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Financial Institutions and the Remittances Market in the Dominican Republic

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Financial Institutions and the Remittances Market in the Dominican Republic

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Executive Summary

Competition in the Dominican remittances market – shared by only a handful of money transmitter companies for many years – finally appears to be picking up. With inflows of US\$ 2.7 billion expected in 2004, the Dominican remittances market is still dominated by money transfer companies with an entrenched and popular product niche – cash delivery at home. In other remittance receiving countries, home delivery of cash remittances has not attained the vast popularity that this product enjoys in the Dominican Republic.

Commissions have fallen in recent years with increased scrutiny and competition, but the network of money transmitters and their agents, along with the distributors in the Dominican Republic, retains control of most of the value chain and, therefore, pricing. Even so, costs for the money transmitters have risen with increasing compliance demands and regulatory effort, and home delivery remains a risky and expensive method of reaching the recipient. In contrast with other remittance-receiving countries, commercial banks have yet to aggressively enter the Dominican market - with a few limited exceptions mostly confined to distribution of remittances on the receiving side. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

The Dominican Republic differs substantially from other major regional remittance markets in that competition and falling costs have not yet widened the range of products available to remittance receivers. Neither senders nor receivers have been integrated into the formal financial sector. Recipients have neither incentives nor options for saving a portion of their remittance transfers or putting funds to productive use unless they enter the banking system of their own accord separately from the remittance transaction. With small exceptions, little other than home delivery of cash is offered to recipients.

Interestingly, this uneven market development has nothing to do with regulatory obstacles. Quite the contrary, historically few regulations governed the market in the Dominican Republic. While the current regulatory framework in the Dominican Republic poses few obstacles, intensified financial system supervision following a banking crisis in 2003 has spurred new efforts to define the regulatory environment for money transmitters and distributors in the Dominican Republic.

In fact, the U.S. regulatory environment seems to preclude more competition with layers of state and federal regulation from multiple bodies to ensure compliance with the Bank Secrecy Act, Anti-Money Laundering programs and the USA Patriot Act. The array of institutions involved in regulating money transmitters includes state banking departments

(for both financial products and criminal investigations) and several institutions operating under the US Department of Treasury, including the Internal Revenue Service, the Office of the Comptroller of the Currency, the Financial Crimes Enforcement Network and the Office of Foreign Assets Control.

Depending on the state, uneven regulatory effort and unclear institutional responsibilities have caused confusion on the part of the money transmitters and, at times, the state banking departments. Supervision of money transmitters in the United States has dramatically increased and, with that, the cost of complying with U.S. regulations. Many money transmitters have responded by adopting even stricter internal controls than those required by law, but banks carrying the accounts of money transmitters have responded by closing accounts to do away with the intensified supervisory scrutiny of these clients.

With the size of the Dominican remittance market and its promise for positive development impact, upstart competitors could drive a burst of rapid innovation. A few entrants are poised to introduce new products and technologies, but the largest are not prepared to offer new bank accounts and financial services. Customer habits and the existing industrial organization is so entrenched that institutions with external financing or existing financial infrastructure will have the competitive edge in changing the market.

The need to examine remittances from a development perspective in the Dominican Republic is pressing for a number of reasons:

- Inflows are of increasing importance at both the macroeconomic and household levels, representing 13% of GDP in 2003, 47% of exports from the free trade zones, 62% of tourism receipts, one to two times foreign direct investment, four times foreign portfolio investment, and approximately 20% of disposable income;
- High costs reduce the amount available for savings and investment;
- Receivers already spend 17% of their remittances on education, and they save 5%, invest another 5% in small businesses and make housing investments with 4% of their inflows;
- Improving the intermediation of remittances can increase savings mobilization and relieve credit constraints for low and low-middle income groups;
- Remittances can be a tool for modernizing financial and communications infrastructure; and
- The use of remittances can be harmonized with government objectives in other areas such as relieving hunger, raising access to education at all levels, increasing gender equality, improving rural development and raising health standards.

The major obstacles to the development of the Dominican market are:

- regulatory demands and lack of clarity in supervisory roles on the US side
- an entrenched competitive structure for market capture and distribution; and
- the failure to bring either senders or receivers into the formal financial sector.

Efforts to open and broaden participation in the Dominican Republic require:

- expanded connectivity for businesses marginal to existing electronic networks;
- improved financial literacy education, better marketing and public information;
- enabling community-oriented financial institutions to participate in the remittance market; and

- providing incentives to commercial banks to leverage existing products and technologies for remittance receivers.

At the moment, money transmitters play an important role in providing financial services to communities mostly left out of the formal financial sector. Their efforts, their services and the jobs they provide should be acknowledged. Pressure on second-tier money transmitters could concentrate the market further, driving prices up again. In the absence of ground-breaking market behavior, the dominance of existing relationships and the popularity of the current product could prolong the transition to an open, competitive and participatory remittance market.

The current study attempts to explain how the Dominican remittance industry fails to meet the needs of Dominican remittance senders and receivers and what factors explain the current industry organization. It highlights promising initiatives and pioneering partnerships. It concludes by suggesting policies with clear-cut impact on the development of the market and the financial access of remittance recipients.

This study focuses on the financial institutions and financial channels that determine the structure and cost of remittances between the United States and the Dominican Republic. The information here is primarily gathered from interviews conducted at length with the executives, development banks, credit unions, savings and loans or microfinance institutions, as well as public sector entities in the Dominican Republic and in New York.

The goals of these interviews were to identify the major participating institutions, the products being offered to remittance senders and receivers, the regulatory and supervisory framework, financial and technological innovations, creative inter-institutional partnerships and government action. These interviews did not aim to cover every participant in the remittance market but rather to capture the range of experience within the market, unusual platforms and new products.

This report presents the following recommendations to government, public sector entities, financial institutions and overseas development agencies:

Recommendations for the government of the Dominican Republic:

- Integrate remittances explicitly into existing government efforts to modernize the financial system and to build better relations with the Dominican diaspora.
- Promote transparency in the remittances market by publicly providing information about products, institutions and costs.
- Open negotiations to develop a Central Bank Automated Clearinghouse (ACH) system with the US Federal Reserve.
- Improve access to financial literacy and basic technology training.
- Improve data sources, methods of collection and public access to data by seeking wherever possible to automate processes.
- Systematically analyze the impact of remittances in the Dominican economy and society, especially for disadvantaged and underserved populations.
- Improve the regulatory and financial sector framework by being responsive to the needs of the industry.

Recommendations for financial institutions in the Dominican Republic:

- Seek to benefit remittance senders and recipients directly through existing value-added financial services.
- Sponsor incentives and financial education programs to encourage financial responsibility and empowerment, as well as adoption of technology based services.
- Community-based financial institutions should consider the broadest possible range of partnerships for customer acquisition in immigrant communities and technology deployment.

Recommendations for state and federal public sector in the United States:

- Improve the monitoring of money transmitters for transparency and consumer protection.
- Promote a more open and inclusive dialogue with the money transmitters industry in the United States.
- Encourage public financial entities, such as the Federal Reserve, the FDIC, state banking departments, and others, in conjunction with the private financial sector, to expand financial empowerment initiatives for immigrants.
- Involve all stakeholders in the pursuit of more - and more transparent - competition in the remittance market.

Recommendations for overseas development assistance agencies:

- Promote projects that integrate education, marketing and information technology adoption into remittance-related activities.
- Support customer acquisition and distribution of remittances, as well as product development, as a profit center for non-traditional financial institutions in receiving countries.
- Explore financial access among the poorest in the Dominican Republic and the capacity of the national payments system in domestic transfers.

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Introduction

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Commissions have fallen in recent years with increased scrutiny and competition, but the network of money transmitters and their agents, along with the distributors in the Dominican Republic, retains control of most of the value chain and, therefore, pricing. Even so, costs for the money transmitters have risen with increasing compliance demands and regulatory effort, and home delivery remains a risky and expensive method of reaching the recipient. In contrast with other remittance-receiving countries, commercial banks have yet to aggressively enter the Dominican market - with a few limited exceptions mostly confined to distribution of remittances on the receiving side. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

The Dominican Republic differs substantially from other major regional remittance markets in that competition and falling costs have not yet widened the range of products available to remittance receivers. Neither senders nor receivers have been integrated into the formal financial sector. Recipients have neither incentives nor options for saving a portion of their remittance transfers or putting funds to productive use unless they enter the banking system of their own accord separately from the remittance transaction. With one major exception, Quisqueyana's Cashpin card, little other than cash delivered at home is offered to remittance receivers.

Interestingly, this uneven market development has nothing to do with regulatory obstacles. Quite the contrary, historically few regulations governed the market in the Dominican Republic. While the current regulatory framework in the Dominican Republic poses few obstacles, intensified financial system supervision following a banking crisis in 2003 has spurred new efforts to define the regulatory environment for money transmitters and distributors in the Dominican Republic.

In fact, the U.S. regulatory environment seems to preclude more competition than Dominican financial regulation with layers of state and federal regulation from multiple bodies to ensure compliance with the Bank Secrecy Act, Anti-Money Laundering programs and the USA Patriot Act. The array of institutions involved in regulating money transmitters includes state banking departments (for both financial products and criminal

investigations) and several institutions operating under the US Department of Treasury, including the Internal Revenue Service, the Office of the Comptroller of the Currency, the Financial Crimes Enforcement Network and the Office of Foreign Assets Control.

Depending on the state, uneven regulatory effort and unclear institutional responsibilities have caused confusion on the part of the money transmitters and, at times, the state banking departments. Supervision of money transmitters in the United States has dramatically increased and, with that, the cost of complying with U.S. regulations. Many money transmitters have responded by adopting even stricter internal controls than those required by law, but many banks carrying the accounts of money transmitters have responded by closing accounts to do away with the intensified supervisory scrutiny of these clients.

With the size of the Dominican remittance market and its promise for positive development impact, upstart competitors chipping away at the margin could drive a burst of rapid innovation. While these few entrants are poised to introduce new products and technologies, most are not yet prepared to leverage fledgling efforts into new bank accounts and financial services. Early objectives aim at customer acquisition to achieve scale. So entrenched, however, are customer habits and the existing industrial organization that institutions with external financing or existing financial infrastructure will have a competitive edge in generating the new financial products that could upturn the current equilibrium.

The major obstacles to this market lie in regulatory demands on the US side, an entrenched competitive structure for market capture and distribution and the failure to bring immigrants into the formal financial sector. In the Dominican Republic, there is a need for expanded connectivity, improved financial literacy education and better marketing and public information about new products. If second-tier money transmitters fail under pressure to meet compliance standards, the market could concentrate further with a negative impact on fees. Upstart competitors must both acquire enough customers to break the current stalemate *and* change the home delivery paradigm. In the absence of ground-breaking market behavior, the dominance of existing relationships and the popularity of the current product could ultimately prolong the transition to a remittance market that offers recipients more meaningful financial service options.

This study attempts to provide a first explanation of how the Dominican remittance industry fails to meet the needs of Dominican remittance senders and receivers and what factors explain the stability of current organization of the industry. It hopes to highlight promising initiatives built on technological and financial innovation and pioneering partnerships across institutions. It concludes by suggesting policies in the remittance market with clear-cut impact on the development of the market and the financial access of remittance recipients.

This study focuses on the financial institutions and financial channels that determine the structure and cost of remittances between the United States and the Dominican Republic. Information here is primarily gathered from at length interviews with executives from seven money transmitters in the United States and twelve distributors in the Dominican Republic, as well as an additional six development banks, credit unions, savings and

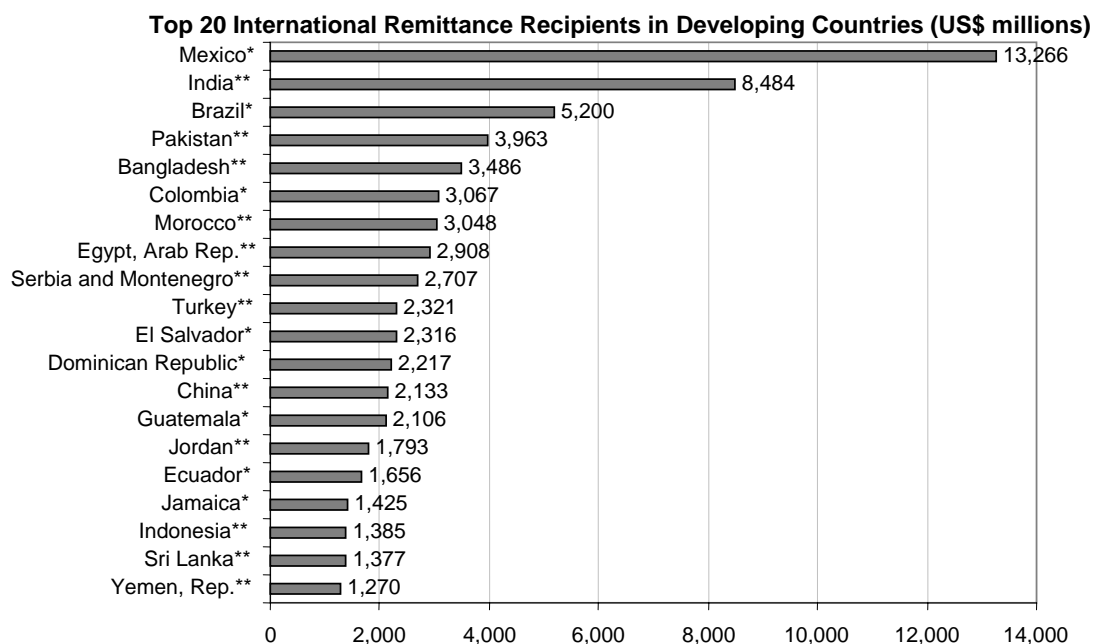
loans or microfinance institutions. This research also relied on supporting discussions with the Central Bank and the Superintendency of Banks of the Dominican Republic, the office of the Social Cabinet of the government and the State of New York Banking Department. The goals of these interviews were to identify the major participating institutions, the products being offered to remittance senders and receivers, the regulatory and supervisory framework, financial and technological innovations, creative inter-institutional partnerships and government action. These interviews did not aim to cover every participant in the remittance market but rather to capture the range of experience within the market. Interviews focused primarily on the largest institutions, those offering unusual platforms, new products or the potential to fill currently unaddressed needs.

The Dominican Remittance Market and Its Impact on Development

The Dominican Republic is one of the largest receivers of overseas workers' remittances in the developing

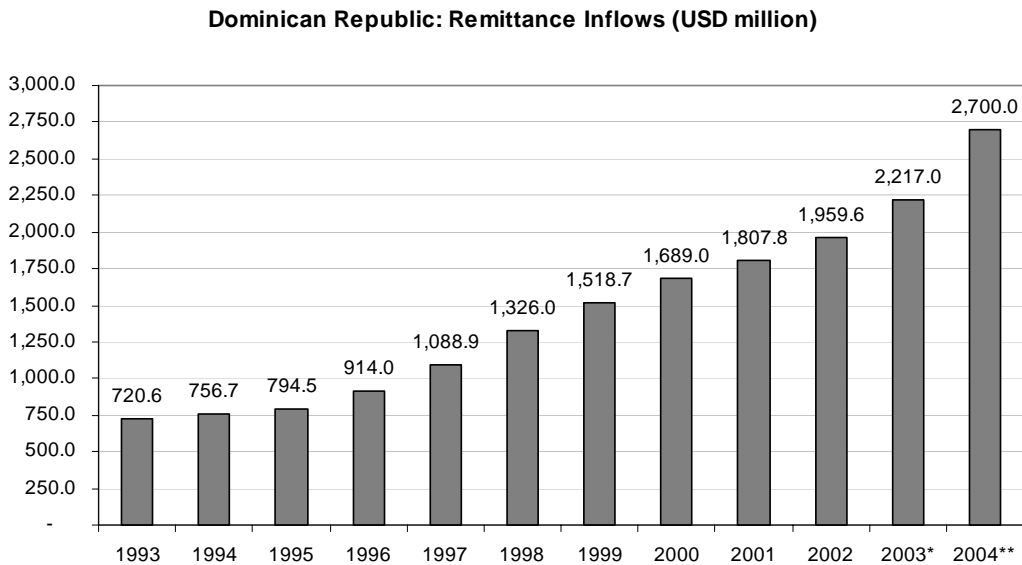
world. Compared with a population of 8.5 million, approximately 1.5 million Dominicans live abroad, as many as two-thirds of whom live in the New York City or the tri-state area (New York – New Jersey – Connecticut). The most recent survey of the Multilateral Investment Fund of the Inter-American Development Bank conducted by Bendixen & Associates (2004) estimates that \$2.7 billion in remittances to have been received in the Dominican Republic in 2004. Senders in the United States account for \$1.6 billion (59%), of which New York generates the lion's share. \$815 million (30%) is sent from Europe, and \$240 million (9%) comes from Puerto Rico. The remainder comes from Canada and other countries in Latin America.

Table 1. Dominican Republic Is Among the Top Remittance Recipients



Source: * 2003 IADB estimates. **2003 World Development Indicators data.

Table 2. Remittance Inflows Have Experienced Rapid Growth

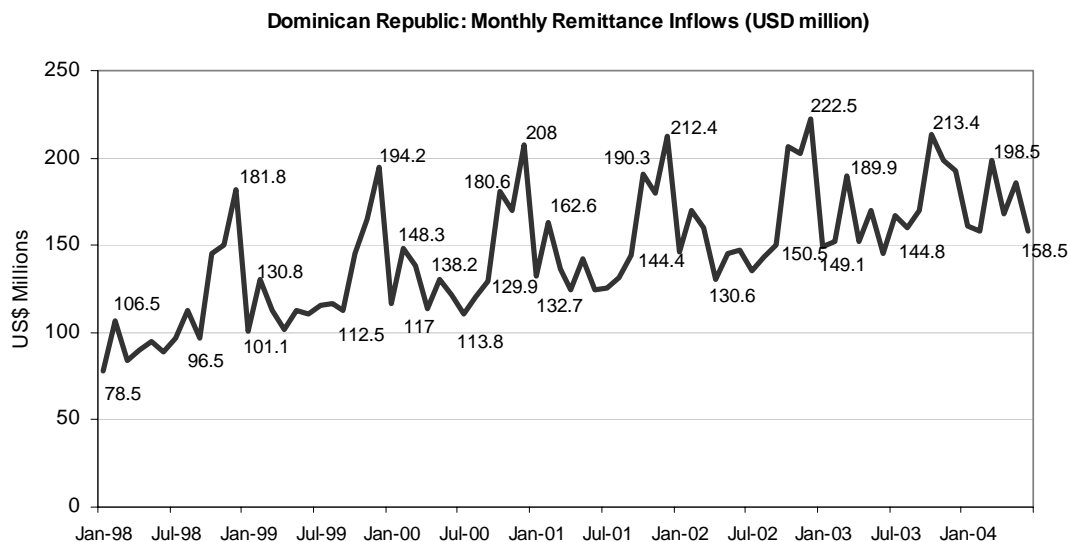


Source: Inter-American Development Bank, Central Bank of the Dominican Republic

*2003 IADB estimates **2004 IADB forecast

The volume of remittances to the Dominican Republic has grown rapidly at an average annual rate of 12% from 1994 through 2003. Some of this “growth” reflects successive improvements in the quality of the data. For instance, the latest MIF/IDB estimates suggest remittances will have grown by 23% in 2004; some proportion of that growth is accounted for by the quality of data collection techniques rather than an organic increase in payments sent. Nonetheless, the rate at which Dominicans sent money home seems to have been mostly unaffected by both the economic misfortunes affecting New York following the September 11 terrorist attacks and the financial and economic crisis that struck the Dominican Republic late in 2003. Improved data quality may raise projections for remittances growth, which generally hover around 5%-7% in coming years.

Table 3. Monthly Remittance Flows Exhibit Seasonality



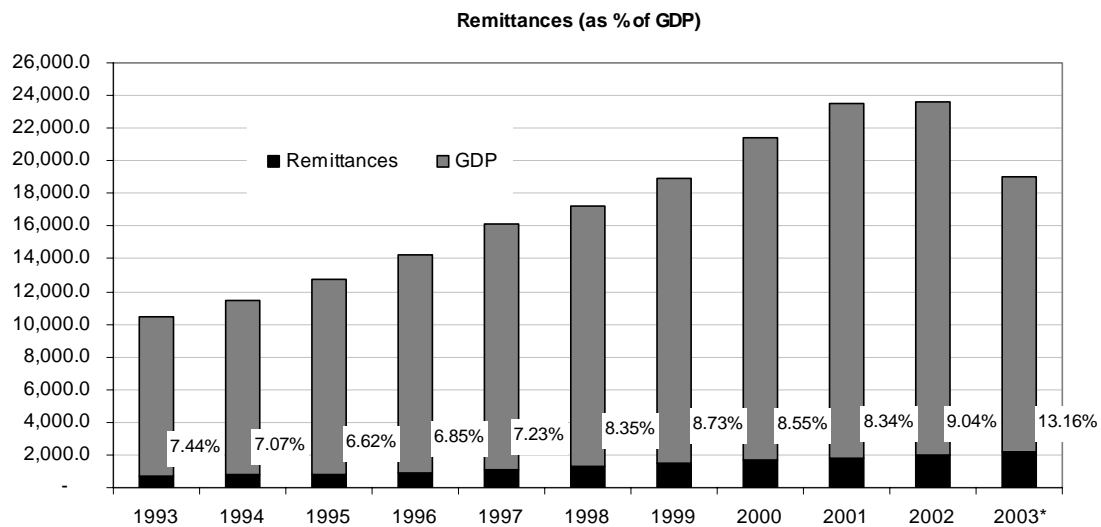
Source: Central Bank of the Dominican Republic

The average amount of each remittance is \$150 according to the survey conducted by Bendixen (2004). The survey estimates that, on average, money is sent 12-15 times per year to two people. Table 3 above illustrates the seasonal spike that occurs toward the end of each year with the holiday season. Bendixen (2004) and the Central Bank's International Department roughly agree on the proportion of remittances sent and received via money transfer companies (80% or more) as compared with banks (1%-5%). In-kind payments, such as purchases of goods, account for a very small amount. Both confirm that competition is confined to the money transfer companies.

Because the full convertibility of the Dominican peso was established in the most recent set of financial reforms under the Monetary and Financial Law (Ley Monetaria y Financiera No.183-02), remittances are received in either pesos or US dollars. In 2002 and 2003, the predominant currency of delivery was the peso, respectively 78% and 71%. The majority of remittance distributors in the Dominican Republic, who also generally exchange the transaction currency, suggest that the long-lasting and dramatic depreciation of the currency in 2004 caused substantial switching to receipts in US dollars. The proportion of delivery in US dollars now varies from company to company but appears to be in the range of 50% US dollar receipts.

Pricing is such that sending remittances in US dollars is far more expensive than sending in pesos. During the most recent crisis, the willingness to endure poor foreign exchange rates to send in dollars reflected an intense crisis of confidence. Remittance recipients may be choosing to retain their dollars waiting for the peso to stabilize. Faced with persistent inflation despite more stable macroeconomic conditions, recipients may believe that their purchasing power is preserved in dollars or that they can secure a foreign exchange rate elsewhere sufficient to compensate for the extra commission.

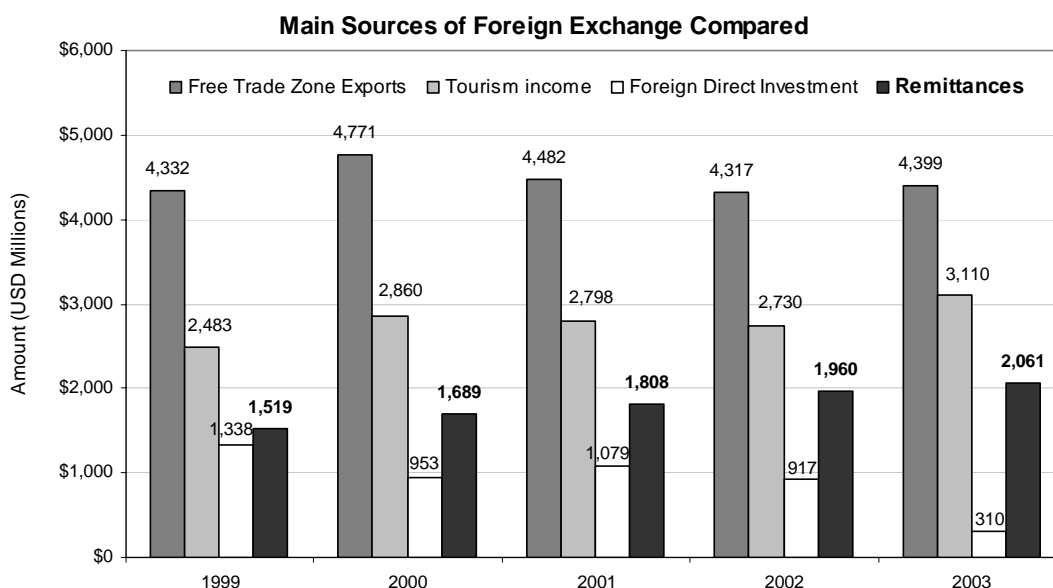
Table 4. Remittances Have An Increasingly Important Economic Impact



* IADB 2003 estimates for worker remittances. Source: Central Bank of the Dominican Republic

The development impact of remittances to the Dominican Republic comes from both their size and frequency. At the macroeconomic level, these inflows, 13% of GDP in 2003, play a major role in supporting the balance of payments. Remittances are increasingly important relative to other foreign exchange-earning economic activities, rising to 47% of free trade zone receipts and averaging 62% of tourism receipts from 1997 to 2003. Family remittances make up 87% of current transfers, dwarfing other sources of external support to the country. Remittance flows are normally 150%-200% greater than foreign direct investment (but six times larger in 2003) and about four times greater than 2003 foreign portfolio investment.

Table 5. Remittances Are A Major Source of Foreign Exchange



Source: Central Bank of the Dominican Republic, Balance of Payments

At the household level, remittances support domestic consumption and savings. This source of income had an especially appreciable impact in the face of the 2.2% contraction of real per capita GDP in 2003 during the recent economic crisis. Remittances may account for 20% of disposable income for the average recipient.¹

Determining ways to leverage remittances for development is pressing in the Dominican Republic. Even if most of the money is being used for consumption, high costs reduce the amount available to the receiver for alternative uses, such as saving or investment. For the percentage of funds already being saved, invested in small business, or directed toward education or housing expenses, governments have a responsibility and an economic incentive to ensure that senders and receivers have better options and improved financial access.

Similar efforts should be aimed at the broader population as well, but remittances are a vehicle for embracing pro-poor financial development. They are formal transfers of resources *already* traveling through financial institutions to low income and disadvantaged segments of society in contrast with other mostly informal domestic income sources. Because the financial system – however marginal in terms of the availability of services – is already the main channel, these flows should be more conducive to policy, financial and technological interventions. From this platform, more suitable financial services for remittance receivers and non-receivers to can be developed, marketed and delivered.

Table 6. Remittances Are Saved And Invested Despite Economic Crisis

| Remittance-related spending, savings and investment based on \$2.7 billion in 2004 | | USD million |
|---|-----|-------------|
| Consumption | 60% | 1,620 |
| Education | 17% | 459 |
| Savings | 5% | 135 |
| Business investment | 5% | 135 |
| Property | 4% | 108 |

Source: Percentage of each remittance spent comes from Bendixen 2004 Survey "Remittances and the Dominican Republic". Amount of potential flow into various uses: author's calculations.

Beyond the benefits of savings mobilization, remittances help to ease credit constraints as an obstacle to growth. Using the Bendixen 2004 survey of the Dominican Republic as a guide, remittances may fuel as much as US \$135 million each in small-scale savings, small business investment and housing investment and expenses.

The potential proportion of remittances spent on education alone could be as much as US\$460 million in the Dominican Republic. Given the failure to achieve basic universal

¹ Central Bank, ENGIH-1998. Encuesta Nacional de Gastos e Ingresos de Hogares, 1998.

primary education, bring down high rates of illiteracy, and guarantee an adequate level of secondary and tertiary education even among countries at similar income levels,² it should be possible to link remittance-fueled education expenditures with national education policy goals.

Finally, remittances can be leveraged to improve access to financial and communications infrastructure. Although the communications infrastructure in the Dominican Republic is already among the most developed in the region, its widespread use in business processes falls far short of what would be expected given the high penetration and totally digitalized network.⁴ Building financial infrastructure to accommodate the more widespread use of remittances is consistent with technological modernization, one of the main goals of the recently elected Fernandez administration.

Remittance Data: Definitions, Sources and Improving Platforms

One of the missions of the Multilateral Investment Fund in the remittances market in Latin America has been to encourage data transparency and ensure that official estimates take into account the broadest range of possible data in arriving at an estimate. The MIF's successes in this area have caused upward revisions of remittance data in many countries, raising the profile of both the receiving countries and their compatriots sending money home from abroad. Because the development of financial products often requires large scale in order to extend their benefits to a wider range of users, raising the visibility of data has driven governments, financial institutions and civil society organizations to devote more resources to developing financial products for and marketing to remittance-receiving clients in lower income strata.

To establish a definition, workers' remittances are current transfers from migrants living outside their home countries, personal contributions primarily intended for income enhancement and consumption as opposed to movements of goods or capital in the national accounts. Although remittances represent movements of financial assets and sometimes goods, these are captured in the current account as transfers because there is no exchange of economic value entailed. It is a one-sided transaction, representing assistance rather than recognition of payment. Current transfers "directly affect the level of disposable income and should influence the consumption of goods and services."⁵ Transfer senders include any number of potential vehicles, including governments, public entities, overseas development assistance, private foundations and individuals.

² Suki, Lenora and Joaquin Vial. Meeting the Millennium Development Goals in the Dominican Republic: Identifying Critical Areas for Policy Action. The Earth Institute at Columbia University: New York, October 2003.

³ Project Appraisal Document on a Proposed Loan for the Health Reform Support Project. World Bank. June 5, 2003.

⁴ Kirkman, Geoffrey et al. The Dominican Republic: Readiness for the Networked World. Center for International Development, Harvard University. October 2002.

⁵ IMF Balance of Payments Manual 2002.

Data on remittance receipts in the Dominican Republic comes from three sources. First, the Central Bank receives daily transaction data from licensed remittance companies in the International Department. One shortcoming of the process of official data collection is that the process is not yet automated: some companies send transaction data by email, others by fax. Lack of full automation may compromise the quality of the data in the absence of tight supervision. More importantly, it restricts the amount of information that can be gleaned from these transactions. To address this shortcoming, the Central Bank is currently developing a new web-based technology platform that will allow it to collect more information about both senders and receivers, including the country of origin, internal geographic distribution, any commissions charged, and the foreign exchange rate applied on deliveries in national currency.⁶

The second source of data comes from the national household survey, also conducted by the Central Bank.⁷ This survey measures all sources of income, whether domestic or external, and systematically separates as a line item both workers' and social remittances.⁸ This survey allows for a detailed comparison of remittance receivers and non-receivers by income quintile, gender, sources of income, housing quality and access to services such as education, water and sanitation, among other variables. As a third but less productive source of data, the Central Bank uses tourism surveys on visitor spending, especially data related to spending by visiting Dominicans, to estimate remittances carried by hand.

On the sending side, unlike in the Dominican Republic, money transmitters tend to report aggregate transactions to their state banking department. In New York, for instance, the New York State Banking Department, which supervises money transmitters, receives quarterly activity reports and audited financial statements. These data may be scrutinized in the course of an examination by the regulators. Although these statistics may be used by the regulators to compile summary statistics and perform occasional surveys, the data are not part of the public record. Therefore, at least in New York, it does not appear to be possible at this point to triangulate flows received with those sent, nor can the geographic distribution from the sending side be determined with a great deal of precision.

Market Participants: Mostly Money Transfer Companies

As indicated earlier, the participants on the remitting side of the market are largely money transfer companies. Market participants are characterized by the following:

- Dominican “corridor” specialists such as La Nacional, Quisqueyana, BHD Corp. and Cibao Express exist because of the concentration of the Dominican community in New York City and the tri-state area (New York, New Jersey and Connecticut). In many cases, the same company owns both the remitting side of the transaction and the distributing agent.

⁶ Interview with International Department of the Central Bank of the Dominican Republic.

⁷ Central Bank, ENGIH-1998. Encuesta Nacional de Gastos e Ingresos de Hogares, 1998.

⁸ Social remittances are primarily payments from foreign governments, private individuals or institutions or non-profit organizations to people residing in the Dominican Republic. While this can be anything from prize money to humanitarian aid, in the Dominican Republic, this is mostly retirees receiving Social Security, pension payments or other public support.

- Western Union and MoneyGram are the only global institutions participating in the Dominican remittance market that can leverage global organizations, experience, technology, compliance and infrastructure. Anecdotal evidence suggests that Western Union and MoneyGram are the most, or only, accessible choices outside of the highly concentrated East Coast Dominican communities.
- Only one commercial financial group, Grupo BHD, a Dominican company, is participating in a significant manner on the remitting side. Even so, on the remitting side, BHD functions not as a bank but as a traditional money transmitter with the additional benefit that the receiving side distribution network includes BHD's bank branch and remittance distribution network. Although it is possible to wire money through Citibank, the bank has a negligible retail presence in the Dominican Republic.
- Online options also exist, both from global remitters and the mostly corridor transmitters. Recent entrants, Xoom.com and Ikobo.com, have begun to capitalize on higher rates of internet penetration among second and third generation immigrants. Outside major Dominican communities on the East Coast, these remitters may also benefit from the lack of options outside of MoneyGram.
- The list of remitting companies below does not include the armies of agents deployed by each company to sell its product.

Table 7. Very Few Products Are Offered Outside of Cash Money Transfer**Remittance sending institutions to Dominican Republic from NY**

| | Money transfer | Debit Card | Telecom | Cargo/ Pkg Svc | Shopping | Travel Agency | Online platform |
|---------------------------------------|----------------|------------|---------|----------------|----------|---------------|-----------------|
| Bancomer Transfer Services, Inc. | X | | | | | | |
| BHD Corp.** | X | | X | | | X | |
| Caribbean Airmail, Inc. (CAM) | X | | | X | | | |
| Cibao Money Transmitting Corp. | X | | | | | | |
| Envios de Valores La Nacional Corp. | X | | | | | | |
| Envios Abreu Y Collado (Remesa Agil) | X | | | | | | |
| Envios R.D. Corp. (Pronto Envios) | X | | | | | | |
| Mateo Express, Inc. | X | | | | | | |
| MoneyGram Payment Systems, Inc. | X | | | | | | X |
| Remesas Pujols Corp. | X | | | | | X | |
| Remesas Quisqueyana, Inc. | X | X | X | X | X | X | X* |
| RIA Telecommunications, Inc. | X | | | | | | |
| Vigo Remittance Corp. | X | | | | | | |
| Western Union Financial Services, Inc | X | | | | | | X |
| XOOM Corp. | X | | | | | | X |
| iKOBO, Inc. | X | X | | | | | X |

* Quisqueyana has its own online platform, in addition to powering those of AOL.com and Terra.com.

** BHD Corp. also allows money transfer into a BHD bank account in the Dominican Republic, as well as toward loan payments.

On the receiving side are the remittance distributors who manage the pay out process, the vast majority of which, approximately 80%, is home delivery. Distributors can deliver for a range of remitting firms which may not have a distribution network in addition to their own. In central areas, companies might have their own physical distribution network and messenger team. In rural and other outer areas, distributors engage paying agents. Often, one paying agent is working for many different distributors. On the distribution side:

- Money transfer companies are dominant once again.
- Western Union has an exclusive license with Remesas Vimenca.
- Large commercial banks are involved but marginal despite a well-deployed branch network.
- Quisqueyana delivers for its own transactions but also has a relationship with Banco Mercantil. Quisqueyana, Mercantil and Visa International produced a product called Cashpin, the only card product in the Dominican remittance marketplace.
- Commercial banks sometimes partner with a transmitter. Banco Popular Dominicano and Banco del Progreso distribute for MoneyGram through branches and ATMs.
- Envios Boya has a near-virtual business model distributing for traditional off-line and online companies, among which is Xoom.com.

Table 8. New Products Are Coming But Money Transfer Companies Dominate

Financial Institutions in the Dominican Remittance Market

| | Home delivery | Remit branch | Bank branch | POS | Card | Wire transfer |
|--|------------------|-----------------|----------------|----------------|----------------|------------------|
| Commercial Banks | | | | | | |
| Banco BHD/Remesas Dominicanas | X | X | X | X ¹ | | |
| Banco Commercial Santiago S A | | | | | | X |
| Banco de Reservas | | | | | | X |
| Banco del Progreso S A | | | X | | | X |
| Banco Mercantil, S.A. | X | X | | X | X | |
| Banco Popular Dominicano | | | | | | |
| Citibank, S.A. | | | | | | X |
| The Bank of Nova Scotia | | | - unknown - | | | |
| Banco Multiple León, S.A. | | | | X | X ² | |
| Banco Vimenca, C. por A. | | X | | | | |
| Development Banks | | | | | | |
| BHD PyME | | | | X | | |
| Associations | | | | | | |
| Asociacion de Instituciones Rurales de Ahorro y Credito ³ | | | X | | X | |
| MTOs | | | | | | |
| Remesas Vimenca | | X | | | | |
| Quisqueyana | X | X | | X | X | |
| Caribe Express /La Nacional | X | X | | | | |
| Cibao Express | X | X | | | | |
| Remesas Dominicanas | X | X | X | | | |
| Money Gram | X | X | X | | | |
| Remesa Agil | X | | | | | |
| RIA Express | X | | | | | |
| Mateo Express | X | | | | | |
| Pronto Envio | X | | | | | |
| Caribbean Air Mail (CAM) | X | X | | | | |
| Envios Boya ⁴ | X | | | | | |

¹ BHD's equipment will be intended to expand points of delivery although sales can be made from the credited amount.

²Banco León developed Coopcash with COSEFI for the rural credit unions. Banco León will also act as the processing bank for the MIF project with AIRAC.

³ In development

⁴Envios Boya is developing the option of buying foodstuffs and other consumer goods.

Products: Differentiation and Cross-Selling

Given that home delivery within hours dominates the distribution of remittances in the Dominican Republic, there is surprisingly little real differentiation in this market although there are a few notable exceptions, among which:

- Even though product offerings are more dispersed among the banks, there are still few value-added products in the market. The Cashpin card and the forthcoming BHD project to expand points of sale are the two most prominent efforts to differentiate. Cashpin, the only card product currently in the Dominican remittance market was developed jointly by Quisqueyana, Banco Mercantil and Visa International.
- Because the MTOs dominate the distribution side of the transaction with the home delivery product, there is little cross-selling.
- Commercial bank managers indicate in general terms that remittances would be considered one component of income in a credit decision rather than a type of collateral. This information is not currently included in credit reports from either of the two major credit bureaus, DataCredito or CICLA, whose reports show liabilities, references, credit history and other credit scoring indicators. Bank managers indicated that the ability to capture data showing a history of remittance receipts would facilitate the use of remittances as a positive factor in a credit decision. DataCredito indicated that their platform and presentation might be adapted to suit this.
- The forthcoming credit union project being developed by AIRAC, will have a higher level of functionality than that indicated in the table above, including a telecommunications card and internet commerce capacity. A card, Coopcash, already exists for members with Banco León operating as the processing bank.
- Vimenca, Western Union's exclusive agent, has built a range of businesses around its money transfer business, including a bank, a travel agency, package service and telecommunications services, among others. Apparently, less than 30% of Western Union transfer recipients have opened bank accounts in Banco Vimenca despite the company having implemented surveys to determine demand for cross-selling. Vimenca offered a debit card promotion, which received little attention. However, with only two branches both located in Santo Domingo, lack of accessibility may determine this in part.

Also, rather than offer new products, Western Union has focused on facilitating transactions and rewarding repeat business. Loyalty programs, giveaways and the WU card, which automates the pick-up process and removes the need for forms on each visit, have been offered to maintain customers.

- Telephone cards and other services, such as package services, are often sold more informally through remittance branches.

Cashpin

Remesas Quisqueyana, Banco Mercantil and Visa International offer the only card product available in the Dominican remittance market today. The card is managed as a Quisqueyana product with Banco Mercantil playing the role of payment processor. Cashpin is a rechargeable debit card, hand-delivered in the traditional way. Once the sender sets up the account, the card need only be activated by the receiver by phone. Value can be increased by both the sender and the receiver. The card is usable anywhere in the local or international Visa Electron network, as well as on the domestic ATH network. The venture generates savings because Mercantil performs the payment processing rather than purchasing outside services. As the processor, Mercantil retains a customer database and receives a fee for processing payments, as well as some degree of liquidity. Quisqueyana captures the spread on the foreign exchange and benefits from Banco Mercantil's bank platform on the receiving side, but its responsibility is to manage marketing and compliance risk. Customers pay fees at ATMs (DOP 6) but not at points of sale. Banco Mercantil's incentives are partially based on its history. As one of the banks intervened during the recent banking crisis, Mercantil suffered substantial withdrawals. The involvement in remittances may give Mercantil the opportunity to win back customers by cross-selling other banking products, but this will rely on marketing. Interestingly, this product may also escape the recent tax on electronic financial transactions because it is not attached to a bank account.

This product offers many benefits to the sponsor firms and the client. Because cards are pre-numbered, each card captures a unique customer ID to be used repeatedly, even with different remittance senders. With repeated use, the card maintains a record of information on its use – frequency of remittance receipts, usage locations, number of senders, etc. Sending a card rather than cash, Quisqueyana handles no cash and requires no insurance. Also, because there is only one delivery, there are no transportation/delivery costs following the first receipt.

The following table illustrates a much higher degree of product cross-selling and differentiation in other remittance-receiving countries, for example:

- A wider range of institutions participates in the remittance market in other countries. In Mexico, participants include commercial banks, money transfer companies and public sector banks. In Haiti and Ecuador, microfinance institutions are capable of receiving remittances. The World Council of Credit Unions has also developed a regional platform in Central America and the Caribbean.
- Products in other countries focus on providing a range of low or even zero cost services. Programmed savings and special credit products are also offered by Banco Solidario in Ecuador. Groupe Banque Populaires in Morocco provides insurance and educational services for migrants.
- Governments have also been innovative in seeding new initiatives. The “Tres Por Uno” state-sponsored matching grants in Mexico are well known as are other efforts to promote hometown associations. Mexico's PROFECO proves a useful point about government's role in promoting transparency in the remittance market.

Table 9. Examples of Product and Institutional Differentiation in Other Remittance Receiving Countries

| | DR | Mexico | Ecuador | Others |
|---------------------------------|---|---|---|--|
| Financial Institutions | Money transfer companies Two commercial banks (one primarily as processor) | Commercial banks, money transfer companies, public banks | Banco Solidario, Microfinance Institution | Groupe Banques Populaires, a majority state owned bank in Morocco, FONKOZE, a Haitian MFI WOCCU, World Council of Credit Unions |
| Financial Products | Home delivery, Cashpin Forthcoming point of sale expansion by BHD | | Emigrant Support Program, low cost remittance transfers, low cost short and long term credits, dollar savings account called "Mi Familia, Mi Pais, Mi Regreso | Groupe Banques Populaires offers zero cost transfers through joint accounts, low cost wiring services, MoneyGram at no additional cost, subsidized credit for investments, insurance plans and cultural-educational services for emigrants. FONKOZE (Haiti) offers fast and low cost remittance transfer services. WOCCU launched the International Remittance Network, using a network of its members to provide remittance transfers between the U.S. and El Salvador, Guatemala, Honduras, Jamaica, Mexico and Nicaragua. |
| Partnerships | Quisqueyana/Banco Mercantil | | Spanish savings banks | FONKOZE -City National Bank of New Jersey WOCCU- Vigo Corp. (a major MTO) |
| Financial Innovation | | | | Banco do Brasil used the flow of future remittances as collateral to issue US\$300 million worth of 5-year maturity bonds. Banco Coscalan in El Salvador offered US\$50 million in remittance bonds. |
| Technological Innovation | Online sending Point of sale expansion | | | |
| Government Action | Central Bank data platform Comer Es Primero | "Tres por uno" state sponsored matching grants for HTAs. "Adopta Una Comunidad", HTAs invest in local projects in Guanajuato PROFECO, Consumer Rights Watch, info. about prices/consumer rights. IDB-Nacional Financiera support returned immigrants to establish small businesses | | <i>Philippines</i> : New Heroes Bond, allows migrant workers to invest, while raising funds to support a plan of benefits for migrant workers. Pension fund for resettlement services and hospital for returning migrants. LINKAPIL, a government program, involves migrant workers into national development projects. Other incentives for senders: tax breaks, land purchases, investment options |

Source: Sander, Cerstin (2003), The International Migration Policy Programme, (2003), web sites of governments.

Transmission Channels: Cost and Funds Flow

The prices paid by the consumer for international money transfers are as much an expression of the competitive structure of the market as the nature of institutional participation in the market. The cost of sending money to the Dominican Republic has fallen dramatically compared roughly with the 8.3% average in June of 2003 reported by Orozco (2004). This may reflect more competition in the market, as well as lower currency volatility, which may also allow a tighter foreign exchange spread.⁹ The customer acquisition process, the flow of funds and data and the costly home delivery process all have an impact on price and margin.

Customer acquisition. The competitive structure of the local transmitters' market in customer acquisition plays a key role, especially in densely populated Dominican neighborhoods in New York. In Washington Heights, where there are multitudes of options for sending money, the informality of the market plays to the strengths of some companies relative to others. Social networks may drive customers to one transmitter versus another. Even so, we found evidence of fierce price competition.

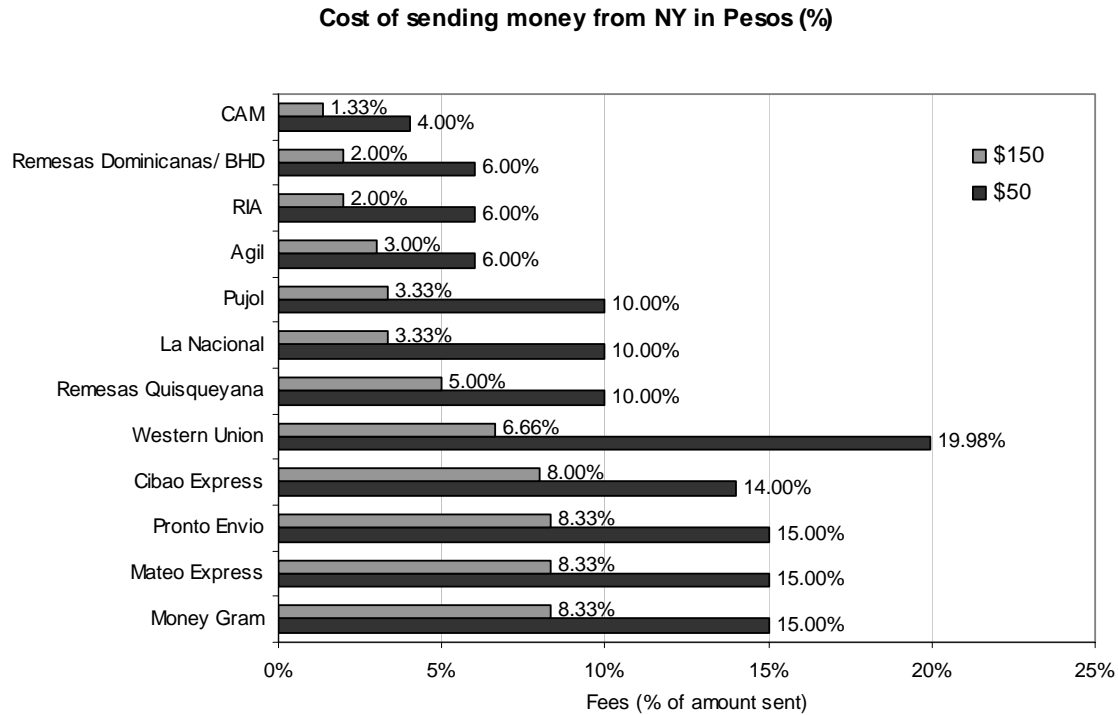
The range of prices captured in this survey illustrates the following conclusions:

- Pricing is determined partly by the size of the transaction. As a percentage of the sent amount, small transactions (less than \$100) can cost as much as two to three times the cost of sending a larger amount (over \$150).
- Certain companies are competing aggressively in New York, offering transfers for \$2-\$5. Others – large firms and geographic specialists such as Cibao Express – have kept prices high. Brand loyalty may allow some prices to remain high.
- Sending in local currency, the large range of prices – from 1.3% to 8.3% - seems inconsistent with the homogeneity of the product. There may be “hidden” product differentiation based on social networks. Some companies clearly have more market power; this may be a result of large networks of well-placed agents or customer loyalty.¹⁰ Certain companies may also be engaging in predatory pricing to take advantage of this particularly stressful period of market evolution.

⁹ Over the course of 2003, the Dominican peso depreciated from 17.66 peso/USD on January 1, 2003 to 35 pesos/USD and reached as high as 43.82 in November 2003. This year, although the peso weakened to as much as 50 pesos/USD in February due to political turmoil and scarce liquidity, the currency has been strengthening relatively steadily since the spring. Liquidity is improved and trading volatility has declined.

¹⁰ Cibao Express, for example, seems to retain loyalty by associating itself with the north central region of the country. The company asserts that its location in Santiago, the second largest city in the Dominican Republic, allows it to maintain customers who send to the Cibao region. They also feel that their location gives them a logistical advantage that makes their service more reliable outside of the capital and, more generally, in rural areas of the country.

Table 10. Some Money Transmitters Offer Low Prices But Price Range Is Large

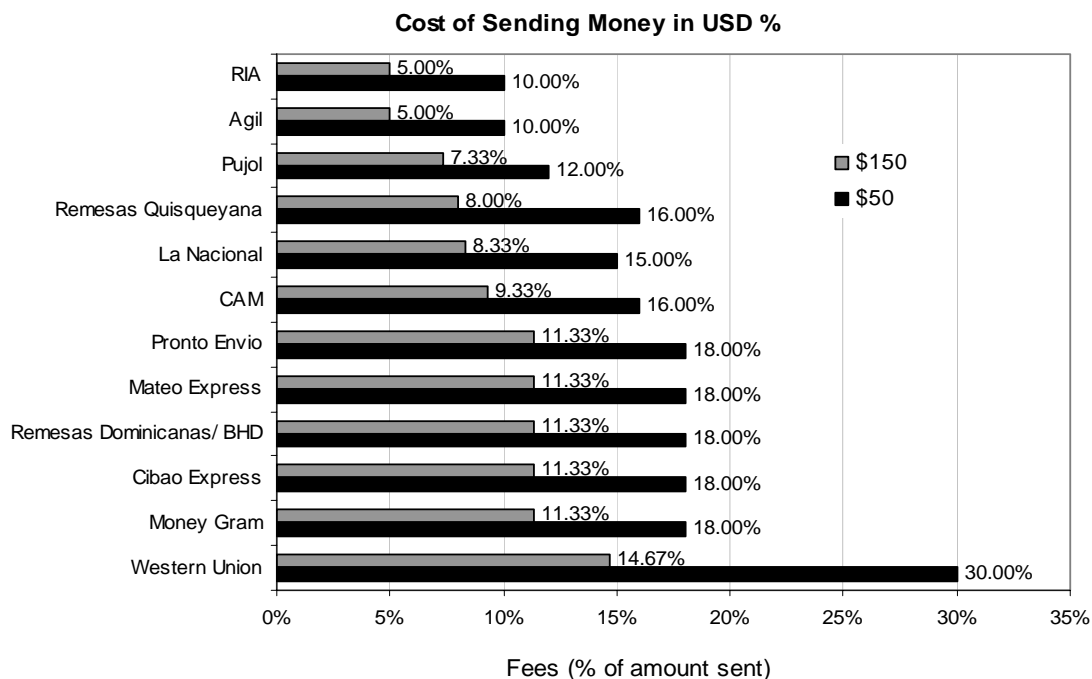


Source: Survey conducted on November 12, 2004

- Our conclusion based on multiple interviews is that the global companies, Western Union and MoneyGram, do the bulk of their Dominican remittance business outside of New York City although they maintain a retail presence in New York neighborhoods. Outside of the neighborhoods where the major corridor specialists operate, the relative lack of options for Dominicans sending money home makes them a captive market for global companies whose charges can be three to six times as high as the most competitive money transfer company in the market.
- The cost of sending US dollar remittances can be three to five percentage points higher than remittances in local currency. Many interviewees indicated that the proportion of transactions ordered in US dollars had risen to at least 50% of receipts from approximately 30% in 2003. This differential pricing may be a response to the higher demand for dollar transfers.

Money transfer companies in part prefer local currency transfers because they lose the foreign exchange spread when customers order US dollar transfers. They also insist that it is expensive for them to hold dollar inventories, that they cannot borrow to finance their disbursements of dollars (forcing them into the spot market) and that higher regulatory scrutiny is associated with US dollar transfers. As a result, money transfer companies in the Dominican Republic have been advocating for a change in the Central Bank regulations to allow delivery only in local currency.

Table 11. Money Transmitters Prefer Not To Disburse in Dollars



Source: Survey conducted on November 12, 2004

- Because so few banks participate in this market, they were not a major focus of our inquiries. However, Citibank offers \$10 wire transfers account-to-account to the Dominican Republic. Bancomer Transfer Services, the money transmitter for Banco del Progreso, charges \$8 for any transaction from \$1 to \$1000 but operate only in Texas and California. Both are more expensive than other offerings. Citibank charges a well-publicized \$5 for transfers to Mexico.
- There is a remarkable homogeneity in the foreign exchange rate offered, especially in New York (Table 12). The Asociación Dominicana de Empresas Remesadoras de Divisas (ADEREDI) sets a reference rate for its members, and the high adherence to one rate may be a result. The organization insists that the industry does not attempt any monopoly or cartel power in setting this price. Rather, it insists that the reference rate helps members manage their foreign exchange risk resulting from the wide trading range of the peso over the last two years.
- There is less competition outside of New York for money transfers to the Dominican Republic (Table 12). Prices charged by the smaller firms can still be competitive in other markets, but the larger firms charge even higher prices. Western Union, for example, charges only \$10 for a \$150 transfer in New York but \$13.50 and \$15 in Massachusetts and Florida respectively.
- The online buyer gains the convenience of not having to visit a money transfer company, but buying online is more expensive. Most of these online transactions also do not offer US dollar disbursement.

Table 12. New York's Market Is More Competitive But The Price Range Is Large

| New York | | | | | | | | | |
|---------------|-------|--------|-------|-------|------|--------|-------|--------|--------|
| | Pesos | | | | USD | | | | FX NY |
| | \$50 | | \$150 | | \$50 | | \$150 | | 12-Nov |
| Money Gram | 7.5 | 15.00% | 12.5 | 8.33% | 9.0 | 18.00% | 17.0 | 11.33% | 25.75 |
| Mateo Express | 7.5 | 15.00% | 12.5 | 8.33% | 9.0 | 18.00% | 17.0 | 11.33% | 25.75 |
| Pronto Envio | 7.5 | 15.00% | 12.5 | 8.33% | 9.0 | 18.00% | 17.0 | 11.33% | 25.75 |
| Cibao Express | 7.0 | 14.00% | 12.0 | 8.00% | 9.0 | 18.00% | 17.0 | 11.33% | 25.75 |
| Western Union | 10.0 | 19.98% | 10.0 | 6.66% | 15.0 | 30.00% | 22.0 | 14.67% | 25.75 |
| Quisqueyana | 5.0 | 10.00% | 7.5 | 5.00% | 8.0 | 16.00% | 12.0 | 8.00% | 25.75 |
| La Nacional | 5.0 | 10.00% | 5.0 | 3.33% | 7.5 | 15.00% | 12.5 | 8.33% | 25.75 |
| Pujol | 5.0 | 10.00% | 5.0 | 3.33% | 6.0 | 12.00% | 11.0 | 7.33% | 25.85 |
| Agil | 3.0 | 6.00% | 4.5 | 3.00% | 5.0 | 10.00% | 7.5 | 5.00% | 25.75 |
| RIA | 3.0 | 6.00% | 3.0 | 2.00% | 5.0 | 10.00% | 7.5 | 5.00% | 25.75 |
| BHD | 3.0 | 6.00% | 3.0 | 2.00% | 9.0 | 18.00% | 17.0 | 11.33% | 25.75 |
| CAM | 2.0 | 4.00% | 2.0 | 1.33% | 8.0 | 16.00% | 14.0 | 9.33% | 25.75 |

| Massachusetts | | | | | | | | | |
|---------------|-------|--------|-------|-------|------|--------|-------|--------|--------|
| | Pesos | | | | USD | | | | FX MA |
| | \$50 | | \$150 | | \$50 | | \$150 | | 12-Nov |
| Western Union | 8.5 | 17.00% | 13.5 | 9.00% | 10.0 | 20.00% | 18.0 | 12.00% | 26.50 |
| Money Gram | 7.5 | 15.00% | 12.5 | 8.33% | 9.0 | 18.00% | 17.0 | 11.33% | 25.75 |
| Quisqueyana | 5.0 | 10.00% | 7.0 | 4.67% | 8.0 | 16.00% | 12.0 | 8.00% | 26.60 |
| Pronto Envio | 5.0 | 10.00% | 4.6 | 3.07% | 9.0 | 18.00% | 17.0 | 11.33% | 26.50 |
| La Nacional | 2.0 | 4.00% | 2.0 | 1.33% | 4.5 | 9.00% | 4.5 | 3.00% | 26.50 |
| CAM | 2.0 | 4.00% | 2.0 | 1.33% | 0.4 | 0.72% | 0.7 | 0.45% | 26.50 |

| Florida | | | | | | | | | |
|---------------|-------|--------|-------|--------|------|--------|-------|--------|--------|
| | Pesos | | | | USD | | | | FX FL |
| | \$50 | | \$150 | | \$50 | | \$150 | | 12-Nov |
| Western Union | 9.0 | 18.00% | 15.0 | 10.00% | 10.0 | 20.00% | 18.0 | 12.00% | 26.50 |
| Money Gram | 7.5 | 15.00% | 12.5 | 8.33% | 9.0 | 18.00% | 17.0 | 11.33% | 26.50 |
| CAM | 0.5 | 0.90% | 0.8 | 0.50% | 0.8 | 1.60% | 1.4 | 0.96% | 26.50 |

| Online | | | | | | | | | |
|---------------|-------|--------|-------|--------|------|--------|-------|--------|-----------|
| | Pesos | | | | USD | | | | FX Online |
| | \$50 | | \$150 | | \$50 | | \$150 | | 12-Nov |
| Money Gram | 15.0 | 30.00% | 20.0 | 13.33% | | | | | 26.00 |
| Western Union | 9.0 | 18.00% | 15.0 | 10.00% | | | | | 26.50 |
| Cashpin | 7.5 | 15.00% | 12.5 | 8.33% | 9.0 | 18.00% | 17.0 | 11.33% | 26.50 |
| XOOM | 5.4 | 10.74% | 11.4 | 7.60% | | | | | 27.50 |
| Ikobo | 3.0 | 6.00% | 9.5 | 6.33% | | | | | 25.40 |

Source: Author's survey conducted November 12, 2004. The Central Bank's published rate to buy dollars on November 12 was 27.50

The particular dynamic of New York's money transmitter industry comes from the widespread use of agents to capture customers in a variety of neighborhood small businesses. Depending on the strength of the company and the bargaining power of the agent, an agent can capture from 50% of the commission to the entire amount of the fee. Terms of the agents' agreements with money transfer companies are not known, but agents can determine prices in an informal, ad hoc manner. Certain agents apparently wield more market power with the strength of their social networks and their ability to acquire and maintain customers. Furthermore, some agents market product for more than one money transmitter.

So prominent is this feature of the market in New York that an investigation into costs was conducted by the New York City Department of Consumer Affairs in 2003.¹¹ A field team visiting nearly 90 locations in three New York City communities - Washington Heights, Sunset Park, and Jackson Heights – found a “varied cost of sending \$500 to the Dominican Republic ... with prices ranging from \$5 - \$38 and transmission time ranging from ‘a couple of hours’ to ‘not more than 24 hours.’ Further, the report shows that many local agents often develop prices ‘on the spot.’”

Transfer of funds. Modern communications infrastructure and computer technology allow money transmitters to guarantee delivery the same day, often within hours. The chain of funds confirmation, clearing and settlement, however, can take three to five days. This financial and operational challenge makes its way into the cost structure and funds flow, as does the changing regulatory environment. The actual transfer of funds by money transmitters is capital intensive as a result. The lack of short-term financing to cover the gap between disbursement and the actual credit of funds requires money transmitters to place large reserves of capital in receiving institutions against which to disburse, allowing funds to be paid long before physical clearing and settlement occurs.

Same-day payment happens because of rapid data movement. Payment instructions pass from the agent who collects the money to the money transmitter in the United States who then generally sends payment instructions electronically or by fax to the distributor in the Dominican Republic, who then authorizes and disburses physical payment within hours of receiving the original instructions. These payments are generally made from an existing reserve of capital drawn down against a declining balance.¹²

Although physical disbursement happens within hours, the actual process of clearing and settling takes longer. Payment instructions for a large number of remittances, often all the payments accumulated within the course of a day, are aggregated. These data and payment instructions travel via the money transmitter's bank in the United States to the distributor's bank in the Dominican Republic for settlement.

¹¹ New York Department of Consumer Affairs press release. “DCA report finds inconsistent prices, no disclosure, and unclear regulation of money transfer industry.” October 20, 2003. www.nyc.gov/html/dca/html/pr_remittances.html.

¹² The amount of the declining balance depends on the flow aggregated over a given period of time, and this arrangement is determined by the distribution agreement between the money transmitter and the distributor.

In fact, funds do not necessarily travel physically from the sender in New York or California or Spain to the Dominican Republic. Money transfer companies in the Dominican Republic generally keep the foreign currency received in their offshore accounts, selling the foreign currency to Dominican importers. This gives them a second source of foreign exchange income.

Nonetheless because of the three to five-day lag between money transmission and settlement, money transmitters face foreign exchange risk, settlement risk and counterparty risk.¹³ Many companies would finance the lag with short-term revolving credit, but the ability to do so was severely curtailed to prevent money transmitters from taking leveraged speculative positions in the currency. The new regulatory framework, discussed in a later section, does allow short-term financing with certain limits as well as open currency positions. As a result, the money transmitter must reserve a large amount of capital for disbursement, the opportunity cost of which is high in the absence of liquid money market instruments, especially if some portion of that reserve must be denominated in dollars.

Money transmitters complain that they are now being forced to confront the additional challenge of navigating bank account closures, which raises operational costs. Certain commercial banks in the United States, responding to heavier supervisory scrutiny of banking relationships with money transmitters, have reportedly begun closing money transmitters' accounts in the United States. The outcry from the money transmitters' industry has asserted their valuable role in the immigrant communities they serve where traditional banking models have failed to take root. Some are even claiming conspiracy – essentially that banks wishing to enter the money transfer industry benefit from choking the competition.

Distribution of funds. The preferred mode of distribution in the Dominican Republic – home delivery – is likewise costly. One option for recipients is to retrieve funds in the branch of the money transfer company or the bank to which the funds have been transferred such as Banco BHD, Banco Popular or Banco del Progreso. The more used option is home delivery, which accounts for approximately 80% of receipts. In no other country in the region has home delivery reached such popularity. Money transfer companies on the remitting side can contract with distributors (banks or money transfer companies), and distributors such as Remesas Dominicanas (a division of Grupo BHD) or Quisqueyana effect the delivery through their own network of messengers and paid delivery agents. Outside the urban centers, paying agents dispersed throughout the country are often used by multiple money transfer companies.

¹³ The foreign exchange risk comes from the fact that the transmitter contracts a transaction at a certain rate, but the rate may be different on the day when settlement occurs. Settlement risk comes from the multiple channels through which the funds must pass. Any problems with payment instructions along the way creates delays in final settlement. Counterparty risk is the risk that the money transmitter takes in transacting with other institutions – correspondent banks primarily – that may default on payment. Agents on the sending side may create counterparty risk by defaulting on payments. Such instances have been experienced by MTOs, which terminated contracts with defaulting agents immediately.

This method of delivery is risky and costly in itself. With the economic crisis have come particular concerns about the security of the messengers and the recipients. The Dominican Republic imports energy, so high oil prices increase the cost of engaging couriers. The logistical intricacies require systems in themselves to optimize the use of couriers and minimize the time to delivery.

Nonetheless, the money transfer companies have gained a first-mover advantage by developing intricate delivery networks. In a competitive remittance receiving market, distribution is often characterized by a web of overlapping, non-exclusive delivery locations and agents, best described by Orozco (2004). In Mexico, for example, commercial banks have participated more intensively on the strength of their existing distribution networks.

In this case, the entrenched nature of the product is such that transition to another model may be lengthy. No individual money transmitter has an incentive to change the delivery model unless the cooperation of the others is guaranteed. The defector may not be rewarded but rather penalized in terms of market share for forcing customers to transition to card-based or banking-focused delivery models. With few exceptions, banks at this moment offer little more than a better exchange rate.

Accessibility

Accessibility is an important issue in financial sector development for the poor. Accessibility can indicate geographic proximity, institutions' hours of operation or even cultural identification. In the Dominican remittance market this is no less a factor. On the sending side, money transfer companies are far more accessible than banks in the city with the highest density of Dominican senders, New York. On the receiving side, nothing could be more accessible than home delivery.

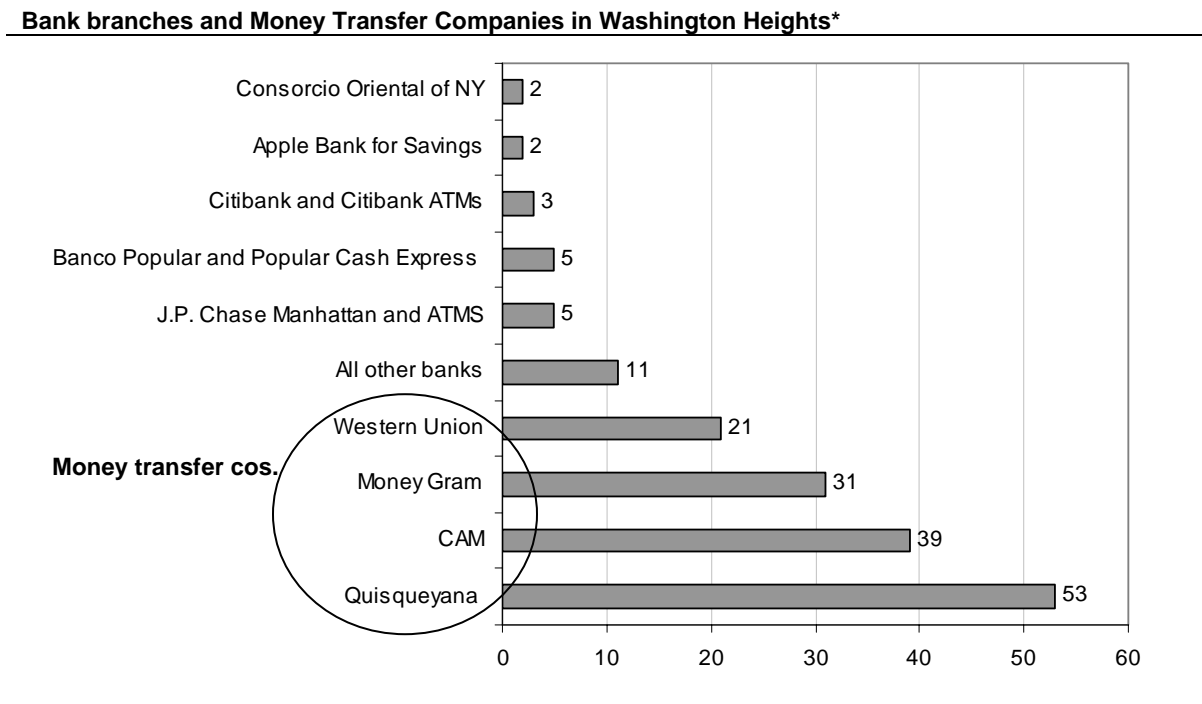
As indicated by Table 13, a quick survey of banking institutions in Washington Heights, roughly north of 145th Street, a neighborhood where a large proportion of the city's Dominican residents live, found twenty-eight bank branches of sixteen different banks, of which Chase Manhattan, Banco Popular (Puerto Rico) and Citibank accounted for thirteen. Furthermore, most of these are community savings banks and not universal banks like Chase or Citibank with international networks to transact cross-border transfers easily and cheaply.

Unfortunately, this does not compare well with the hundreds of agents marketing the various remittance companies products on every block in upper Manhattan, not just from money transmitters' own stores but also from the businesses that senders use most often. The total number of bank branches plus ATMs in Washington Heights equals the number of agents employed by one average money remitter.¹⁴

¹⁴ Few money transfer organizations would respond to our inquiry about the number of agents they employ in Washington Heights.

Cultural accessibility is another factor. Again, social networks may determine loyalty to a particular money transfer company. Our interviewees insist that their clients prefer to transact in an environment that is warm and inviting, where they share a cultural bond with the person with whom they are transacting.

Table 13. Few Banks Can Compete With Money Transfer Presence



*New York City zip codes 10031, 10032, 10033, 10039, 10040

On the receiving side, accessibility is even more important because of the large percentage of receipts delivered straight to the recipient's door. In fact, Bendixen's survey (2004) suggests that remittance recipients are less likely to have a bank account than those who do not receive remittances, suggesting that the disconnect between the physical receipt of funds and the location of the financial institution may have an even greater impact on disintermediation among recipients. Assuming that receivers can exercise some control over the mode and location of receipt, the geographic proximity of a branch or the ability to pick up a remittance in an office (as required by Western Union/Vimenca and Banco del Progreso) can determine an institution's ability to compete in the remittance market of the Dominican Republic, not to mention the possibility of mobilizing savings from these new potential clients.

This study attempted to evaluate the accessibility of physical bank branches in the Dominican Republic as well to determine how inconvenient it would be to receive remittances in a bank branch. We were able to locate in two maps (attached in Annexes) 764 bank branches throughout the country and 964 ATMs. This may in fact be an underestimate of ATMs as because Red ATH, the largest inter-bank network, indicates

that there are approximately 1200 automatic cash machines in the country, as well as 22,000 points of sale, a similar level of penetration as in Puerto Rico.

These services are concentrated in the most populated and commercially active areas, especially in the two largest cities, the capital Santo Domingo and Santiago in the North. Border provinces have little in the way of financial services. Remittance receipts also largely follow the distribution of the population: 35% of the population is rural, and 60%-65% of remittance flow is received in urban areas. Bendixen's survey suggests slightly better access as 73% of respondents in his survey report a bank close by.

Regulatory environment

Regulation in the United States. Regulation on the sending side from the United States has been more prohibitive than on the receiving side in the Dominican Republic. In certain cases, however, especially on the issue of consumer protection, pricing and the role of agents, its application appears uneven. Money transmitters are normally licensed, regulated and supervised by their state banking departments, whose requirements include some combination of a license, a bond and maintenance of a specified level of net worth or minimum capital. This oversight comprises both consumer and financial products supervision and criminal investigations. There is also federal oversight of the money transfer industry. Regulation has increasingly moved to combat money-laundering for illicit activities and the financing of terrorist activities since the mid-1980s, with these efforts intensifying after the September 11 attacks.

Despite the regulatory challenges, money transmitters have thrived and multiplied, especially around concentrated pockets of immigrant communities. In fact, certain money transmitters have adapted to the heightened supervision¹⁵ with the exception of the threat to their banking relationships. On the contrary, rising compliance costs and high capital costs may form a competitive barrier to the entry of new firms who would have to acquire and develop the technology, training and internal controls to meet these challenges.

In New York, where the highest concentration of Dominicans live in the United States, approximately 70 money transmitters are licensed. A money transmitter license from the New York Banking Department allows the company to send money domestically or abroad by wire, check, draft, fax or courier, as well as sell travelers' checks and sell money orders. Aside from the licensed money transmitters themselves, only banks and agents of the licensed money transmitter can participate in this market.

Although the money transmitter receives the license, agents perform the task of market mobilization by attracting customers to transfer money through their channel. At the end of 2003, according to the New York State Banking Department, there were

¹⁵ Many money transmitters assert that they are exceeding the most stringent compliance standards, going further than commercial banks would. For instance, MTOs claim that they must meet compliance requirements for *each* transaction whereas a bank would normally only perform one check upon opening an account. Many money transmitters insist that they have also set limits as low as \$2,000 as the trigger point for suspicious activity investigations of both sender and receiver.

approximately 21,000 agents in New York State, of which Western Union accounted for more than 10%.¹⁶ Although the licensed companies are regulated, the protocols guiding the relationship between the agents and the money transmitter are not clear. New York State Banking Law does not require agents to obtain a license to act as a money transmitter for the license holder under most circumstances.¹⁷ Nonetheless, an investigation by the New York City Department of Consumer Affairs Office found that the relationship between agent and licensed money transmitter is not always clear, reportedly resulting in a high degree of informality in the discretion commissions and exchange rates, as well as of agents on pricing, fees and foreign exchange rates.¹⁸

Consumer protection is one of the main goals of state regulation. To this end, obtaining a money transmitter license, among other extensive information requirements, requires the posting of a surety bond in every state where a license is held.¹⁹ These funds are normally deposited in a trust fund to compensate customers in the event of any counterparty's failure to pay on a money transfer contract.²⁰ Aside from these measures, consumer's rights in the realm of pricing and transparency have received less attention.

Following on the investigation of the New York City Department of Consumer Affairs, the State of New York Banking Department appears to have appreciated this shortcoming. Its priorities for the second half of 2004 were to include provisions for and clarifications of "standards for the use of agents and subagents by licensed money transmitters", as well as amendments "to establish new reporting requirements for licensed money transmitters in order to provide the Department with more timely information on the business activities and financial status of the licensees."²¹

At the federal level, several overlapping layers of regulatory scrutiny involve multiple agencies, including state departments in charge of criminal investigations and four delegate agencies of the US Treasury Department. These are the Internal Revenue Service, Office of the Comptroller of the Currency, the Office of Foreign Assets Control and the Financial Crimes Enforcement Network (FinCEN). The Bank Secrecy Act, the USA Patriot Act and various Anti-Money Laundering programs²² form the core of federal regulation and supervision. New York and transfers to the Dominican Republic have a

¹⁶ Cited in State of New York Banking Department speech, "Barbara Kent, Director of Consumer Affairs and Financial Products, Testifies at a Joint Hearing held by the New York State Assembly Committee on Banks and the New York City Department of Consumer Affairs on the Money Transmitter Industry." <http://www.banking.state.ny.us/sp031021.htm>

¹⁷ New York State Banking Law Article XIII-B.

¹⁸ New York Department of Consumer Affairs press release. "DCA report finds inconsistent prices, no disclosure, and unclear regulation of money transfer industry." October 20, 2003. www.nyc.gov/html/dca/html/pr_remittances.html.

¹⁹ This amount varies from state to state, partially depending on the size of the money transfer industry. In New York, the required bond is \$500,000.

²⁰ In 1977, New York established a State Transmitter of Money Insurance Fund to guarantee payment on uninsured transmitters who default on payments.

²¹ State of New York Banking Department's Regulatory Agenda for the Second Half 2004. www.banking.state.ny.us/regagend.htm.

²² See Bank Secrecy Act/Anti-Money Laundering in the *Office of the Comptroller's Handbook* dated September 2000.

particular history in this area, having been scrutinized carefully in 1996 and 1997 as a result of money transmitters' involvement in channeling drug money to Colombia.²³ More recently in 2000, a money transmitter failed on over \$700,000 in transfers to the Dominican Republic and \$1,500,000 in peso-denominated checks.²⁴

Money transmitters must have in place a program that includes the development of internal policies, controls and procedures, the designation of a compliance officer, an ongoing employee training program and an independent audit program to test the effectiveness of these measures. Under the Bank Secrecy Act, money transmitters must file suspicious activities reports for transactions of at least \$5,000 where the source of the funds is suspect and currency transaction reports for transactions of more than \$10,000. Some money transfer companies have adopted limits as low as \$2,000. Heavy penalties are exacted for non-compliance: In December 2002, Western Union received an \$8 million state fine for non-compliance and insufficient employee supervision, in addition to which the FinCEN imposed a \$5 million nationwide penalty.

²³ Investigations and legal enforcement actions linked money transfers of \$500 million per year to the Dominican Republic, causing the US Treasury Financial Crimes Enforcement Network to issue orders to cease certain transfer activities in this market (Press release of the US Treasury, Financial Crimes Enforcement Network, "Treasury Cracks Down On Remittances To Dominican Republic" September 4, 1997 at <http://www.fincen.gov/drgto.html>).

²⁴ Speech of Barbara Kent, Director of Consumer Affairs and Financial Products Testifies at a Joint Hearing held by the New York State Assembly Committee on Banks and the New York City Department of Consumer Affairs on the Money Transmitter Industry. <http://www.banking.state.ny.us/sp031021.htm>.

Table 14. Money Transmitters Face Multiple Layers of Costly Regulation

Regulatory bodies involved in money transfer industry

| | |
|--|---|
| State banking regulators | Responsible for licensing, consumer protection and financial products, as well as criminal investigations. There is some lack of clarity on examination and enforcement authority relative to federal agencies. |
| Internal Revenue Service | Delegated some responsibility for implementing and enforcing the Bank Secrecy Act, which sets reporting requirements on specific transactions. ²⁵ |
| Office of Foreign Assets Control ²⁶ | Enforces actions against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. Produces the OFAC list of all persons specifically identified to pose a significant risk to national security and the economy of the United States. All compliance functions must filter money transmitters through this list. |
| Office of the Comptroller of the Currency | Provides supervisory guidance advising national banks to perform careful due diligence of the accounts of money transmitters to control money laundering and reputation risks. ²⁷ |
| Financial Crimes Enforcement Network ²⁸ | Supports investigation and law enforcement efforts. Coordinates interagency and international efforts to combat money-laundering. Performs strategic analysis of trends in money-laundering as inputs for government and policymakers. |

*Regulation in the Dominican Republic.*²⁹ In many countries, foreign exchange restrictions and other obstacles in the regulatory and supervisory regimes pose challenges to the development of the money transfer industry. Lack of access to clearing and settlement systems can also be problematic, as can the high costs of compliance with regulations. In the Dominican Republic, in contrast, the regulatory framework on the receiving side does not appear to have been prohibitive.

Quite the contrary, not until the 1990's did the Central Bank even address the foreign exchange market. In recognition of the fact that remittance companies posed no systemic risk to the financial sector, their activities were relatively untouched, allowing rapid development of a first-mover advantage for a handful of dominant Dominican companies. In fact, because regulation of banks was historically stronger and more political, foreign exchange activity and remittance transfers evolved through specialized companies outside the major banks. These factors appear to have discouraged domestic commercial

²⁵ IRS Internal Review Manual. Part 4, Chapter 26, Section 3. <http://www.irs.gov/irm/part4/ch26s03.html>.

²⁶ <http://www.treas.gov/offices/enforcement/ofac/>

²⁷ Office of the Comptroller of the Currency Advisory Letter 2004-7. "Bank Secrecy Act/Anti-Money Laundering: Guidance on Money Services Business Customers." Office of the Comptroller of the Currency. June 4, 2004.

²⁸ <http://www.fincen.gov/index.html>

²⁹ Notes on regulation in the Dominican Republic come from various interviews and legal documents, including: interviews with the Central Bank International Department, interviews with representatives of the World Bank and the International Finance Corporation, review of the *Reglamento Cambiario* currently in discussion and the *Ley Monetaria y Financiera*.

banks from pursuing the money transfer business, as did the cost and complexity of customer acquisition within immigrant communities.

In official regulation, the Central Bank first recognized the development of a parallel exchange market in 1991 that allowed private actors to transfer workers' remittances (at this point, solely commercial banks).³⁰ In 1996, the foreign exchange agent was defined and created,³¹ and through this, the Central Bank now recognizes well over 100 foreign exchange agents and more than 20 remittance companies. With a rapid deterioration of the financial sector toward the end of 2002, the Congress approved the Monetary and Financial Law (Ley Monetaria y Financiera) to introduce a greater degree of predictability and transparency to the practice of monetary policy in the country.³²

Regulations and institutional rules are still being developed for the implementation of the Monetary and Financial Law. Among these, the Central Bank is currently engaged in consultations to produce a new regulatory framework for institutions involved in the money transfer industry. Because of the historic difficulty of separating foreign exchange and remittance transfer activity, this framework will govern both foreign exchange agents and remittance companies. The main points of the "Reglamento Cambiario" establish licensing requirements, minimum capital, the posting of a bond, approved services and activities and the choice of delivery currency, among other items.

Certain points of disagreement are being negotiated at the moment, of which the major areas of concern are the posting of a \$100,000 US dollar bond with the Central Bank and the choice of delivery currency. The Central Bank believes that in addition to minimum capital, the posting of a US-dollar denominated bond is necessary to ensure that money transfer companies adopt the policies and technologies necessary to formalize and professionalize the market, in particular those related to anti-money laundering precautionary measures. Money remitters represented by the industry association ADEREDI (Asociación Dominicana de Empresas Remesadoras de Divisas) balk at this additional capital requirement, seeing it as a residue of the Mejia administration's need for liquid foreign currency reserves and its jaw-boning of foreign exchange agents and commercial banks not to sell Dominican pesos at the worst of the economic crisis.

The currency delivery choice has also been contested since the Spring of 2004 when the Central Bank proposed that the receiver of the remittance should be able to choose whether the currency of delivery should be denominated in local currency or the sender's currency. ADEREDI has presented that the interests of its members would be damaged by any regulation that forces money transmitters to maintain inventories of a range of potential sending country currencies, claiming in particular that there would not be sufficient supply of Euros in circulation to meet demand. While ADEREDI has proposed

³⁰ Central Bank Monetary Board Resolution 17, January 24, 1991.

³¹ Central Bank Monetary Board Resolution 1, September 26, 1996.

³² The LMF's provisions include, among other items, publication of a monetary program, prohibition of Central Bank financing of government operations, auctions for open market operations and foreign exchange interventions, increased transparency in monetary and financial accounts, liberalization of the market for foreign bank entry, implementation of the Basel Accord and other prudential norms, and other measures to improve supervision, risk identification and the ability to consolidate and liquidate troubled institutions.

that delivery be allowed only in local currency to avoid the additional costs of managing multiple currency systems, money transmitters would also gain from their control of the foreign exchange spread on the transaction. As a compromise, the Central Bank seems to be leaning toward the stipulation that the remittance sender should determine the currency of delivery so that such decisions are privately determined. To the extent that the service of transferring money could be officially de-linked from the exchange of foreign into national currency, this regulation opens up further scope for competition from banks. There is already anecdotal evidence of this kind of competition from commercial banks offering prizes and improved foreign exchange rates to draw clients into exchanging their cash in a commercial bank.

The Central Bank also appears disposed to regulations that would give money transmitters somewhat more operational flexibility. Earlier in this report, the cost impact of regulations restricting that ability to obtain short-term financing and maintain limited open foreign currency positions over short periods of time was addressed. Historically by law, in order to discourage speculation in the foreign exchange market by money transfer companies, these entities were not allowed to finance their activities or to maintain open currency positions. The Central Bank has recognized that certain aspects of these regulations are difficult to implement and entail large costs for the money transmitters. These aspects of the regulation are still in discussion but the dialogue between the industry and the Central Bank appears to be productive.

Why Cash Is King

In the Dominican Republic, the most popular means of receiving remittances is through home delivery. Senders do not pay an extra fee for this service, as is the case in other countries. Rather, the cost has been bundled into the fee. Not only did the money transfer companies gain a first mover advantage in developing this product quickly and attending to the needs of an unbanked immigrant population in the United States, there are also powerful reasons for transacting in cash that impact low-income recipients proportionally more than middle- and high-income groups and cause further diversion away from electronic transactions.

The Dominican Republic remains mostly a cash economy with a large informal sector despite an advanced communications infrastructure and a developed inter-bank network of ATMs and points-of-sale (the Red ATH). For low and low-middle income families, the businesses they use most – small groceries, beauty salons, informal restaurants, etc. - are not connected to these networks. Nor have many of these people been offered access to financial services beyond basic savings accounts. Throughout the economy, the high value added tax (called the ITBIS) of 16% encourages service providers to underreport transactions by giving customers incentives to pay in cash. In addition, a recently imposed 0.15% financial transactions tax has dampened demand for electronic payment transactions. The recent crisis in the banking sector, in which three banks were intervened, as well as a volatile currency may have undermined confidence in financial institutions although large banks have reportedly benefited from a flight to quality.

Other less conventional and less easily confirmed explanations may add to a tendency toward the use of cash. The US Department of Justice has also highlighted the Dominican Republic as an important transshipment point for drugs and money-laundering, which rely on cash to disguise the illicit origin of the funds.³³ Finally, the issue of undocumented individuals in the Dominican Republic (as many as 500,000 people³⁴), most of whom are of Haitian origin, may also contribute to an unwillingness among the poorest in the Dominican Republic to be identified.

Increasing the Role of Commercial Banks

As already explained, commercial banks are not yet important participants in the money transfer business although the example of Citibank, Bank of America and Wells Fargo has attracted the interest of others. In the United States, commercial banks have not yet developed the ability to attract immigrants as clients, nor have they successfully built the retail culture to service a low- and low-middle income clientele.

Even so, the participation of commercial banks in the remittance market would appear to offer a number of benefits. The large commercial banks already meet the regulatory requirements necessary to participate in the remittance market because they have existing foreign exchange operations. In fact, banks on the receiving side stand to benefit increasingly from being able to channel remittances through their networks – from the liquidity and from the ability to capture the spread on the exchange. The larger banks'

³³ Drug Enforcement Administration. *The Drug Trade in the Caribbean: A Threat Assessment*. September 2003. <http://www.usdoj.gov:80/dea/pubs/intel/03014/03014.html#dominican>

³⁴ World Bank. *Dominican Republic Poverty Assessment*. Washington, DC: December 2001.

foreign exchange trading operations also offer the advantage of being able to transact in large size. They enjoy extensive distribution networks from which to withdraw funds. Their payment systems are fully automated. Larger banks should be able to cross-sell products such as savings instruments, housing loans, small business loans and investment vehicles. Because they have diverse businesses and international operations, some banks, especially larger commercial banks, can offer remittance services at very low costs, using electronic platforms. Also many banks may be willing to operate this business as a loss leader in order to attract clients to other services. Transfers and transactions may ultimately be made quickly and efficiently on ATMs and through online banking services.

Nonetheless, banks in the Dominican Republic are only hesitantly entering this business because of the dominant position of the remittance companies. The following efforts are currently in place:

- Banco BHD is the most serious attempt of a bank to capture the entire value chain of a remittances product and integrate it into a larger commercial bank structure. BHD is competing for a leading role but still offers distribution services for other money transfer companies.

In the United States, BHD Corp. collects remittances in 25 of their own offices in the US, 12 of which are in New York and 1 in New Jersey. BHD processes the transactions, performs the compliance, contracts with and monitors agents, collects their cash and transfers to the correspondent bank. To compete, BHD Corp. has aggressively marketed, priced the product and acquired agents.

In the Dominican Republic, BHD's distribution, already extensive due to both the offices and home delivery service of Remesas Dominicanas, aims to multiply its points of delivery with equipment driven by personal identification numbers (PIN) rather than cards.³⁵ BHD also plans to link remittances to its new PyME BHD venture to bank small and medium enterprises, offering key small and medium enterprises the opportunity to be a point of delivery for remittances. The downside from an information and technology perspective is that it prolongs by one step the transition from cash delivery to plastic, and unique consumer data may not necessarily be captured if each remittance transaction has its own PIN.

- Banco Popular Dominicano, the largest bank in the Dominican Republic with approximately 30% market share, is participating in the remittance market in a limited fashion in partnership with MoneyGram. Using MoneyGram branches, remitters anywhere can send funds to be received in Banco Popular branches or deposited directly into an existing Banco Popular accounts.

In the US, BPD Bank, whose major stockholder is Grupo Popular, the same financial group that owns Banco Popular in the Dominican Republic, plans to step into the

³⁵ Inter-American Development Bank/Multilateral Investment Fund. *Dominican Republic: Improving Remittance Distribution Channels In Support Of The Microenterprise Sector*. Donor's Memorandum.

market as a means of developing a new retail business in the New York tri-state area. The company's ultimate goal is to have a fully-banked client purchasing an inexpensive internet- or ATM-based money transfer for transmission to a fully-banked receiving account within the same banking organization in the Dominican Republic. Over time, ATMs with Windows-based software are expected to process repeat money transfer operations directly from one bank account to another. The bank asserts that it plans to compete aggressively with existing commissions and foreign exchange – going so far as to offer 1 free transfer per month - in order to build its retail business with customers who have an emotional connection to the brand but are not located within the neighborhoods most penetrated by existing money transfer companies. By forging an explicit connection with Banco Popular Dominicano in the Dominican Republic, BPD Bank also hopes to make use of its payment products, which include school payments and utility and phone bill payment. This strategy relies on the continued migration of Dominicans out of New York City and access to internet among second generation immigrants. Aside from the online payment platform, to be provided by PayQuik, this strategy will also require an intermediate stage with home delivery although BPD Bank plans to initiate its most desirable end product in less than a year.

- Banco del Progreso, which has approximately a 10% market share in the Dominican Republic and 64 branches throughout the country, is the only commercial bank in the Dominican Republic participating in the distribution of remittances with a global banking alliance. Banco del Progreso is first a shareholder in BBVA Crecer AFP (a pension fund administrator), which is owned by the large Spanish banking group BBVA. BBVA in turn owns Bancomer, one of the largest financial institutions in Mexico and a major participant in the Mexican remittance market. Through its partnership with BBVA, Banco del Progreso has partnered with Bancomer Transfer Services to attract remittance clients in the United States in California and Texas. Banco del Progreso is also distributing transfers for Money Gram through its branch network. Banco del Progreso only offers pay out in pesos and no home delivery.
- While Citigroup has aggressively participated in the Mexican market through Banamex, its limited infrastructure in the Dominican Republic (only 4 branches) would not lend itself to an aggressive market entry at this time.

In theory, banks should be able to provide cheaper money transfers, but so far only BHD can bear this out. Also, it is not yet clear whether these large institutions will be any more prepared to cross-sell financial products to this clientele. Among those Dominicans in this segment who are banked, most keep their modest reserves in a savings account to avoid transaction fees and minimum balances. With few exceptions, commercial banks pointed out the high expense of small savings customers managing their savings accounts as though they were current accounts – engaging in numerous small transactions, not using ATMs but rather entering a branch.

Commercial banks indicate that their ability to market additional value-added services, such as savings products, loans or other types of credit, to remittance recipients, will

require the achievement of a critical mass of customer acquisition, as well as a higher technology delivery mechanism, to bring down the average cost of the investment required to serve that client. In other words, if more clients used ATMs or online banking, commercial banks would be able to offer better products. Interestingly, although many of our interviewees insisted that Dominican remittance recipients are intimidated by ATMs or fail to use them because of low educational achievement, the Bendixen survey suggests that a high percentage of Dominican remittance recipients (81%) know how to use these automated service providers.

At this early stage, we would conclude that commercial banks' major incentive to involve themselves in the remittance market is to capture the foreign exchange flow. With the new electronic platform for foreign exchange trading, price determination is more transparent, but volume and size often determine the spread between bid and ask. The foreign exchange agent's dominance of this market has been ebbing, and the keen interest of the commercial banks in this business has been evident in various promotions noted by many of the interviewees to attract increased foreign exchange flow to the commercial banks. Outside of two incipient efforts – one by Banco BHD and the other by a partnership of Banco Mercantil, Quisqueyana and Visa International, there is little evidence thus far of a major commercial bank in the Dominican Republic pledging to develop value-added products based on remittances.

Table 15. Head-to-Head Competition For Foreign Exchange Flow



Source: Central Bank. * Year to date through November 14, 2004.

Most remittance recipients are probably not aware that their additional source of income could enhance their ability to access credit, but no participating institution at this point has the incentive to market that concept. The money transmitters would fear erosion of the door-to-door delivery market, and large banks on their own cannot offer cost effective value-added services without increasing scale rapidly. The personalized interventions that

these clients need to enter the banking system would be best handled by institutions with closer proximity to their clients, such as microfinance institutions, credit unions and savings and loans associations.

In the end, price is the best communicator of all. In the absence of additional price incentives and a point-of-sale expansion, the card-based product may not be any more compelling than a home delivery to a customer who is dubious of the marginal benefit of the new product and extremely satisfied with the current state of affairs. Unexpected charges can also cause customers to retreat from stored value card products. ATM withdrawals normally generate a fee whereas a point of sale transaction does not.

One means of measuring the commitment of a financial institution to transition away from cash remittance products is its willingness to operate a product such as a smart card as a loss leader – offering a tantalizingly low cost to lure customers to use the product, often with the aim of building a different profit line as a result. Although the incentives of large banks are not clearly aligned with a desire to extend their retail banking businesses to remittance recipients, having multiple business lines may make these institutions more willing to absorb the start-up cost of marketing and processing card-based payments.

Technology and Innovation in the Dominican Remittance Market

Technological innovation in the remittance market can take many forms – the expansion of points of service, the use of smart cards, the integration of ATM machines as points of delivery or online money transfer purchase, among many possibilities. In this market, innovations have been slow to arrive. Changing attitudes will require aggressive marketing and education on products and basic financial literacy.

Card-Based Products. As mentioned earlier, the most prominent card product in the market is Cashpin (see earlier text box for more details). Based solely on remittances, this card does offer a number of advantages, among which a large network of points of sale and delivery, the ability to recharge the card on either end of the transaction and the assignment of a unique customer ID that allows the institution to collect historical consumer data.

Expanding point of sale technology. One common complaint about debit cards by low and low middle income users is that they cannot be used in the small businesses they most often frequent, such as small grocery stores. A new initiative by Grupo BHD, financed by the Multilateral Investment Fund of the Inter-American Development Bank, will attempt to surmount this obstacle by rapidly expanding points of delivery and sale. Through 2005, BHD is expected to install approximately 500 new points of sale/delivery in strategic small businesses and service providers, as well as improving its branches' ability to dispense remittances. Under this program, beneficiaries of money transfers will be given a personal identification number (PIN) that allows them to retrieve their remittances and use them for payment in affiliated retail stores such as small groceries, beauty salons, pharmacies and cafeterias. Not only are these cash-based owner-operated enterprises hesitant to connect point-of-sale equipment, but also the electricity crisis in

the country, which causes frequent prolonged blackouts, has made it difficult to secure a power supply for this kind of equipment.³⁶ Furthermore, these small businesses often extend short-term credit to customers living in their neighborhood. Therefore, some recipients may immediately pay a portion of their remittance against an existing informal debt.

BHD's initiative is notable in bringing customers to a new venue to access their remittances and adopting new technology for delivery. The equipment being used can also be adapted to card use when customers are eventually transitioned to the use of more formal financial services. The one drawback from an information perspective is that each remittance transaction carries its own PIN, which means that unique customer activity is not being captured, nor is a flow of remittances for one person over a long period of time. Rather each remittance is being captured and saved as a separate transaction.

Internet-based remittance platforms. New entrants are also offering the ability to send money on an internet-based platform. Because companies save on investment in physical branches, they may be able to take advantage of more aggressive pricing. Xoom.com and Ikobo.com have recently begun offering service to the Dominican Republic. Quisqueyana offers online payment through its own site and two other popular sites – Terra.com and AOL.com. Western Union and MoneyGram also have online payment options. The new initiative of BPD Bank will also be based on an internet-sending platform.

Educational programs. There are as yet few initiatives that involve training and education for financial empowerment although remittance receivers (and others) should have better access both to financial services and to *information about* financial services. Although some proportion of remittance receivers is already using debit cards and ATMs to maintain small savings accounts, they may not know that remittances received over time could generate greater access to savings and credit products.

Effective Marketing of New Products. Beyond making financial education accessible, substantial marketing will be necessary to communicate the benefits of other modes of receiving remittances. Card-based products can tout several benefits to potential new users,³⁷ but companies will be more hesitant to invest in marketing products whose feasibility is in question. Public information campaigns to support the use of new technology may be an option, or individual companies can seek external funding.

Further Uses of Information Technology. Finance is an information intensive industry, and lack of information about borrowers raises their risk profile. Therefore, new technologies in the remittance market that capture unique client data can generate productive information economies that will be useful to all participating financial institutions. In particular, large banks tend to shy away from small and medium

³⁶ Apparently, small grocery stores considered for participation in the Comer Es Primero program discussed later in this paper had to have access to an alternative electrical supply, such as a generator.

³⁷ Among these benefits are security, privacy, modernity, control over purchases, immediate ability to make purchases, the ability to recharge the card both by the remitter and the receiver, a recognizable bank affiliate, a network of points of sale and the ability to replace a lost card.

enterprises because of the time and expense involved in resolving information asymmetries. Although the lending programs of development banks and microfinance organizations are tailored to such demands, even these institutions can benefit from technologies that allow access to new kinds of customer information.

PayQuik, for example, is a company that offers a technology and business product to money transfer companies. The PayQuik platform integrates both on-line and off-line money transmitters and bill payment companies. Regulatory compliance is internalized into the system. This system can capture and present unique customer data, such as the frequency and amount of remittances over an extended period of time. This kind of data is indispensable for structuring financial products based on observed consumer behavior. In addition, networks of institutions can share a common platform for executing money transfer and other transactions.

Technologies to increase functionality in intermediating remittances also have promising applications. For example, AIRAC plans to connect remittance receipts with internet commerce and telephone cards. Envios Boya offers bill payment and the ability to purchase foodstuffs. Banks in the US are investing in ATMs running Windows-based software that can execute international money transfers on the spot.

Government Policy and Innovation for Senders and Receivers

‘Comer Es Primero’ and Debit Cards. Since its inauguration in August 2004, the incoming government has been primarily focused on easing hardships caused by the severe economic crisis of the past year. One current government program, *Comer Es Primero*,³⁸ could help bring disadvantaged groups closer to the financial mainstream with the use of rechargeable smart cards storing key information about the beneficiary. Initiated by the Fernandez administration under the supervision of the office of the Vice President and the Social Cabinet, smart cards are being used to distribute government subsidies for food and, starting in 2005, liquid gas.

Because beneficiaries must use a bank-issued debit card, the poor are being targeted and documented. Equipment to use the debit cards is being installed in the small groceries frequented by subsidy recipients. In the pilot, six thousand families receive a monthly subsidy of DOP 550 for a consumer basket meant to support one family. The amount received on the debit card will increase to DOP 3,500 within the next year as liquid gas subsidies are added. The government intends to expand this program rapidly – to 25,000 families by the end of the year and to 150,000 families by the end of 2005.

The program sets up a registry, the *Sistema Único de Beneficiarios* (SIUBEN), to collect and record a range of eligibility data for participating families. A database with economic information about the beneficiaries will be constructed to store the information of participating families and help determine eligibility parameters. Reportedly, this database

³⁸ Various sources including local newspapers *Listin Diario*, *El Caribe* and *Diario Libre*, as well as Perspectiva Ciudadana website (www.perspectivaciudadana.com) and conversation with Susana Gamez, Social Cabinet Advisor to the Vice President.

also includes data on whether the household receives remittances. Establishing this system will involve registering and granting identification to the large number of undocumented individuals in the country (approximately 20% of the population). A website will also post the names of the participating families to ensure transparency in the distribution of these subsidies. Each family will receive a personal debit card that allows them to buy food at participating shops. The government is discussing the possibility of allowing the card to be used to access other government social services, including subsidies for liquid petroleum gas (LPG), health services, employment and training. The only criteria for potential beneficiaries of the program are to hold Dominican citizenship and have an income at or below the poverty line. Subsidies will be financed with the support of the World Bank, and the Inter American Development Bank and the Food and Agriculture Organization will provide technical assistance.

The benefits of integrating more Dominicans into the formal financial sector through this program are diverse. Not only will this program encourage the use of debit cards by the beneficiaries. It should also create a demonstration effect, as those who do not use the cards become accustomed to seeing them used. In addition, the increase in purchases at small stores where the beneficiaries buy food may help to encourage these shop owners of the financial benefits of connecting their businesses to electronic transaction networks. A Dominican newspaper, *Listin Diario*, reported that two food shops associated with the program sold RD\$180,000 worth of goods in the first 3 days of the pilot program, leaving their shops out of stock.³⁹

Community Reinvestment Act and Money Transfers. Government action on the sending side is moving toward improving the transparency of the money transfer industry and bringing the unbanked into the mainstream. In fact, financial sector regulators in the United States have looked favorably upon the concept of including remittance services in the Community Reinvestment Act as a retail service that is key for low and low-middle income households. However, for favorable consideration, the provision of this service must “access or expand a customer base that may not have used traditional banking services in the past. In addition to being a retail service under the regulation, remittances services may also qualify as a community development service if they increase access to financial services by low- and moderate-income persons (for example, by being offered with a low-cost account).”⁴⁰

In September of 2004, Senator Hilary Clinton of New York agreed to co-sponsor legislation entitled the International Remittance Consumer Protection Act, introduced by Senator Paul Sarbanes of Maryland.⁴¹ This legislation would extend the principles of the Electronic Fund Transfer Act (EFTA) to remittance transfers requiring full disclosure of

³⁹ Listin Diario. “El programa ‘Comer es Primero’ es acogido con optimismo por moradores Los Guandules.” Santo Domingo: October 8, 2004.

⁴⁰ Interagency letter regarding consideration of international remittances services in a CRA evaluation. June 3, 2004. www.fdic.gov/cra/pdf/060304remittances.pdf

⁴¹ Website of Senator Hilary Clinton. “Senator Clinton Co-Sponsors Legislation to Help Immigrant Families Send Support Back Home.” www.clinton.senate.gov/~clinton/news/2004/2004930C03.html

all fees and exchange rates in accessible languages and formats, upfront pricing information including the amount of foreign currency that will actually be sent to the recipient as well as the total cost of the transfer (including all transaction fees and the exchange rate fee) in a single dollar amount, error resolution provisions and provisions which expand the ability of federally insured financial institutions to provide remittance transfers. The bill also has provisions for improving financial literacy.

Linking Remittances To New Clients, Products and Processes

The long-term promise of the Dominican remittances market depends on widening the circle of participants. This final chapter returns to the theme of accessibility, raised earlier in this report, and the success of financial products that are designed and delivered for their target clientele. The challenge is not only to bring remittance receivers into the formal financial system, but also to develop suitable instruments for the use of their remittances, to adopt technologies to maximize their potential and to orient business culture to the needs of this potential clientele. For large banks, this challenge will be greater than for smaller institutions that already operate in close proximity to and collaboration with their clients and members. Nonetheless, the table below illustrates that new partnerships and innovations are already happening at the margins of the market.

Table 16. Partnerships in Remittances for Financial and Economic Development

| Market Expansion | Information Technology | Community Development |
|---|---|--|
| Money Gram – Banco del Progreso Banco del Progreso- Bancomer Transfer Services Banco BHD – various MTOs Banco Popular Dominicano – Money Gram, BPD Bank Vimenca-Western Union Remesas Dominicanas- Cooperativa Vega Real AIRAC- Banco León Quisqueyana- ADOPEM | Xoom Corp.- Envios Boya Quisqueyana – Banco Mercantil Quisqueyana- AOL, Terra.com | Western Union – First Data/Western Union Foundation Money Gram – Habitat for Humanity, New York |

Source: Author's survey and interviewed institutions.

Another glimmer of light in the Dominican remittance market is a pipeline of projects and organizations that aim to link remittances to financial institutions outside the commercial banks. Institutions catering to micro, small and medium enterprises, as well as low and low middle-income families, are developing remittance-related products in the wings. Among these are the Multilateral Investment Fund's projects with BHD PyME

and AIRAC. An increasing range of financial service providers, including microfinance, small and medium enterprise (SME) banks, savings and loans and credit unions, are interested in using their unique networks to act as paying agents. Remittances could then be connected explicitly to existing saving and credit products, as well as forming the base for products not yet part of current portfolios. While these flows could ease the financing constraints faced by these smaller organizations, adding new types of institutions to these networks – some of which are not currently regulated as financial institutions or within the main banking law framework - would necessarily increase the regulatory and supervisory burden on the state authorities.

Microfinance. More than 350,000 micro- and small enterprises were estimated to be operating in the Dominican Republic in 1999, creating 1,000,000 jobs or 30% of the economically active population.⁴² Although only a handful of organizations operate in the Dominican microfinance industry, 16 organizations had approximately 61,000 clients in 2002 and a total portfolio of about US \$29 million.⁴³

Unfortunately, upward mobility is unusual. Microfinance institutions (MFIs) in the Dominican Republic are considered non-governmental organizations and are not empowered to accept deposits. Few local sources of funding for either microfinance institutions or small business exist.⁴⁴ They have been extremely vulnerable to the macroeconomic deterioration of the past two years and changing government administrations. Finally, there has not yet been a national effort to build a pro-poor financial strategy. Remittances could support the activities of microfinance institutions by creating a new payment channel for clients and by creating a fee-based profit center from which to finance their own operations. At this point in the evolution of microfinance in the Dominican Republic, these institutions face regulatory and capacity constraints that will probably require them to first act as agents of existing participating institutions in the market. This may be one promising means for commercial banks to develop a niche participation in the market.

Promoting MFIs as participants in this market could offer certain advantages to the microfinance sector, to the government and to remittance recipients. The costs of this expansion would primarily fall to the regulatory and supervisory authorities. Microfinance institutions are already disbursing funds for small loans and working with the poor. Their existing programs would allow them to leverage their network and geographic reach to assist remittance senders and receivers in gaining access to low cost financial services, as well as access micro-saving and investment products. Because of their intensive direct communication with their borrowers, microfinance institutions may likewise be an effective channel for financial education.

⁴² Ortiz, Marina. *Microempresas, Globalización y Servicios Financieros en la República Dominicana* (1998-1999). Santo Domingo: FondoMicro, 1999.

⁴³ Findley, Andrea. *Market Survey of Microfinance for Grameen Replication in the Dominican Republic*. Grameen Foundation USA, November 2002.

⁴⁴ Local financing comes primarily from FondoMicro, a second tier microfinance bank, and PROMIPYME, the government sponsored promotion program. PROMIPYME program finances small businesses, not MFIs.

The enabling environment for connecting remittances and microfinance in the Dominican Republic requires attention, especially in terms of regulatory hurdles and capacity constraints of the organizations themselves. First, there appears to be uneven access to the national payments and clearing settlement system, which is also not yet fully automated in the Dominican Republic. Second, MFIs in the Dominican Republic are not able to take deposits. Therefore, although they may promote savings, they cannot offer savings products. Because financing is so scarce, NGOs in the Dominican Republic typically focus on clients who are less risky, who can provide collateral, have already established business and can bring in a guarantor.⁴⁵ Microfinance in the Dominican Republic may not readily increase access to rural populations. Of the 61,500 clients in a survey conducted by Grameen Foundation USA, only 23% are considered rural.⁴⁶ Finally, the sustainability of MFIs as channels is unclear. While certain institutions are sound and professionally managed, the Grameen Foundation report notes a general lack of management and operational capacity, as well as a hesitancy to invest in technical assistance for lack of financing.

Banking for small and medium enterprises. Banks serving the small and medium enterprise sector are a more promising financial channel for remittances. Demand for credit from small and medium enterprises in the Dominican Republic has grown rapidly. As a few organizations have distinguished themselves for their strong portfolio performance and professional management, these institutions could easily expand and enhance existing services and businesses through remittances already being received by their clients. The institutions interviewed for this research are integrated into the national payments and settlements infrastructure and sometimes already offer access to electronic point of sale networks. Although they would not be capable of directly acting as money transfer organizations, which requires a license as a foreign exchange agent, they could potentially partner with other institutions as disbursement agents.

PyME BHD: Banco de la Pequeña Empresa, created from Banco BHD's acquisition of Banco de la Pequeña Empresa in fall of 2004, is another bank targeted at financial services for small and medium enterprises. Banco de la Pequeña Empresa, started by Fondo Micro in 1997, was established as a development bank to increase the availability and quality of financial products for micro- and small entrepreneurs. In 2002, its credit portfolio reached RD\$122,150,000 with over 4,000 borrowers. Management is targeting the growth of its portfolio from RD\$230,000,000 to RD\$2.6 billion in five years offering a range of products include credit lines, loans and savings products such as CDs.

PyME BHD's credit portfolio will focus on the Santo Domingo area, positioning offices in industrial and commercial zones to be nearer its core clientele of small entrepreneurs. PyME BHD will also offer these clients access to Banco BHD's diversified services through its 70 branches. In addition to pursuing the growth of its own credit portfolio, PyME BHD will participate in BHD's initiative to channel remittances deliveries through points of sale and points of delivery rather than home delivery. Not only are a substantial proportion of small businesses already financed by remittances, but many of them would

⁴⁵ Ibid.

⁴⁶ Ibid.

be suitable distribution points. PyME BHD plans to participate in this initiative by integrating these new distribution points into its financial network, increasing these businesses' access to financial services.

ADOPEM, an affiliate of the Women's World Banking Network, is embarking on a strategy to integrate remittances into its current business lines in partnership with Quisqueyana. The institution is professionally managed, offers personalized services, utilizes an internal credit methodology and has embraced technology in its operations. ADOPEM recently converted to a development bank, in the Spring of 2003, when it also acquired Banco de Desarrollo del Valle. By December 2002, ADOPEM had extended 36,700 credits in total providing Dominican women credit for micro- and small businesses, as well as training, as a means to economic empowerment and integration into the formal financial sector. ADOPEM also offers individual loans for business investment, working capital and housing, as well as savings products. A measurable reliable stream of remittances could help secure many of ADOPEM's products and services, among which those targeting families in extreme poverty and struggling businesses that lack collateral. Because ADOPEM's capacity-building training programs for management and vocational skills are well-known and well-attended by microfinance professionals, this type of organization might be a promising partner for delivery of programs related to the productive use of remittances within the context of financial education. Their adoption of Palm handhelds for mobile credit portfolio management illustrates readiness to take advantage of information economies in their portfolio. ADOPEM's vision is to further leverage remittances into micro-health insurance, programmed savings, home improvement loans and other products.

Banco Ademi,⁴⁷ the largest and best-known of these institutions, converted from a credit organization to a development bank in 1998. As of December 2003, Banco Ademi had around 26,400 active lending clients and around 40,000 savings clients. Approximately 40% of its clients are women, and 60% of the portfolio is in small commercial businesses in industrial and service-related industries. Ademi is a member of The Global Network for Banking Innovation in Microfinance (GNBI), a network of Women's World Banking that brings together 21 prominent financial institutions to exchange experiences and promote partnerships. Ademi currently has no program to link remittances to its products. However, to the extent that an estimated 50%-60% of Ademi's clients already receive remittances, Banco Ademi's credit and savings products could be further marketed to those who receive remittances. These products include credit for working capital, fixed investments and consumer and housing loans, as well as savings accounts and products such as certificates of deposit. Banco Ademi's mission also includes technical and administrative capacity building and consulting at no additional cost. Utility payments and sales of phone cards are also offered to clients.

Credit Unions. Credit unions in the Dominican Republic, which are estimated to have approximately 500,000 members, have likewise illustrated an interest in using remittances in novel ways. The Asociación de Instituciones Rurales de Ahorro y Crédito, the union of financial cooperatives in the Dominican Republic and representative at the

⁴⁷ Banco Ademi. *Memorial Annual 2003*, meeting with management and Findlay 2002.

World Council of Credit Unions (WOCCU), began its activities in 1983 as a pilot project to provide full financial services to rural areas. Today AIRAC consists of 14 local savings and loan cooperatives with 56 branches in 20 provinces. Its 137,000 individual members have 47,000 credits outstanding and 129,000 savings accounts. Comprising 80% of the assets and portfolio of all national cooperatives in 2003, the reach of this organization also translates into a large pool of remittance receipts amongst its members, approximately USD \$250 million. As a result, AIRAC will be able to offer both existing products and new services that meet the needs of Dominicans both abroad and at home, among which savings accounts and housing loans.⁴⁸

The MIF's recent agreement to support AIRAC's strategy in remittances will focus on lowering transaction costs, increasing remittance flows and credit union membership, extending small business capital to recipients, and increasing awareness within the Dominican community abroad about productive uses of remittances. Because rural poverty is over 50% in the Dominican Republic, AIRAC's geographic reach aims at promoting productive use of remittances in less accessible areas, as well as poverty reduction and rural development.

AIRAC already embraces the technology and information opportunities of this venture. Member cooperatives already receive technical assistance and training in modern banking technologies. The organization regulates, supervises and provides financing to its members. The system of cooperatives also benefits from back office and system support services from COSEFI (Corporación de Servicios Financieros y Alianzas), which has developed a debit card called Coopcash in alliance with Banco León. These cards connect participating cooperative members to the Visa network, domestically and globally.

Savings and Loans Associations. Savings and loans associations would be another entrée for remittances into community-oriented lending. Asociación La Nacional de Ahorros y Préstamos (ALNAP), the institution interviewed for this study, is a union of 18 local associations, has 28 branches and access to the country's two major ATM networks. Among their clients, the same lower middle income groups who receive remittances, 90,000 ATM cards are being used, suggesting that this is a constituency that does not need to adapt to the use of debit or stored value cards for the receipt of their remittances. With ALNAP's proximity to its client base, its full range of products and its embrace of technology, the institution's existing platform would be ideal for remittance-based products. Clients have access to a range of existing savings and credit products, including programmed savings, savings for education, several home loans with long repayment terms, and consumer loans for education and health services, among other options. ALNAP's diverse bill payment function has also attracted employers, who pay salaries through ALNAP stored value cards. ALNAP also has a credit card. In addition, ALNAP's electronic banking platform became the basis of the government's program *Comer es Primero*, discussed earlier in this report.

⁴⁸ Multilateral Investment Fund. "Dominican Republic: Development of Financial and Business Services For Remittance Recipients (Tc-03-04-04-2-Dr) Donors Memorandum."

Recommendations for the Government of the Dominican Republic

Integrate remittances explicitly into existing government efforts to modernize the financial system and to build better relations with the Dominican diaspora. The current government of President Leonel Fernandez has a historic opportunity to take a leadership position in this issue. Both financial and technological modernization and strengthened relations with the diaspora are among this administration's central objectives. Countries in Asia have participated actively in the lives of their migrants, offering incentives to save, invest and return, with positive impact on their domestic remittances markets. The government can participate by:

- actively promoting and encouraging the creation of matching fund schemes and investment and savings options;
- providing assistance through consular offices to encourage migrants to gain access to documentation and financial services;
- clearly designating institutional responsibility to develop the most important aspects of this topic, including transparency and competition, expansion of banking services to remittance recipients and identification of communities with low access to financial services; and
- by using public banks such as the Banco de Reservas as a means of offering low cost money transfer services to migrants.

Build transparency in the remittances market. Following the example of Mexico's CONDUSEF, the government should publicly post information about options for money transfers, including names of institutions, types of products, and costs, in addition to making consumers aware of the power of their remittances to leverage other financial services. The Central Bank or Banking Superintendency can also publish the foreign exchange spread between the interbank rate and the contracted rate with various money transfer companies.

Open negotiations to develop a Central Bank Automated Clearinghouse (ACH) system with the US Federal Reserve. The development of an ACH system between the US Federal Reserve Bank and the Central Bank of Mexico is credited with giving smaller banks the ability to offer low cost money transfer products to customers. Although the time to credit an account is slower than current products, costs would be substantially lower. Furthermore, transfers are not subject to fees on card products that are often experienced on the receiving side.

Improve access to financial literacy and basic technology training. Investments in training for computer and financial literacy among low income groups should over time lower resistance to alternative methods of remittance delivery while helping ensure that remittance recipients recognize productive possibilities for the use of their various income sources.

Improve data sources, methods of collection and public access to data. The Bendixen 2004 survey has already illustrated the large difference between official remittance data

and actual transfers. The current project to automate the collection of remittances data may help to improve Central Bank data, but capturing a larger percentage of flows requires increased effort in supervising reporting from participating institutions.

Systematically analyze the impact of remittances in the Dominican economy and society. Given the magnitude of the flows, it should be pressing on the government to quantify the impact of remittances on human and economic development – on incomes and poverty, hunger, public health and access to health services, housing and shelter, educational achievement, gender equality and small business development. The government should also highlight data on remittances in disadvantaged and underserved populations to underscore where services are lacking.

Improve the regulatory and financial sector framework by being responsive to the needs of the industry. The Central Bank is already engaging in dialogue with the remittance companies in the Dominican Republic to ensure that their concerns are being considered in the new regulation. We would encourage further face-to-face dialogue to improve coordination between the Central Bank and the money transfer industry, to increase transparency in the operations of the participants in the industry and to improve the quality of data being collected from these institutions.

Recommendations for Financial Institutions in the Dominican Republic

Seek to benefit remittance senders and recipients directly through existing value-added financial services. Commercial banks who wish to participate in the remittance market should go beyond offering incentives to implement foreign exchange. Many banks already offer insurance, small business loans, mortgages, investment vehicles and pensions products to Dominicans abroad through accounts that they maintain in the Dominican Republic. Such offerings should be expanded to a wider audience of existing remittance senders.

Sponsor incentives and financial education programs to encourage financial responsibility and empowerment, as well as adoption of technology based services. Commercial banks stand to gain from teaching clients about the right way to use technology. In the United States, commercial banks are sponsoring programs to offer education to young people and disadvantaged groups, as well as low-cost financing packages through community groups.

Community-based financial institutions should consider the broadest possible range of partnerships for customer acquisition. Savings and loans associations, credit unions and microfinance institutions should consider a range of partners in the immigrant communities within which they wish to market their programs for remittance senders, taking into account pricing, sustainability, technology platform, strength of marketing efforts, openness to alliances and geographic reach. Partnerships within existing customer acquisition channels, such as money transfer companies, in addition to civil society organizations or community banks, may offer the widest range of choices for

organizations wishing to build banking services on both ends of the remittance transaction.

Recommendations for the State and Federal Public Sector in the United States

Improve the monitoring of money transmitters for transparency and consumer protection. Supervision has been less focused on pricing, transparency and consumer protection than on criminal activity. The New York State Banking Department offers an exhaustive online survey of fees for checking accounts, ATMs and online banking at institutions throughout the state, broken down by geographic area.⁴⁹ Given the importance of the money transmitter and check-cashing businesses in unbanked communities, information on these services should also be posted online and in immigrant communities.

Promote a more open and inclusive dialogue with the money transmitters industry in the United States. Money transmitters in the United States, especially in high traffic and high risk areas like the East Coast, have accumulated decades of experience in achieving the same goals that US regulatory and law enforcement authorities would like to achieve. Their insights into the uneven implementation of existing regulations would likely enhance enforcement efforts at both the state and federal level.

Encourage public financial entities, such as the Federal Reserve and the FDIC, to expand financial empowerment initiatives for immigrants. Orozco (2004) provides the best examples of public sector financial entities contributing to the effort to bring Mexican immigrants to the formal financial sector in Chicago. The Federal Reserve Bank has long embraced the mission of financial education and literacy. The FDIC also promoted the consular ID as a document by which Mexican immigrants could be banked. Such activities are taking place in New York on an ad hoc basis. Determining a convening body to direct such activities would be productive.

Involve all stakeholders in the pursuit of more - and more transparent - competition in the remittance market. Money transfer companies currently fill an important role in the market that has been left unfilled by the banking industry. Given that the industry also offers employment within the immigrant communities they serve, the services offered by these companies must be taken into account in regulating the industry. The role of relationships with agents in pricing and competition should be examined. The money transfer industry should have the opportunity to participate in efforts to expand financial services to immigrants, both in the United States and in payment destination countries.

Recommendations for Overseas Development Assistance Agencies

Promote projects that integrate education, marketing and information technology adoption into remittance-related activities. The private sector may not invest in financial education if the benefits can be applied elsewhere. Commercial banks and non-traditional financial institutions may hesitate to enter a market that requires substantial investment in marketing. Non-traditional financial institutions, such as microfinance institutions or

⁴⁹ <http://www.banking.state.ny.us/bf.htm>

small development banks, would benefit from guidance on technology platforms to facilitate their participation in the remittances market and their ability to structure products based on remittance receipts.

Support customer acquisition and distribution of remittances, as well as product development, as a profit center for non-traditional financial institutions in receiving countries. International development institutions can help to leverage remittances for development and to increase competition by promoting the participation of microfinance institutions, savings-and-loans and credit unions in customer acquisition, remittance distribution and financial service design. Support can include activities such as facilitating universal access to national payments systems, upgrading of networks, developing marketing strategies, adapting credit methodologies and structuring new products (such as micro-insurance), among other activities.

Explore financial access among the poorest in the Dominican Republic and the capacity of the national payments system in domestic transfers. The large undocumented Haitian population working in the Dominican Republic suggests applications from this work for inter-country remittances. Also, given that regional economies have grown around the tourism industry and the free trade zones, lessons from developing improved capacity to intermediate international remittances might be adapted similarly domestic transfers. Finally, a geographic analysis of the intersection of poverty, remittances and the availability of financial services may help prioritize public investments in development banks, microfinance and rural development.

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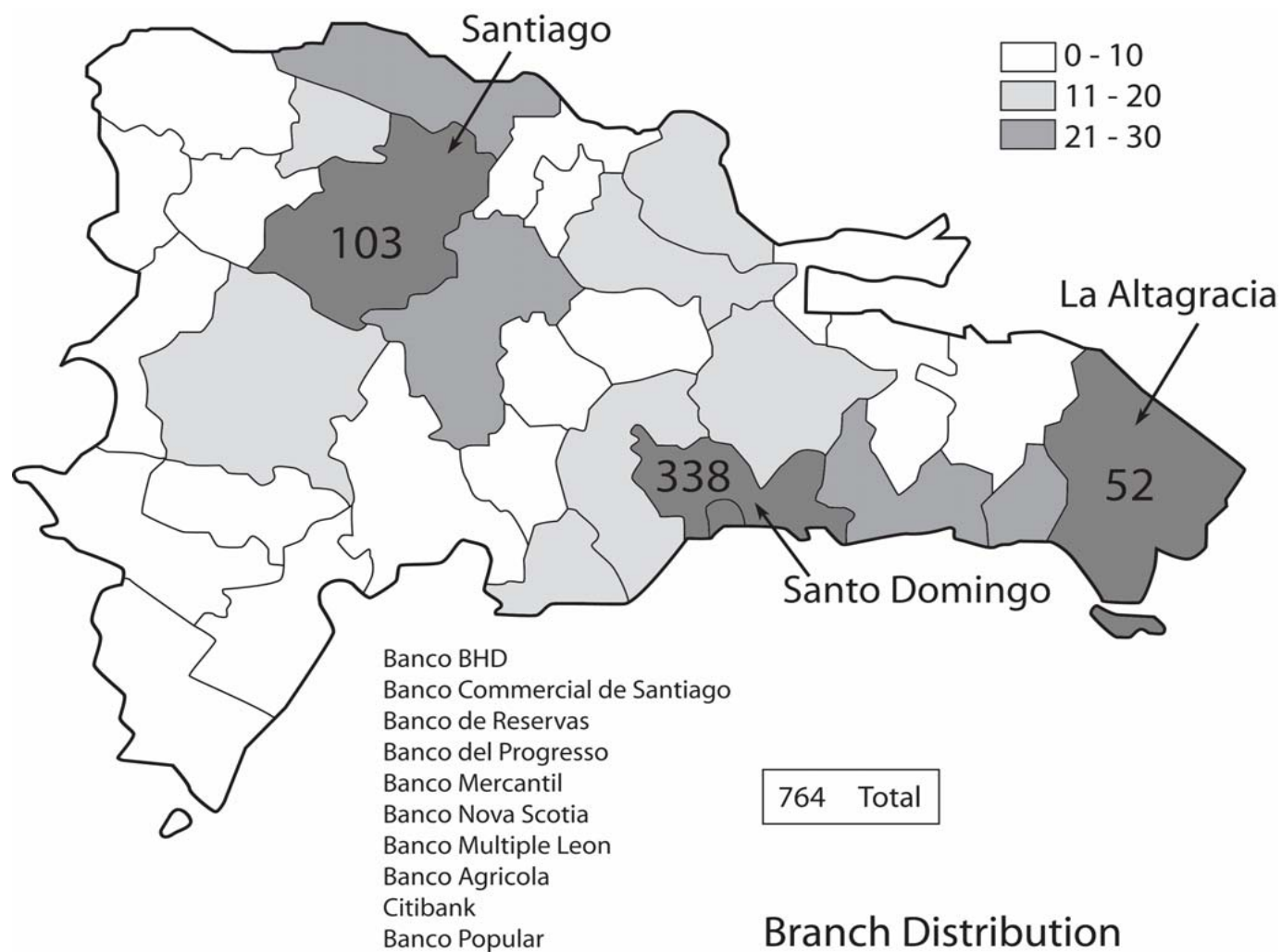
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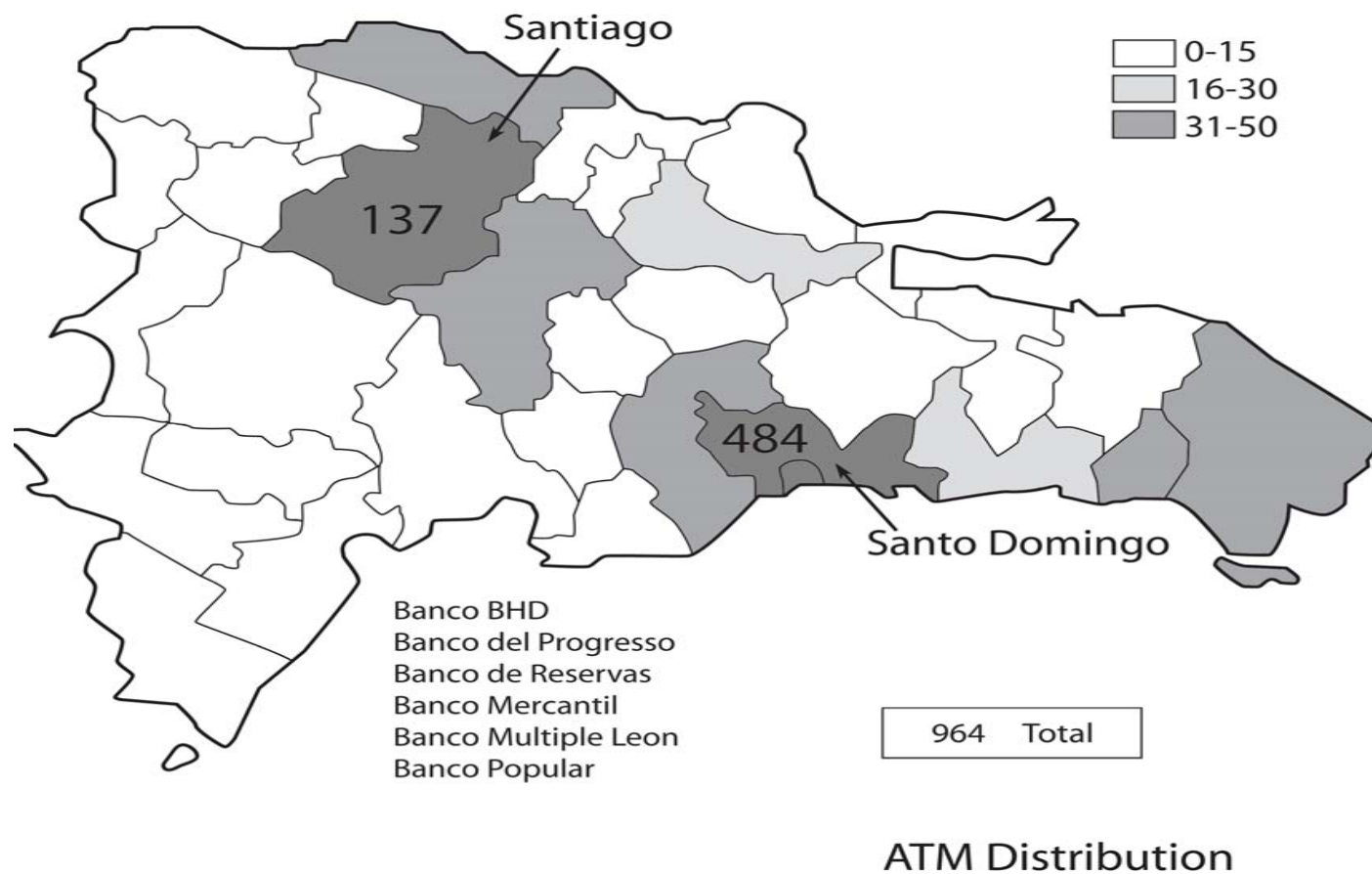
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Annex 1. Branch Distribution of Commercial Banks by Provinces



Source: Web sites of respective banks or information provided by the banks.

Annex 2. ATM Distribution of Commercial Banks by Provinces



Source: Web sites of respective banks or information provided by the banks.



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