offers an advantage to local businesses and more importantly, opens financial windows for new markets. This innovation would connect microfinance institutions to the global economy, thus modernizing this sector.

d. Informing publics about best practices
Currently there are few non-governmental or governmental organizations helping inform individuals about the best market practices in money transfer services (see examples in section B of this testimony).

e. Adding value to remittances: Banking and Latinos
Most remittance transfers are still outside of the services provided by mainstream financial institutions. Instead, money transfer businesses serve as intermediaries between the remitter and the recipient. Without these intermediaries, credit and savings institutions would be able to directly attract unbanked immigrants and their families. Given that four out of ten Latin American immigrants, and more than eight out of ten people in Latin America, lack bank accounts, transferring remittances through financial institutions would insert unbanked Latinos into the financial stream and improve their lot in the economy.

The participation of banks in the remittance market is still very small. As the table below shows, the market structure still has room for banks. There are fewer than 100 banks offering money transfers. However, as interest grows, their penetration will deepen. The examples of Wells Fargo and Bank of America provide illustrations. In the case of WF, in the first three years of these operations, the bank has made nearly half a million transactions to Mexico, representing at least $100 million a year. Although its share of the market is very small, it is at least one-tenth that of major competitors like MoneyGram, which has been in the market for over ten years.

Remitting through savings and credit institutions offers an important substantive benefit to immigrants beyond low transaction costs, because these individuals demand a range of financial services. To reduce remittance transaction costs, in important part by banking the unbanked, the following issues can be addressed:

1. Promote banks becoming more “user-friendly” and accessible to immigrants.
2. Expand financial services banks offer immigrants.
3. Enhance the role of the Community Reinvestment Act (CRA) and include a report card on remittance transfers in assessing bank compliance CRA service criteria.
4. Promote strategic alliances among U.S. and Latin American banks and money transfer businesses.

Friendlier approach to Hispanic immigrants and market preferences
One major obstacle to banking Latino immigrants in the United States is a broad mistrust of banking institutions, which are perceived and often are unfriendly and inaccessible. Banks can change this by increasing the number of bilingual staff, printing materials in Spanish, and researching Hispanic market preferences. By offering services that are tailored to the Hispanic market, financial institutions improve their relationship with that community and increase the likelihood that customers will return to use other services.

Expanding opportunities to attract remittance senders

Financial institutions – including credit unions and banks, both commercial and community – have a clear interest in attracting immigrants. There are five ways that banks can reach out to unbanked immigrants. First, banks should offer fee-based check-cashing services at friendlier operating hours. Banks need to open conveniently-located "outlets," open early evenings and on Saturdays, that offer check-cashing services at competitive rates as well as other banking services. This system is advantageous because it provides a direct link between the community and the bank, which may serve as a first step to incorporating them into other financial services. Caskey notes "banks cannot help the unbanked if they do not get them in the door" (Caskey 2002).

Banks should offer basic "starter" savings accounts that have low minimum-balance requirements. In addition, because many of the individuals who would open such accounts lack checking accounts yet need to pay bills, the bank branches should offer low cost money orders for long distance payments. Many check-cashing outlets like the US Postal Service already provide such services for less than 50 cents each, compared to much higher costs offered by check cashing businesses.

Deposit accounts designed to help accumulate savings are another way of attracting and maintaining traditionally unbanked individuals in the financial system. Specifically, such accounts would require the holder to make small but consistent deposits from each bi-weekly paycheck.

Banks can also aid those immigrants who face emergencies yet lack a credit history by offering deposit-secured emergency loans. Foundations often help to secure these loans in collaboration with a community-based organization and a bank. The community-based organization could raise funds from a foundation, and deposit the money in a bank to be used as collateral. An applicant could then apply directly to the community-based organization for the loan and while at the same time being incorporated into the institution.

Remittances as a community service and a report card

The Community Reinvestment Act (CRA), enacted in 1977, is designed to encourage banks to provide depository and lending services to low- and moderate-income neighborhoods. The legislation requires that banks serve the needs of the communities in which they are based. CRA regulations require evaluation of banks' performance in three areas: lending, investment, and service. By providing remittance transfers in communities with large immigrant populations, banks could improve their CRA ratings because they are directly serving a community need.

Further outreach to the community may also improve a bank's performance on the investment and service tests. Many community-based nonprofit organizations focusing on economic development – specifically, by providing home-mortgage and small business loans – have emerged in urban areas. Banks in many cases have developed relationships with these community groups, and can similarly work with immigrant nonprofit organizations to promote economic development.

In addition to the CRA, Latino nonprofits and other groups' immigrant-focused groups could make a contribution by evaluating savings and credit institutions' service to immigrant communities, and making their conclusions public and disseminated in Spanish. The criteria would include: availability of remittance transfers, fees, exchange rates, breadth of coverage, acceptance of the matricula consular, transparency, hours of operation, presence of bilingual staff, and level of involvement with the local community.

Strategic alliances with banks and money transfer businesses

a) Corresponding relationships between U.S. and Latin American banks

Latin American and US banks should establish money transfer agreements to help reduce transaction costs. Currently, several agreements exist among U.S. and Mexican banks. They include Harris Bank, Bank of America, Wells Fargo, and Citibank, all of which have agreements with Bancomer or Banamex to transfer remittances. As these banks increase the volume of remittances, costs per transfer will tend to decline.

b) U.S. banks operating in Latin America

U.S. banks operating in Latin America can offer debit cards for use at ATMs in Mexico to withdraw funds deposited by relatives in the United States. Citibank and Bank of America already offer this service, though it is not widespread.

Linking U.S. and Latin American credit unions through IRNet (Orozco 2000) is becoming more common. These partnerships have multiplying effects; the business relationships expand beyond the money transfer business into other activities such as borrowing and investment. Moreover, more communities are benefiting from the participation of credit unions in low income areas.

c) Alliances between banks and money transfer operators

Alliances between U.S. banks and money transfer businesses are another way to reduce costs, while at the same time banking individuals. Such alliances reduce costs in at least two areas: technological infrastructure and commissions to agents. By linking with an MTO that has the technology and infrastructure to transfer remittances, a community bank can enter the remittance market without large startup costs. Currently, MTOs work through agents (such as convenience stores) who charge high commissions (often representing as much as 75 percent of the total fee). The advantage to an MTO is that the bank can better advertise the remittance transfer service, reducing the need for agents. Finally, such a relationship has the potential to bring a larger number of customers into the formal financial system. Remitters who otherwise would have had contact solely with an MTO will now have a relationship with a bank as well.

Remittance costs can be lowered by having Latin American banks join US money transfer operators. For example, King Express, an MTO sending money to Guatemala, has allied with a Guatemalan bank, Banco Industrial. King Express offers a preferential exchange rate, and relatives in Guatemala receive the remittances immediately at any Banco Industrial branch. Once they begin to use Banco Industrial, recipients will be encouraged to open savings accounts and seek housing or mortgage loans. Guatemalans living in the United States can use a debit card to access their accounts at ATMs.

Visa Giro presents a cost effective alternative to banks and businesses. Visa Giro is a Visa debit card that is accepted in most places that accept Visa in Latin America. Remitters add value to the card at an MTO in the United States. An allied bank in Latin America distributes a card, which contains the money credited, to the recipient. Because the transfer is electronic, sending costs are reduced substantially. Visa Giro is currently working in alliances between Latin American banks and money transfer businesses. Examples include Banco Uno and Gigante Express and Banco Cuscatlan and its MTO, Corfinge, in Central America. In Mexico, Banco Bital has an alliance with Quisqueyana, and in the Dominican Republic Quisqueyana has an alliance with Banco Mercantil, using a product known as Cashpin.

b) Best Practices to transfer remittances[1]

The costs companies incur in transferring remittances are generally reflected in the fees charged by companies. These fees are based on a number of factors including operation costs, the exchange rate used in the transaction, the transfer mechanism employed by the company (and whether it is more labor or capital intensive), the level of market competition existing in both the sending and receiving areas, and the profit the company wishes to achieve. Therefore, a criteria to measure the price of transactions involves identifying and analyzing the a) fees charged, b) level of market competition, c) transaction type (whether the remittance is changed into local currency or not), and d) transfer mechanism.

In addition to these criteria, other practices are explored to understand the efficiency of the business. Examples are a company's transparency, its outreach in support of the community's development, its relationship with the clientele, and any additional financial services offered by the company. These latter issues are also important as they have a developmental impact on the household and a community. The use of a particular institution can motivate both senders and recipients to improve their personal stock.

The understanding of which are companies best practices is based on whether they offer lower than average fees and exchange rates and their services generate incentives for customers to add value to their money, such as providing other financial services in the same location. Some of these criteria are presented in the table below:

Table 2. Best Practices of Remittance Transfers: What works to the customer's benefit.

Criteria	**Indicators**
1. Transfer fee	Lowered fees for customers may indicate lowered costs for remittance companies.

[1] This is a compilation of information from three reports: *Attracting Remittances: Market, Money and Reduced Costs,* Manuel Orozco, January 2002. *Costs, economic identiy and banking the unbanked* Manuel Orozco, Testimony presented before the Congressional Hispanic Caucus on remittances and consular identification. March 26, 2003; *Changes in the Atmosphere? Increase in Remittances, Price Decline and New Challenges* Manuel Orozco, March 2003.

2. Exchange rate used	If there is no exchange rate, no currency purchase costs are incurred by sender and recipients. Fees may be higher, however.
3. Transfer mechanism (hand delivery, money order, electronic transfer: debit card, bank to bank, internet, courier agency transfer, etc.)	More capital intensive the transactions mean lower costs for the company, but not necessarily lower fees for the consumer.
4. Marketplace competition (supply side)	The higher number the number of companies in any market, the lower the transfer costs. The exception is when companies are formed in monopolies, oligopolies or remittance ‘cartels’.
5. Business location and geographic coverage	Companies located within areas with a better economic infrastructure exhibit lower transaction costs
6. Development support	Support to the local community adds value to the product and loyalty to the company
7. Financial Services	Offering services such as banking or bill payment increases interest in the company
8. Transparency	A company that advertises its exchange rates cultivates or promotes more trust from the customer.
9. Compliance to regulations	A company that meets all the requirements operate as a remitter.

Money is transferred from bank to bank, from money transfer agency to bank, from credit union to credit union, agency to agency, and so on, and charges vary depending on these combinations. No company, banks or money remitters, meets all the criteria for best practice. Some companies like Western Union may offer the best access to sending and receiving money, but at very high prices. Others may have low fees but offer limited geographic coverage.

When searching for best practices on remittance transfers, of the nine points, four issues are of particular importance in identifying the best company methods and approaches: below average prices and mark-up, services that add value to the money sent and received, transparency in reporting the real nature of prices and services to the customers, and developmental support to the community. Given the current environment that prevails in the money transfer business with various players in place and different transfer methods and charges, identifying the best practices is an important but difficult task. Some best practices can be presented here that meet some of the criteria highlighted at the beginning of this section.

Credit Unions

Credit Unions offer some of the best practices in money transfer opportunities to migrants. First, where credit unions are available, their costs are among the lowest. Some credit unions charge less than $7 in some cases, no credit union surveyed charges more than $10. Second, in addition to the low charges, credit unions seek to offer significant benefits to the sender as well as to the recipient. One important benefit offered to senders is the incentive to enroll them in the banking system. Moreover, the credit unions have also invested used the fees charged to provide various plans to its members. Finally, credit unions tend to be transparent in the charges they make as well as in delivery of the money. They usually arrange the money transfer transaction either through an already existing company such as Vigo International Corporation or participate in the Irnet system of transferring money from credit union to credit union (Orozco 2000). In this latter case, money transfers are among the least expensive, charging $6.50 for anything under $5,000.

Examples of credit unions that are active in transferring remittances and working with Latino immigrants are Communidades in Los Angeles, transferring to El Salvador and Guatemala at $6.50 and serving mostly low-income Salvadorans; Bethex Federal Credit Union in New York, which uses Vigo, and Government Employees Credit Union (GECU) in El Paso, which also uses the Vigo system. GECU is unusually large with $700 million in revenues. Its participation in the remittance market, to immigrants from Mexico, is relatively recent (from about 2000), and has been very profitable as is reflected in the expanded revenues from GECU's branch that does most of the transfers.

Another credit union that started to offer money transfers is the Latino Community Credit Union (LCCU) in North Carolina, which offers transfers to Mexico and Central America. The LCCU not only offers low remittance charges but also provides important services to the Latino immigrant community. Latinos generally are low income and not all have bank accounts. According to the IADB 2001 Latino immigrants survey, only 60 percent of Latino immigrants have bank accounts. The credit union thus provides an alternative to the community by inviting them to opening checking accounts with low deposits of $25 (as opposed to $500 or $1,500 in most banks). Moreover, this particular credit union uses the remittance fee charges to provide other free services and lending opportunities to their members. Because many low-income migrants regularly cash checks with third party institutions (rather than depositing these into their individuals accounts), as with remittances, they incur high fees to pay for that service (at very similar rates to current average money transfer fees). The Latino Credit Union, like Comunidades, does not charge for this service or for the use of ATMs. Moreover, migrants are able to send up to $5,000 for $10. LCCU too uses Vigo as their money transfer interface and manages to keep $8 of the $10 charge which it uses to offer community development programs and pay for its overhead costs. Vigo retains $2 and the exchange rate markup.

Despite the benefits they offer, credit unions continue to remain among the least involved in money transfer services, which is their primary limitation. Two major difficulties they experience deal with outreach. First, there are only a few credit unions offering services to migrants to send money. Except for Comunidades and Government Employers Credit Union, most credit unions do not offer remittances transfers or are not based in areas where there is a high concentration of migrants. Second, remittances transferred to the receiving country are mostly sent through a money transfer company. Although this method is relatively low cost, it would be even cheaper with the involvement (and often existence) of credit unions in the recipient side. In most countries, however, credit unions are still seeking strategies to offer money transfers. In El Salvador, money transfers to savings and loans cooperatives are beginning to attract customers although their participation is very limited.

Community and Commercial Banks

Despite the fact that remittance transfers occur on a daily basis and at high volumes, the participation of U.S. banks has been limited. Traditionally, banks have used conventional wiring mechanisms that are extremely expensive for individuals and more suited to corporations transferring large sums of money. This has left money transfer institutions to take care of workers' remittances. Recently, however, U.S. banks have begun to realize the significance of remittance transfers. Furthermore, they have recognized that a large number of senders could be potential clients of their institutions, either because they are "unbanked" or because banks could better serve them.

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

In the past year, however, a growing number of U.S. banks (commercial and community) have entered the remittance market through various types of money transfer technologies, often based on the use of "smart cards." So far, these new players are primarily concentrating on the Mexican market and maintain a small market share (probably less than 5 percent). Remitting through banks offers an important substantive benefit to immigrants. According to Bendixen and Associates, 44 percent of Latino immigrants lack bank accounts. Miami-based Strategy Research Corp stresses that 54 percent of Hispanics have no banking relationship of any kind. In contrast, 68 percent of African-Americans and 93 percent of non-Hispanic whites have accounts. Providing a banking relationship to Hispanics also helps establish credit history and increase lending for housing, health and other investments.

An analysis of thirty banks remitting to Mexico in the past 18 months, particularly from Chicago and California, showed four methods by which banks send remittances[2] : a) the offer of debit cards which can be used by the recipient in ATMs in Mexico, b) U.S. banks operating as money transfer agents through arrangements with Mexican banks (generally, *Bancomer* and *Banamex*), c) traditional wire transfer (SWIFT), and d) alliance between banks and money transfer operators. Their charges have varied; Table 4 offers the average charges according to these transfer methods. Debit cards offer the lowest cost. Through this service, some companies offer a very low fee and profit instead from the exchange rate. In the majority of cases, however, those with access to debit cards are usually required to have a bank account with the institution in the United States.

Table 3. Charges made by banks to transfer remittances (by method employed)

Method employed	Charge	Percent of

[2] Orozco, Manuel. *Changes in the Environment*, Washington, DC: Inter-American Dialogue, March 2003.

	(fee and exchange rate diff.)	amount sent*
Debit Card withdrawal at ATM (Community banks)	7.4	1.51%
US Bank as MT, pick up at Mexican Bank/Agency	16.2	3.36%
Traditional wire transfer (SWIFT)	38.3	9.94%
Credit Unions	21.4	5.3%

Source: Orozco, Manuel. Changes in the Environment, Washington, DC: Inter-American Dialogue, 2003. * Average amount sent to Mexico is $400.

Commercial banks. Recently, Bank of America and Citibank introduced new programs utilizing ATM technology to transfer remittances. Bank of America's *SafeSend* program and Citibank's Money Card each issue debit cards to a designated person in Mexico upon enrolment of a person in the United States. *SafeSend* charges $10 per transfer while Money Card charges $7.95, plus a $5 monthly maintenance fee.

Some of the costs reported here, however, do not include certain additional fees charged by some of the banks. For example, some banks charge extra fees for withdrawing money via ATMs when a) a sender or recipient contacts a person in the bank for inquiries regarding the remittance, b) a recipient withdraws money more than once from the card during a time period upon receiving the money, c) a sender is not affiliated with the bank, d) a sender opens an account. Finally, some programs also charge monthly maintenance fees. In some cases, the added costs are significant and make this option less competitive.

Money transfer operators such as Cofía and Uniteller have begun operating within banks that offer their remittance services. For example, both Cofía and Uniteller operate within Chicago-based Second Federal Savings, while only Uniteller operates within Park Federal Savings and Mid-America Bank. Cofía has independent offices throughout the United States and also in Puebla, Veracruz and Oaxaca, Mexico. As of late November (2002), Cofía announced that the company expects to formalize a joint agreement with Cibao (another well-known MTO that overwhelmingly serves the Dominican population), to operate in New York at the beginning of 2003.

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

The most widely publicized case of a bank entering the remittance business is *Wells Fargo*.[3] Although *Wells Fargo* initiated a program in 1996 targeting the transfer of remittances to Mexico, in 2001 it fully released its product, *Intercuenta Express*, charging $10 for amounts under $500. Since then, more than thirty banks have become involved in remittance transfers, including *First Bank of the Americas, Banco Popular, Citibank, Elgin State Bank, Bank of America, and Harris Bank*.[4]

Banks have come to accept alternative forms of personal identification in order to attract migrants to open new accounts. Specifically, a growing number of banks are accepting the identification card issued by the Mexican consulates, known as *matrícula consular*.

Community banks. Community banks have also been keen on targeting ethnic minorities and Latino migrants in particular. In North Carolina, the *Southern Community Bank and Trust* has sought to attract Latinos by offering a range of financial services, including remittance transfers. The bank has four branches staffed with bilingual employees and has been able to attract 1,022 Hispanic customers in Winston-Salem in less than two years. Hispanic accounts represent 5 percent of the total in the bank and show rapid growth. The bank offers checking and savings accounts, certificates of deposit, low-cost wire-transfer services, and home and car loans.[5]

In Atlanta, the United Americas Bank is also targeting the Latino community and is becoming a competitor of mainstream commercial banks like Citibank and Bank of America. Jorge Forment, President of the United Americas Bank, argues that if banks want to grow, "they better try to get a foothold into the Hispanic market." His bank has focused on the Latino community by offering money transfers and other traditional banking services. The bank started with $12 million in capital, and now has assets worth $71 million. United Americas Bank financed a mall called Plaza El Bigote, worth $1.4 million.[6]

In Milwaukee, Mitchell Bank has introduced an innovative approach to attract traditionally unbanked migrant groups into the institution. CEO James Maloney opened a branch called Cardinal Bank at a predominantly Hispanic high school. The bank is managed by students and offers a range of opportunities to students and their parents. The immediate effect of this outreach strategy has been an increase in the number of Mexican immigrants opening bank accounts, resulting in a higher demand for local goods in the area.

One of the main motivations for banks' involvement in the remittance market is to attract Hispanic customers. According to Bloomberg, Wells Fargo, Bank of America Corp., Citigroup Inc. and other U.S. banks "plan to spend at least $8.5 billion through 2005 to

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

[4] Business Wire, July 30, 2002, April 23, 2002; The American Banker, May 9, 2002, April 24, 2002; PR Newswire, May 9, 2002; The Financial Times, May 28, 2002, April 29, 2002;

[5] Sturiale, Jeanne, "Opening Doors" *Winston-Salem Journal*, November 25, 2002

[6] Chapman, Dan, "A boom in banks: Financial institutions catering to immigrants are giving U.S. chains a run for their money" *The Atlanta Journal-Constitution*, October 22, 2002. p.1F

attract Hispanic customers as revenue from investment banking and corporate lending lag."[7]

Money Transfer Operators

There are few MTOs that offer transactions below the average cost. These lower-fee businesses are mostly small money transfer companies that concentrate in particular cities where there is a significant migrant population sending remittances. They offer an alternative to other money transfer businesses that charge above average, such as Western Union and MoneyGram, and have a very small market share in the business, yet remain competitive.

One illustration of a company in this category is RapidMoney. It sends remittances to Mexico and El Salvador for a $10 fee and offers a card to the recipient to use it to withdraw the money. The sender also gets a receipt that reports the amount charged and the exchange rate applied for that transaction. In addition to this transparency and low charge, the company works with more than one distribution network to facilitate the transfer. One key feature of this company is its liaison with El Salvador's cooperative savings and loan system. Transfers made to El Salvador are done through the Federation of Cooperatives of El Salvador. The advantage of this arrangement has been that the Federation has been able to transfer remittances to low income Salvadorans and seek to attract them to join the cooperatives. As with banks and credit unions, however, the disadvantage of this company is that it does not have nationwide locations and operates only in Texas and Arizona. Moreover, its services, unlike banks and credit unions, are limited to money transfers.

One significant constraint to improving best practices in money remittances is the end point. Companies often find themselves constrained by high costs imposed by their Latin American counterparts, especially banks. Unless banks have a significant participation in the money transfer, they tend to charge high commissions for the transmission. In particular, the smaller the remittance company, and therefore the lower its volume of transferred funds, the higher the bank's commission charges are likely to be. In addition, Latin American banks and financial institutions are often not oriented to serve small customers like the remittance recipients and senders.

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

Table 4. Structure of the remittance market in Latin America (market share)

	Type	Mexico	El Salvador	D.R.	Jamaica	Cuba	Haiti	Colombia	Ecuador	Guatemala
Unlicensed (informal)	Mula, viajero, encomendero, travel agent	15-20%	15%	15%	20%	65%	70%			
Licensed	NMTO	**Western Union, MG, Dolex, Ria, USPO, Vigo, OV**, 60%	**Western Union, Gigante Express**, 40%	**WU, MG** (15-20%)	Western Union/ Grace K , 65%	WU, 10%	Western Union, 20%	**Western Union**	**Western Union,** 20%	Western **Union, MG, Vigo** 30%
	Ethnic store	**Mexico Express**, IFEX 15-20%	**B Agricola, Bancomercio , BanSal, Corfinge**, 45%	**Quiesqueyana, Remesa Agil, Ria La Nacional, BHD,Pronto Envio**, (60%)	National Jamaica Building Society 10%	10%	UniTransfer, Bobby Express Caribbean Air Mail	**Delgado, GiroSol, La Nacional, Americana de Servicios**	**Delgado Express, Ecuagiros, Dolex, Envios Abreu, Giro Express, GiroSol**	**G&T, Gigante Express**, Banco Metropolitano, Banco Occidente, **King Express** (50%)
	Small business operator	MyLana, RapidMoney 10-15%	< 3%	Viamericas	<5%					Viamericas < 3%
	Credit Union	< 3%	< 1%		< 1%	0	< 1%			
	US Banks	< 3%	0	0	0	0	0			