February 26, 2002

REMARKS BY THE HONORABLE SHEILA C. BAIR
ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS
BEFORE MULTILATERAL INVESTMENT/
INTER-AMERICAN DEVELOPMENT BANK
SECOND REGIONAL CONFERENCE
ON IMPACT OF REMITTANCES AS A DEVELOPMENT TOOL

I. INTRODUCTION

Thank you for that kind introduction. I am pleased and privileged to have this opportunity to speak before such a broad range of dedicated organizations that recognize the importance and impact that U.S. remittances have on Latin America and the Caribbean. I would first like to thank Mr. Enrique Iglesias and Mr. Donald Terry for inviting me to speak today and I look forward to our continued dialogue on this issue.

The IDB has been a leader on the issue of remittances to Latin America and the Caribbean. In addition to today's conference and the release of the Survey of Remittances Senders: U.S. to Latin America, the IDB held a regional conference last May to highlight the role of remittances as a development tool. Through today's conference and the two regional roundtables that preceded it, the IDB fulfills an important role in raising awareness of the issue surrounding remittances, proposing innovative solutions, and promoting cooperation among the many public- and private-sector groups involved in remittances.

My role as the Treasury Assistant Secretary for Financial Institutions encompasses a wide range of responsibilities, but one that holds a particular interest to me is that of consumer policy. As you know, the majority of remittances sent to Latin America and the Caribbean are generated at the consumer level - with individuals making investment decisions on how to spend their money. These remittances, although small in individual transaction size, have a significant global impact in the aggregate. Some estimates show that the level of U.S. remittances sent annually to Latin America and the Caribbean has reached the $15 to $20 billion mark. With the increasing number of Latin American workers residing in the U.S. and the familial ties that are maintained abroad, the level of remittances will continue to grow as well.

At Treasury, we recognize the importance of remittances to Latin America and support the efforts of the IDB and other groups and entities to improve existing remittance systems and provide remittance services at reasonable prices. This has been a special focus of the Partnership for Prosperity, a key initiative of President Bush and President Fox, launched during Fox's State visit in September 2001. The Partnership, led by senior government officials from both the U.S. and Mexico including Deputy Secretary of the Treasury Kenneth Dam, is a public-private alliance that aims to boost the social and economic well being of citizens in Mexico particularly in regions and sectors where economic growth has lagged and fueled migration. Since the Partnership focuses on private capital flows of capital, the focus on remittances is a natural area to address. I also look forward to having an ongoing dialogue with IDB and the other organizations represented here today as we work together to expand the availability and affordability of remittance services in the United States.

II. BACKGROUND

According to an IDB study, Latin American immigrants living in the United States send an average of $250 home to their native countries eight to ten times per year. This activity translates into Latin American countries receiving close to $20 billion annually - about one-fifth of total worldwide remittances. In a number of Latin American countries, income from remittances accounts for a significant percentage of the gross domestic product. If current growth rates are maintained, cumulative remittances to Latin America could reach $300 billion for the ten-year period ending in 2010.

Although the sheer volume of remittances to Latin America is a key indicator of their importance, how recipients are using these funds further demonstrates their significance. In Latin American countries, most remittances are used to pay for daily household expenses, including food, clothing, and health care, and comprise a substantial portion of household income. Recipients may also use remitted funds to improve their standard of living through spending to build or improve housing or the purchase of durable consumer goods, such as washing machines. Finally, some of funds that are remitted to Latin America are spent on income- and employment-generating activities, such as starting a business or for community development projects.

As the volume of funds remitted to Latin American countries is expected to continue to grow rapidly, and in light of the importance of remittances to the recipient nations' economies, we intend to support efforts aimed at improving the U.S. remittance infrastructure and making remittance services more affordable.

Treasury also is seeking ways to ensure that remittances to Latin America are put to the most economically efficient uses. In this regard, it is important that the countries receiving remittances have the financial services infrastructures in place to translate capital into productive investments. Accordingly, we invite the IDB, in particular the MIF, to continue funding projects that improve the financial services infrastructures of Latin American and Caribbean countries, such as the recent $3.5 million grant to Mexico's Ministry of Finance and Public Credit for a project to strengthen the Mexican popular savings and loan sector.

III. THE REMITTANCE INDUSTRY

The IDB's study of remittances has found that although charges have declined significantly over the past two years, transfer costs for remittances are still high. The average transfer fee and exchange rate commission to send $200 varies from approximately $15 to $26. The cost varies as a result of the type of institution used to send the money and the country where the money is being sent, but can often reach up to 20% of the amount being sent, when transmission fees and losses on the exchange rate are both factored in. One of the reasons that prices have remained high is a lack of competition in the money transfer business. The industry continues to be dominated by a small number of money transmitters that generally tend to charge higher fees than banks or credit unions. By increasing competition, the price of remittances should continue to drop.

With respect to competition, an important recent trend in the area of remittances has involved traditional banking institutions increasing their efforts to provide money transfer services to the immigrant market at lower prices. Wells Fargo recently introduced a remittance service that charges a flat fee of $10 for remittances to Mexico of up to $1000. The service is offered through a joint venture with Mexico's Bancomer. Bank of America is also working on a safe, low-cost, and convenient remittance product that can be offered to Latino workers. MetroBank in Houston now offers a Matricula Checking account that allows the account holder to designate an individual in Mexico to have ATM access to the account. Another bank that has successfully targeted remittance services to a particular population is El Salvador's Bancomerio.

Credit unions provide an alternative for remittance activities in certain markets. For example, in Durham, North Carolina, the Latino Community Credit Union, which opened in June 2000 to serve the area's Hispanic population, offers a remittance service that charges $6.50 to $10 for money transfers to Latin America. Another credit union initiative is IRnet, the World Council of Credit Unions, Inc.'s international remittance service, which facilitates credit unions' ability to transfer of money at reasonable prices to a large of number of countries throughout the world.

I am excited to see a focus at these and other depository institutions as they recognize that large segments of the U.S. population have yet to be courted into the traditional banking system - a move that makes good business sense and at the same time can make remittance products more affordable. The recent efforts of these to entities reach out to the Hispanic population in the United States and to offer reasonably-priced remittance services is an excellent first step toward achieving the goal of a more efficient and affordable remittance system.

We encourage depository institutions to continue their efforts to serve the Hispanic community in the United States and to take advantage of technological advances to offer remittance and other services to this population on a broad basis and at a reasonable price. One example of a depository institution using technology in this way is Wells Fargo's "Intercuenta Express" service. Intercuenta Express allows a customer of Wells Fargo to initiate a funds transfer to Mexico using an ATM, the Internet, or telephone banking, thereby making such transactions easier for customers by eliminating the requirement to visit a branch location.

At Treasury, we understand that the remittances sent to Latin America can serve as a vital piece of foreign aid that goes beyond consumption. We support any efforts made to make the process of sending remittances more affordable for the people that use it - most of whom earn low wages to begin with.

IV. USA PATRIOT ACT'S EFFECT ON REMITTANCES

On October 26, 2001, President Bush signed into law the USA Patriot Act. The Patriot Act requires financial institutions, including money services businesses such as money transmitters, to establish anti-money laundering programs and verify the identification of their customers. These requirements are in addition to the suspicious activity reporting requirements that already apply to money services businesses.

With respect to the promulgation of any regulations under the Act, Treasury will seek to minimize the regulatory burdens on financial institutions in a manner that is consistent with fighting terrorism and money laundering. The Act's anti-money laundering provisions, however, undoubtedly will affect industries engaged in transmitting money to Latin America.

Financial institutions engaged in the remittance business may face special challenges in complying with the identification requirement because many of their customers may not have standard forms of U.S. identification. The issue of how to deal with identification of non-U.S. persons is being considered carefully by Treasury Domestic Finance, along with Treasury Enforcement, as they chair an intra-governmental effort to develop identification standards for the various types of financial services providers. Recognizing the importance of remittances to

Latin America, the Treasury will strive to find a balance between the need for strong regulation that provides a real benefit to those working to achieve national security and law enforcement objectives and the ability of financial institutions to serve Latin American migrant communities and provide remittance services at a reasonable price.

Non-banking institutions, including those engaged in the remittance business, are likely to face higher compliance burdens both as a result of the Patriot Act and the recently effective requirement that such institutions register with the Treasury as money services businesses. These requirements should provide additional consumer protections to the individuals utilizing these businesses.

Subjecting non-banking institutions to requirements that are similar to those applicable to banking institutions will create a more level playing field between the two industries with respect to providing remittance services. A level playing field provides an incentive for traditional banking institutions to enter the remittance business, thereby providing additional market competition and leading to lower prices for remittance services.

The entry of traditional banking institutions into the remittance business also should result in an increase in the number of Latin American migrants being incorporated into the mainstream banking system.

By attracting Latin American migrants through reasonably priced remittance services, traditional banks have an opportunity to extend these relationships to account relationship.

V. FIRST ACCOUNTS

In addition to seeking improvements in remittance systems, I am also working on a closely related topic - increasing the number of people using mainstream financial services. As we bring more mainstream financial institutions into providing remittance services, we also want to encourage more "unbanked" families and individuals to use mainstream financial services.

There are at least three benefits to being banked:

- First, increased safety and security - Carrying large amounts of cash is dangerous. Keeping cash at home is risky.
- Second, lower financial transaction costs - The costs of financial transactions outside the banking system are high. Recent Treasury research indicates that a minimum wage worker can pay an average of $18 per month for cashing paychecks at a check casher. A Social Security recipient would pay an average of $9-16 a month to cash his or her risk-free government check.
- And, third, the opportunity to build a promising future - It is difficult to participate in the mainstream economy without a checking account. It is more difficult to establish a sound credit record, qualify for a car loan, obtain a home mortgage, and receive a small business loan. Bank accounts can help families to save and manage their money.

Our initiative to move unbanked families and individuals into mainstream financial services is called **First Accounts**. This past December 27th, Treasury published a notice of funds availability, a NOFA, in the Federal Register inviting applications for First Accounts grants. The amount available is approximately $8 million to fund projects that can serve as models to connect unbanked low- and moderate-income individuals to mainstream financial services.

A wide variety of entities are eligible to apply for the grants - such as employers, financial services electronic networks, insured depository institutions, labor organizations, local governments, nonprofit organizations, and States. Given the number of calls and e-mails Treasury has received, many applications are expected from a wide range of entities.

The paramount goal of First Accounts is to move a maximum number of unbanked low- and moderate-income individuals to a banked status with either an insured depository institution or an insured credit union through the development of financial products and services that can serve as replicable models in meeting the financial services needs of such individuals. Additional goals include the provision of financial education to unbanked low- and moderate-income individuals to enhance the sustainability of the new financial relationships. We will also undertake research to evaluate the success of the funded projects and to understand what products, services, educational initiatives, marketing techniques or incentives are needed.

VI. CONCLUSION

In closing, I would like to reiterate Treasury's support for efforts that will expand the availability and affordability remittances to Latin America. We particularly encourage initiatives that, in addition to providing remittance services, will bring groups that have traditionally been outside of the mainstream banking system into it. I look forward to learning from the innovative experience of the MIF and my Latin American colleagues and gaining knowledge from your valuable insights with respect to this issue. Working together, I am confident that we can improve the current remittance system in a manner that is consistent with the global effort to combat money laundering and terrorism.

Thank you.