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The future trends and patterns of remittances to Latin America


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In the past ten years growing interest on remittance transfers have put a lot of attention about the benefits of such transfers to households, the policy dimensions as well as the effects businesses have on the process of intermediation. As these issues continue to affect the economics of other countries and new practices have emerged, is important to identify what future trends and patterns seem to be taking shape.

This briefing attempts to identify those trends and pays attention to the future of flows and their direction, the role of market competition and prevailing challenges (such as cost, industry consolidation, banks and technology), and the relationship between development opportunities and the diaspora.

As the paper shows, the scope and intensity of remittances reflect a broader process of integration into the global economy that will further strengthen inter-hemispheric ties, while diaspora protagonism may rise over time. The paper also shows that as long as the flow continues and global transfers modernize, business competition and consolidation will continue markedly in the region. Moreover, while in the short term banks won't be an active participant in this market, a few of these institutions will continue to grow and achieve a stable position. Finally, the strengthening of ties between diasporas and their home countries is calling into attention the implementation of macroeconomic and development oriented policies that will redefine the nature of economics.

The report is based on interviews to government officials, business leaders in the industry, and data collected on current transfers and transnational dynamics.

1. The future of flows: a matter of scope, intensity, and globalization

The stream of remittances going to Latin America and the Caribbean has continued to grow year by year. The region, which receives nearly one-third of the global flow of remittances, is the top receiving area in the world. According to the IADB in 2002, remittances to Latin America amounted to some $32 billion—or about 2 percent of the regions GDP. This amount was also three times greater of what they were six years ago.

Remittances have more than doubled the total of all foreign aid going to the region, both from direct grants from national assistance agencies.

Table 1: Remittances, Investment and Foreign Aid to Latin America

	1996 (US$ millions)			2001 (US$ millions)		
	Remittances	FDI	ODA	Remittances	FDI	ODA
Mexico	4,224	9,186	287	8,896	24,731	75
C.A. region	1,819	1,102	1,827,780,0	3,567	2,018	2,095,9
Caribbean	2359	733	744	4526	2706	478
S.A. region	1716	9266	809	4021	8170	1047
	10,118	20,287	1,829,620	21,010	37,625	3,704

Source: Remittances, Central Bank of each country, Foreign investment and aid, World Development Indicators. ODA excludes loans from the World Bank or IMF.

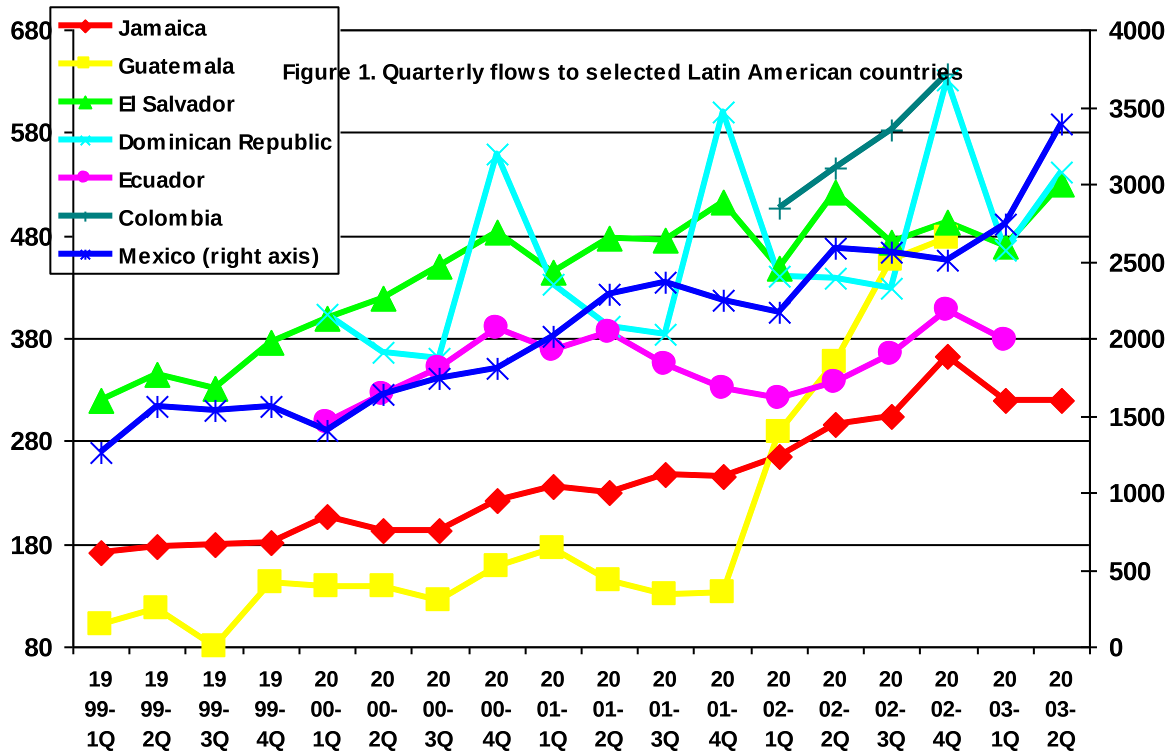
Remittances are important for Latin America as a whole. They are most significant, however, for the small and poor countries of Central America and the Caribbean.

Three major changes that are taking place in remittance flows refer to scope, density and process. In terms of scope, the number of countries remitting has increased, and so have their flows. The density of flows is also relevant, as a greater number of traditional recipient countries are getting substantive increases. Finally, remittances are suggesting being part of a broader process of economic interchange.

Scope

Despite economic and political hardship in the host countries, the flows continue to grow significantly. Flows have continued an upward trend among the main remittance recipient countries, despite continued recession and tightened immigration laws in the United States. None of these countries have registered mayor declines and their flows have not followed cyclical economic dynamics in neither the sender or recipient economies.

Moreover, more countries are receiving money from their migrant diasporas. The magnitude of these changes is observed in the increased flow into South America. For



example, in 2002 Mexico only represented nearly 1/3 of all remittances to the region against 50% four years ago. The significance of such flow is also reflected in terms of the volumes relative to the immigrant stock from each country and region.

Table 2: Foreign Born Latinos in the U.S. and Remittances to Latin America

Region	Population	(%)	Remittances	(%)
Mexico	9,177,487	57	10,502,000,000	33%
Caribbean	2,953,066	18	5,749,000,000	18%
Central America	2,026,150	13	5,555,000,000	17%
South America	1,930,271	12	10,202,000,000	32%
Latin America	16,086,974		32,000,000,000	

Source: U.S. Bureau of the Census; IADB estimates.

Three countries that have registered an increased inflow are Colombia, Venezuela and Argentina. The main reasons for these three countries have been economic and political at the same time, and have prompted a number of nationals to opt to migrate from their home countries in search of better lives and stability. The case of Colombia is illustrative of a growing trend by which the flow of money has surpassed all major sources of export revenue, oil included. Remittances to Colombia grew from half a billion in 1995 to over

two billion in 2002. Venezuela is also another emerging remittance receiving area as thousands of Venezuelans have been migrating since the past five years. Finally, the major crisis in Argentina has created a massive emigration to Europe (Spain and Italy) and the United States, increasing flows in dramatic numbers. Although the Central Bank of Argentina has not been able to understand the magnitude of the flows, at least 200 million are entering the country from the United States. One company alone is likely to be remitting from the U.S. about $US130 million.

Scope II: the 5Ts or transnational communities linking countries to the global economy
Within the framework of globalization, transnational networks have emerged from many factors including the consolidation of migration ties. These connections include immigrant based donations, small and large investments, trade, tourism and unilateral transfers.

The mobilization of migrant (and their relatives') savings and investments at home (in the acquisition of land, property, or small businesses) are spurring economic growth in areas traditionally neglected by the private and public sectors, especially in rural locations. Moreover, the communication among and between households have generated dramatic revenue flows to businesses in the United States and Latin America, as seen, for example, in the increasing demand for telephone services.

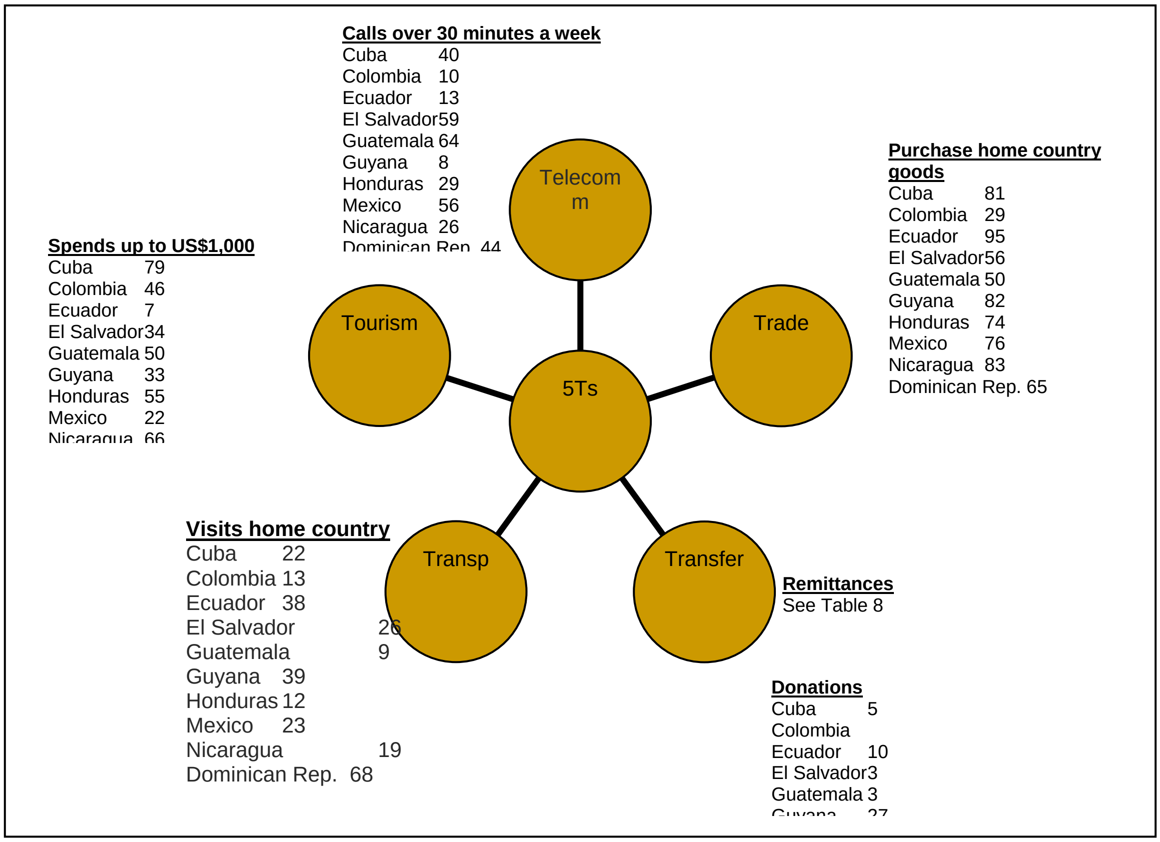
These transnational migration patterns, or the 5Ts (family remittances, tourism, transportation, telecommunication, and nostalgic trade), pose important policy questions about the relationship between transnationalism and development. These relationships are becoming more relevant for development.

Because of continued migration, there exist transnational families within the context of transnational communities; the latter defined as groups or families that maintain relations

and connections that include home and host societies.[1] These relations and contacts refer to the needs and obligations, preferences and values that an individual or group attaches to their life.

These practices have an economic context among typical families with bi-national or transnational nature.

Figure 2: Percent of people who call home, visit and spends money when travels, buys home country goods and sends remittances and give community donations



[1] There are a range of definitions, for example, "groupings of migrants who participate on a routine basis in a field of relationships, practices and norms that include both places of origin and destination" (Lozano 1999)

Equally important is the extent to which these transnational practices are integrating their countries into the global economy. Mittelman (2000) explains that the current anatomy of the global political economy is “a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes.” Mittelman stresses “that heightened competition among and within regions, mediated by such micropatterns as ethnic and family networks, accelerates cross-flows of migrants” (2000). In turn, this cross-flow of migration produces economic effects in the labor exporting country.

Do these micropatterns have effects in the home country’s economic growth? Does the movement of people become an indicator of economic development? The flow of remittances suggests positive answers. Furthermore, when other characteristics of the 5Ts are included in the analysis, the impact may be greater than previously expected.

For example, Central America and the Caribbean have sought to integrate themselves into the world-stage through four dynamics: non-traditional exports, the *maquiladora* phenomenon, immigration, and tourism (Orozco 2002; 2003). As a result, Central America has ceased to be an exclusively agro-exporting region known as an “after-dinner economy” (i.e., an exporter of coffee, sugar, and rum) as it has diversified in at least these four areas.

Table 3: Central America in the Global Economy, 2002 (in millions of US$)

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	1775	1995	735	600	206	2044
Merchandise Exports (not including maquiladora)	2960	3287	1344	582	5352	719
Maquiladora	373.8[a]	543	546	102.2[a]	1221.8[a]	1875
Official Development Assistance[b]	225	234	677	928	2.15	105
International Tourism	606	254	251	157	936	2609
GDP	22476	14598	6683	2498	16652	21000
R+X+A+T/GDP	26%	43%	53%	95%	46%	35%

Sources: Inter-American Development Bank, country profiles. ODA: World Bank 2003, "World Development Indicators CD-ROM"; CEPAL 2002. [a]Maquila numbers refer to 2000. [b]data for 2001

In the majority of countries in the region, almost half of the national income depends on these four factors, which at the same time has had a multiplying effect on other areas. Within the context of migration, however, little is known about the effects of the other components of the 5Ts.

Central America's economic interdependence is operating in part as a function of migrants who reside abroad and serve as the primary source of tourism for countries like Honduras, Nicaragua, and El Salvador. Immigrants generate much of the demand for air travel to the region, and they make their telephone calls to relatives account for the majority of U.S.-Central American telecommunications. The resulting revenue from many of these countries may represent between forty and eighty percent the total revenues in telecommunications or airline travel. They are also the ones who transfer at least $5 billion annually in remittances. These are the four Ts of Central America's integration into the global economy. A fifth T is trade, or nostalgic commerce, which will be of even greater importance after the negotiation of liberalized trade with the United States.

Intensity: deepening flows—Guatemala, Peru

The flows are also growing in intensity. Two countries in which such patterns is observed in Guatemala and Peru. Guatemala had a major increase from six hundred million in 2001 to 1.6 billion in 2002. A similar case is observed in Peru, where remittance flows grew from seven hundred million to 1.1 billion. A large part of the explanation to this grow refers to the statistical improvement in tracking these flows. However, the increase is reflected in the increased market opportunities for money transfers and the fierce competition attracting new customers and niches.

In a series of projections made by the Pew Hispanic Center, Lindsay Lowell stressed that "because transfer costs will continue to decline in an increasingly competitive market, it

is more likely that per capita remittances will continue to grow. Both the medium and high projections assume that the market will “shake out” in the next five years, after which the level of per capita remittances reached will remain fixed into the future.” The author concluded that a most preferred projection is one that will show an annual increase in remittances of over 8 percent.[2]

These projections were looking at transfers to Mexico and Central America, but if the emerging flow from South America and the increases reported in some countries is added to the equation, the growth potential for the hemisphere will be superior to what Lowell predicted, indicating a significant trend in the long term with higher variations in some countries.

2. Market intermediation: prospects and dynamics

While the growth in remittances signals a pattern of continuity, the dynamics of the industry in this market show equally important trends. Competition as well as pressure from various government and international institutions has helped reduce transaction costs. Four years ago the cost of sending remittances to different Latin American countries averaged about 15.0% of the amount. Those transfer costs have declined. In 1999, for example, Western Union charged $22.00 for transferring up to $200.00. By 2001 that charge had dropped to $15 and in 2003 dropped again to $10 in fees charged (Orozco 2002x; 2003x).

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

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[2] Remittance Projections: Mexico and Central America, 2002–2030, B. Lindsay Lowell1, in *Billions in Motion: Latino immigrants, remittances and banking* Pew Hispanic Center, Washington DC, 2002.

At least six corporations Western Union, Dolex, Vigo Corporation, Ria Envia, MoneyGram, and Mexico Express compete and may hold at least 60 percent of the remittance market share, four years ago no more than three companies held that share of the market.

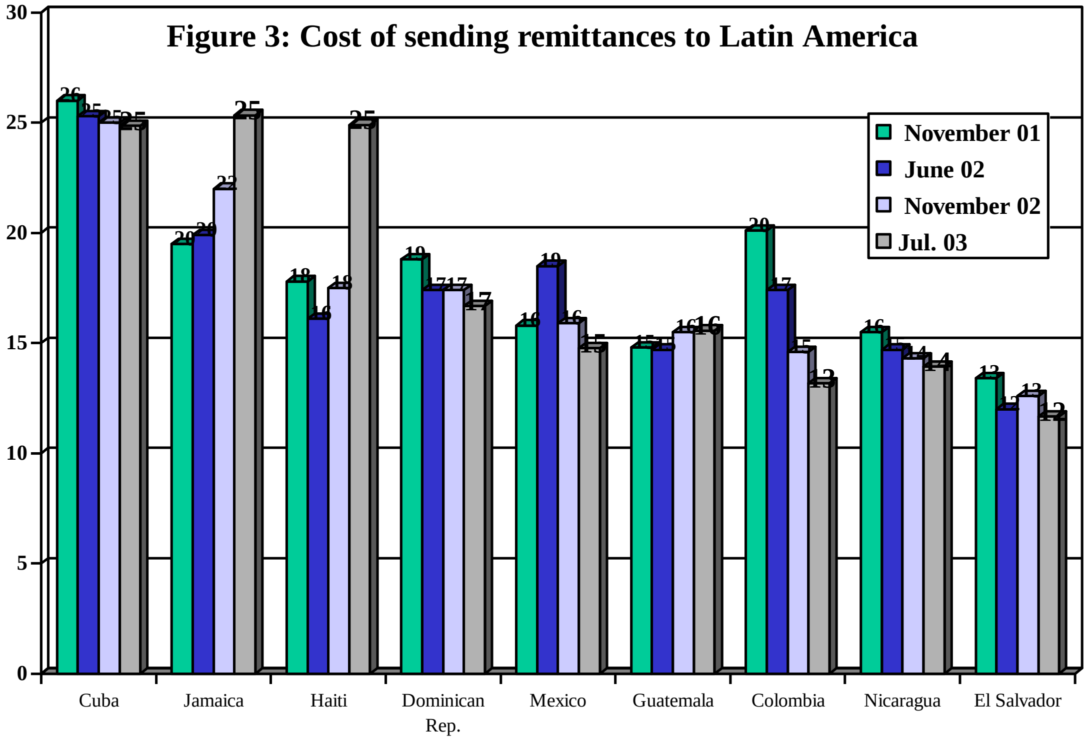
Competition is also present in El Salvador and Guatemala. In both countries, most of the remittance flows are handled by fewer than ten companies. In El Salvador, for example, four Salvadoran banks compete with Western Union and Gigante Express. In Guatemala, three banks compete with King Express and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

Table 4: Company competition in Latin American markets

	Number of money transfer companies holding 50% or more of market share	
	1990s	2002
Mexico	3	8
El Salvador	3	6
Dominican Republic	6	8
Guatemala	3	6
Jamaica	2	3

Source: Orozco, Manuel.

In other countries, however, competition is controlled by a few companies as is the case of Jamaica, Nicaragua or Guyana where prices are higher than average. However, the end result has been that of a slow reduction in transaction costs at an annual rate of about 5% (see figure below).



Three factors related to growing competition are connected to the ways in which the industry is consolidating by acquiring certain firms, introducing new technologies, and increasingly facing the entrance of banks.

An interesting illustration to this case is Jamaica. Ten years ago money transfers were mostly managed by banking institutions, predominantly of transfers coming from the United Kingdom. Large companies like Western Union sought to penetrate the international money transfer market, Jamaica began receiving a growing influx, particularly since the late nineties. Most importantly is that Western Union succeeded in controlling a significant share of the market reaching at times up to seventy percent. However, as interest and awareness grew among Jamaicans in the United States about sending money home, the demand increased further and new businesses sought to tap into the market with alternative institutions, such as building societies, seeking to have access to the market. Some other businesses have tried to penetrate the market with technology, that is, with the use of debit and store value cards. As a result, even in a country where

there is high market share concentration by one company, competitiveness has regained impetus, while pricing is still under challenge due to the resistance of Western Union to drop prices.

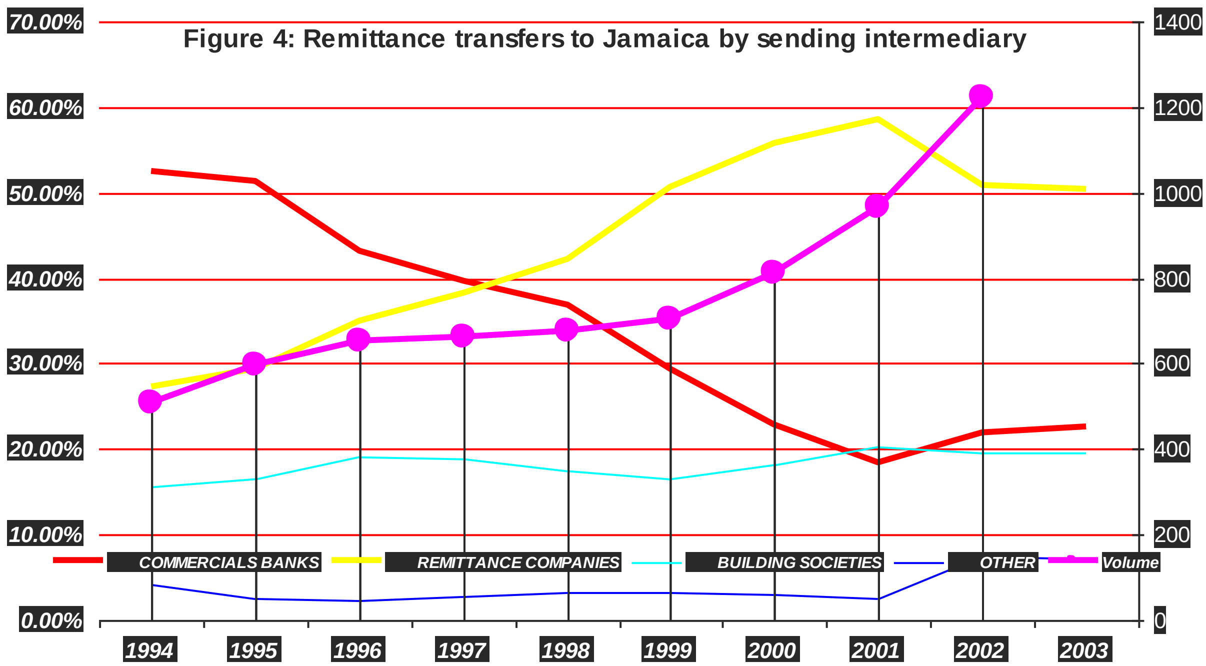


Figure 4: Remittance transfers to Jamaica by sending intermediary

a. Consolidation and structuring

One important trend that has evolved over the past four years has been market consolidation among leading firms in the industry. At least three major businesses have been acquired recently suggesting growing interest among the investment community in Wall Street. Two of those companies were Vigo Corporation and Dolex (this latter acquired by Global Payments). Fifteen leading companies and their representatives were interviewed in order to get a better understanding of the subject of consolidation.[3] All of those interviewed agreed that there is growing competition producing a drive into market consolidation.

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[3] These interviews were carried out during September and October and were conducted anonymously and without attribution to the interviewee.

A representative from a major money transfer business stressed that “there is a trend toward further consolidation, because these companies are marketing to the same countries and with the same strategies.” A banking official followed a similar position and elaborated that “with the burdens of regulatory requirements, there will be benefits to consolidation.” Another bank analyst stressed that First Data’s acquisition of Concord is likely to consolidate bigger competitors. He perceives that large banks will have a competitive advantage. “Because of ATM surcharges, customers are likely to bank with those companies that can put their ATMs everywhere and avoid surcharges. This means a disadvantage to smaller banks.”

A small money transfer CEO stressed that consolidation will continue and accelerate as prices come down and drive less efficient providers out of business. For him, “certain levels of efficiency are possible only at a certain scale. This will make it more difficult for smaller companies to compete and also to obtain state bonding.”

Until now the acquisition of companies has consisted mostly of two types, one large business acquire small but solid competitors. This is the case of Orlandi Valuta’s acquisition by Western Union. Second, which is more widespread is mid size competitors positioning at the center of the acquisition enterprise. Specifically, businesses like Dolex or Vigo found themselves at a point of business expansion in need of further capital to spread the business and operations. Venture capitalists from outside the industry have emerged as ‘padrinos’ to these groups transforming them from reliable solid small businesses, into mid size competitors with market shares in large corridors, like Mexico, of above ten percent.

A major ethnic business competitor concluded that because of the attractivness of this business, consolidation will continue and will result in fewer, bigger and better capitalized specialized remitters competing (and sometimes allying themselves) with banks, and a regenerating group of smaller, more innovative players. “The absorption of fresh/bigger capital, innovations to the service, tougher regulations and bigger networks will necessarily force the participants to adjust and reorganize/restructure.”

b. Technologies

This process of market consolidation is also accompanied by the integration of already existing technologies into the money transfer scenario. New technologies are helping to bring down the costs of money transfers. Most prominent are debit cards and store value cards. Debit cards are monetary instruments used to pay on site, unlike a credit-based payment. A stored value card is a pre-paid monetary instrument for a specific amount. This instrument does not contain a line of credit and accounts are only good for the balance applied. These two types of cards contain an identification number, or account, that may facilitate the transaction without intermediation, i.e., agents.

The use of this technology in money transfers is helping reduce costs, particularly because the cards in many cases eliminate the use of agents in the sending and / or receiving areas and thereby reduce the costs embedded in commissions paid to these agents. There are an ongoing number of businesses offering the service by providing costumers with debit, or prepaid electronic cards.

One kind of remittance transfer using a card consists of issuing a card that stores information about the sender and recipient's addresses. That information is later used to make transfers. The recipient, however, does not receive a card, and instead uses the identification and an authorization number to withdraw money.

Another type of transaction is the issuing of a debit card to the recipient. The remittance company issues a magnetic stripe card to the sender to store personal information as well as to add value to the money the sender wants to give to the relative. The receiver has a debit card that can use to withdraw at any ATM location that accepts the card.

Visa has adopted a similar method that involves the use of cards on both sides. A sender that visits an MTO that has a relationship with a recipient business that uses cards, receives a card to add personal information and store value. The recipient on the other

side receives a debit card for cash withdrawal and payments. The card is endorsed by a bank and accepts VISA transactions at stores that accept visa.

Table 6: Types of cards, features available among them and businesses

Feautres	Typical Debit card	Other debit cards	Examples of some remittance cards
Reloadable?	X		i-Kard, …
ATM Withdrawal?	X		i-Kard, Mylana
Use at Stores/Merchants?	X		Rapid Money
Requires sender to have bank acct or credit card?	Yes	No	i-Kard,
Cash Pickup at an Agent location?			Visa
Activation method (online, phone, in person, kiosk)			i-Kard (online),
ID requirements?			
Can perform transactions other than withdrawal			Visa

The use of these technologies is growing as a mechanism to offer transaction. However, not all businesses have adopted it and some argue that the cards may not be well received by receiving households, especially those in low income brackets. Another argument refers to availability of the ATMs. Although 40% of remittances go to rural cities in Latin America, most ATMs (80% or more) are located in the main cities, mostly in the capital.

Despite those challenges, there is growing consensus that the industry will actively move in the direction of adopting debit or prepaid cards. One industry official concurred that "It's only a matter of time before use of these technologies becomes widespread because "the economics are so compelling" both for consumers and companies." There is currently a base of remittance senders that already have debit or credit cards or both (see table below).

Table 7: Remittance senders who have a credit or debit card?

	I have both	Credit	Debit	I have none	
Colombia	26.00%	3.00%	11.00%	60.00%	100.00%
Cuba	37.70%	9.70%	9.70%	42.90%	100.00%
Ecuador	43.00%	16.00%	1.00%	40.00%	100.00%
El Salvador	11.40%	7.10%	8.10%	73.30%	100.00%
Guatemala	5.50%	4.60%	15.60%	74.30%	100.00%
Guyana	39.00%	21.60%	4.20%	35.20%	100.00%
Honduras	6.70%	10.70%	5.30%	77.30%	100.00%
Mexico	5.30%	5.30%	5.30%	84.00%	100.00%
Nicaragua	22.00%	11.30%	13.30%	53.30%	100.00%
Dominican Republic	22.00%	21.30%	0.70%	56.00%	100.00%
Total	21.60%	11.30%	7.10%	60.00%	100.00%

Source: sample survey to remittance senders in New York City, Los Angeles and Miami conducted by the author.

Another CEO of a remittance company expressed that within "the next 5 years the impact of new techonologies will definitely be felt." His remarks coincided with most remittance companies and echoed an official of one of the major banks offering remittance transfers to Mexico. This bank representative expressed that although "there is not a linear growth in terms of use of technology, it will start up slowly and then growth will be exponential within 5 years or so, as one sender tells his family and friends about the product, etc." Critical to this growth the representative stressed that international alliances (of the Citibanks/Banamex variety) will take place in order ensure the move into cards. To him, the issue is not the technology but "a matter of leveraging this technology so that it can be most useful to senders and recipients."

Although analysts coincide that these monetary instruments will prevail in the money transfer industry, they also agree on the realism of possibilities and highlight some caveats. First, education of senders is an important step to disseminate the use of these cards. Second, others argue that dealing with agents may be a challenge as long as the card represents a cut in their profits. In the first case, a bank executive expressed that "there is a great deal of education required to get remittance senders to trust the debit cards and other innovations." In that sense, he stressed that banks would welcome

partnerships with the government as well as NGOs to support financial education. "The time and energy spent on trying to get Western Union to bring down its prices, he mentioned, would be better used on trying to get people into the banking system," he concluded.

Second, the CEO of another money transfer business stressed that "because [agents] mark up the price of the company and thus reap large profits, there is no way they will sell/distribute cards or do anything that could cut into their profits." Highlighting the problem of agent's profits is a significant issue that point to issues relating to cost and market control beyond the role of businesses and the implementation of a debit or prepaid card faces this challenge.

c. Savings and Credit institutions: Banking industries, and credit unions

Remittance transfers from the United States to Latin America have traditionally been managed by money transfer businesses. However, there has been a recent interest in banks to participate in the industry mostly in order to attract savings and increase their assets by incorporating Latino senders.

In Latin America the experience has been more frustrating as governments and banks have expressed little interest in banking the unbanked. The Mexican case may be an exception, as well as the experience of Ecuador and Banco Solidario's remittances from Spain, and Guatemala's Banco Industrial. The major success has come from the World Council of Credit Unions which has enabled at least four countries to provide remittance transfers from the United States.

What, then, are the prospects for banks in the U.S. and Latin America to engage in money transfers in order to insert this segment of the population into savings and credit institutions? Analysts conclude that U.S. banks are likely to become more involved in the near future and help to further drop the costs. However, they are uncertain as to when that will happen. Less is know about the role of banks in Latin America. However, it

seems that strategic alliances between money transfer businesses and banks may give way to a new competitive stream in the industry.

i) Lower costs among banks and credit unions in the United States

Formal money transfer costs range from 4 to 12 percent of the value sent, averaging 7 percent (this represents a major decline from the past three years). These costs depend on the presence of informal networks, market concentration or level of competition, technology, aggregate volume, and the presence or absence of banking institutions. The table below shows the costs of sending money to selected countries in Latin America.

Table 8. Average amount sent by an immigrant in the U.S. and cost of sending it

Country	Amount sent	Jul. 03
Haiti	162	12.45%
Cuba	150	12.43%
Jamaica	263	12.05%
Bolivia	276	9.75%
Dom. Rep.	199	8.29%
Nicaragua	146	6.97%
Guatemala	269	6.85%
Venezuela	228	6.54%
Honduras	257	6.22%
Colombia	256	5.94%
Peru	191	5.67%
Mexico	378	5.30%
Ecuador	295	4.71%
El Salvador	287	4.40%

When alternative banking institutions and technology participate in the transfer, costs can drop significantly -- to over half the current prices. However, their entrance is still limited to a few credit unions and community banks. On the other hand, large commercial banks are still slow at reaching out to this market. Only three major banks (Bank of America, Citibank and Wells Fargo) are focusing on remittance transfers but their marketing strategies are not sufficiently reaching out to Latinos.

An analysis of thirty six banks, out of a pool of 93, which accept the Mexico's consular identification card, remitting to Mexico in the past 18 months, showed four methods by

which banks send remittances[4] : a) the offer of debit cards which can be used by the recipient in ATMs in Mexico, b) U.S. banks operating as money transfer agents through arrangements with Mexican banks (generally, *Bancomer* and *Banamex*), c) traditional wire transfer (SWIFT),[5] and d) alliance between banks or credit unions and money transfer operators. Their charges have varied; Table 3 offers the average charges according to these transfer methods.

Debit cards offer the lowest cost. Through this service, some companies offer a very low fee and profit instead from the new clientele into their banks. In the majority of cases, however, those with access to debit cards are usually required to have a bank account with the institution in the United States.

Table 9. Charges made by banks to transfer remittances (by method employed)

Pick up at office, bank	21.91	7.3%
ATM, Debit or Smart Card	6.28	2.1%
Credit union	13.00	4.3%

Source: Orozco, Manuel. *Changes in the Environment*, Washington, DC: Inter-American Dialogue, 2003. * Average amount sent to Mexico is $400. Data compiled by the author and revised in July 2003.

As the table showed, using debit cards or credit unions is less expensive than the average charges and main leading companies.   However, other financial institutions still have costs greater than average in the market. Bank of America and Citibank introduced new programs utilizing ATM technology to transfer remittances. Bank of America's *SafeSend* program and Citibank's *Tarjeta Tricolor* each issue debit cards to a designated person in Mexico upon enrolment of a person in the United States. *SafeSend* charges $10 per transfer while Tarjeta Tricolor charges $5, plus 2% exchange rate. Also a growing number of community banks are offering ATM cards as a form to send remittances with costs appearing as the lowest.

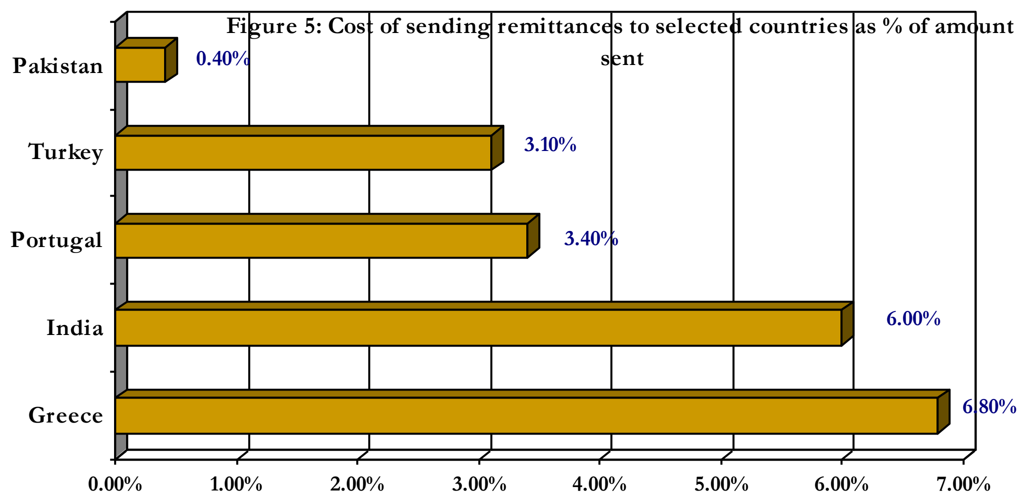
The alliances between banks or credit unions and money transfer businesses are also indicative of reduced costs. The experience of U.S. credit unions associating with Vigo

[4] Orozco, Manuel. *Changes in the Environment*, Washington, DC: Inter-American Dialogue, March 2003. The banks were again contacted in July 2003.

[5] Although banks offer swift to transfer remittances, however almost no customer uses that service, except among immigrant investors transfer larger sums, which in that case are not sending remittances.

Corporation illustrates this case. The corporation offers the transaction mechanism, while the credit union attracts the customers for purposes of bringing them into the financial stream.

Moreover, lessons from other countries where remittances are sent show that banks reduce money transfer costs. For example, immigrants residing in Europe who send money to Turkey, Portugal and Greece, and Pakistanis in the Arab oil-exporting countries pay much less than the average Latin American sending from the United States (see figure below).[6]



Remitting through banks offers an important substantive benefit to immigrants. According to a survey by *Bendixen and Associates*, 44 percent of Latino immigrants lack bank accounts. Miami-based Strategy Research Corp stresses that 54 percent of Hispanics have no banking relationship of any kind. In contrast, 68 percent of African-Americans and 93 percent of non-Hispanic whites have accounts.

[6] Orozco, Manuel. *Worker Remittances in an International Scope* Washington, DC: Inter-American Dialogue, March 2003.

This percentage of immigrants without banks accounts is significant considering that according to the Federal Reserve's Survey of Consumer Finances 13 percent of people in the United States don't have bank accounts. The majority of those are minorities, immigrants and generally low income individuals with household incomes below $25,000 (Caskey 2001, 3).[7]

However, these individuals also have a demand of financial services. Caskey (2001) describes four kinds of financial services, check cashing, savings, payments and credit. Deposit institutions, like banks or credit unions provide these services, and immigrants use those but with other institutions at higher costs. Constance Dunham, for example, sustains that while the unbanked does not have bank accounts, they go to banks to cash checks, but keep with themselves the cash instead of leaving it in the bank, incurring in higher costs in doing that. Cash checking, for example, is an expensive endeavor when it occurs outside a bank, people pay up to 3% the face value of the amount cashed (Rhine 2001, 61), then an average 8% to send money abroad, sometimes through the same provider. They also look for credit but find it outside community or commercial banks or credit unions, in other less convenient institutions. Moreover, despite not having bank accounts, people still save, 14% of the unbanked saves (Dunhan 2001).

What is central to the relationship between remittances and banking is that remittances as a payment system represent a form of financial service that already has an indirect relationship with banking institutions because the transmission mechanism eventually goes through a bank. However, more importantly is the fact that many immigrants, such as Mexicans tend not to have access to bank accounts not only due to language and education barriers, but because they believe they will return home soon. Yet, their average length of residence in the U.S. is more than ten years (Bendixen 2001; Townsend 2001).

[7] "Financial Access in the 21st Century", Office of the Comptroller of the Currency, 1997. www.occ.treas.gov/pubs.htm

The recent experience of inserting individuals into the U.S. financial system has been positive. One important case has been of inserting unbanked people using electronic fund transfers through banks. Another relevant case is the outreach that community banks have offered to immigrants. In both cases, the effect has been to build or raise asset among low income individuals (Schreiner 2001).

ii) Banking the unbanked in Latin America

The problem of the unbanked is also daunting in Latin America where less than 20% of adults have access to bank accounts. In Mexico, only 18% of Mexicans have bank accounts. Latin American banks, particularly those in Mexico, Central America and the Caribbean have been traditional institutions focused on servicing agro-exporting elites, many of whom who created them. The end result has been that the average citizen, and especially lower income cohorts, have not had access to financial services, nor banks have relied on them to draw assets.

A recent study on Latin America's income inequality points to the deficiencies of banking institutions as a major source of inequality. "Financial markets are underdeveloped in Latin America and the blame goes beyond the region's history of inflation and financial instability. Weak institutions to support credit market are also at fault" (IPES 1999, 6). In fact, the study points that less than 5% of established small business entrepreneurs receive loans from commercial banks, and even small credit unions and micro-finance institutions that emerge to supply a demand of financial services by those outside the preference of commercial banks don't have a large loan portfolio, below 1% of what commercial banks hold in Latin America (164-165).

Many remittance receiving households in Latin America can benefit of a money transfer system that reduces costs in receiving the money, while simultaneously provides banking services. This situation is more relevant considering that up to 20% are receiving remittances in many countries of Latin America. Currently one of the major costs associated with transfers is the exchange rate which is set by the distributing agents in Latin America, which most of the time can be a traditional banking institution. The

exchange rate commission applied (the differential between the interbank exchange rate and the one set by the business) averages 3% and is higher than other foreign currency transactions. As the table below shows, over 40% of costs are related to the commission in the foreign exchange.

iii. Expectations from industry analysts

Although a potential relationship exists between savings and credit institutions, banks in particular, and remittance transfers, banks have been slow to understand their role and strategy in the field. Analysts and business executives recognize the limitations banks have and stress that it will take longer than expected. Their participation is less than one percent of the total market to Mexico.

A bank executive interviewed conceded that “getting into the remittance market has been tough for most banks.” Such affirmation has been corroborated by most analysts. One CEO of a major money transfer business argued that the problem was threefold: “1) lack of bank presence in ethnic neighborhoods 2) customer service – banks are not geared to offer customer service to this generally low-educated, low-income market. 3) operating hours.”

In light of these challenges and low prospects for banking institutions to step into the frame, banks like Citibank have reconsidered their strategies. Tarjeta Tricolor, for example, is a second try to bring Mexicans into their institution. A news report suggested that “Tarjeta Tricolor is meant as a starter account for the unbanked on both sides of the border” (American Banker). The transfer mechanism will occur in one of three ways: 1) from ATMs in the US 2) from an account to cash delivery; 3) from account to account. Executives agree that the idea is to bank the unbanked the population in Mexico through a “checkless” or low-end account. “Many people in Mexico are afraid of checking accounts and the Tricolor accounts will serve as a first step into the banking system,” said a Citibank official.

In summary, the future trends within the context of the marketplace suggests that there is expectation of further grow and market competition through consolidation. Moreover, there is agreement that implementing electronic cards, such as debit cards and prepaid cards, will gain greater presence in the near future. However, there is uncertainty as to how long it will take for these cards to take a hold of mainstream transfers as well as how banks will play a more significant role in money transfers and banking the unbanked.

While this trend is moving forward, an interesting change is taking place in the world of development assistance, which is following seriously their participation as a partner in remittance transfers by linking them to development policies.

3. Development opportunities

Development economics has long considered foreign savings as key to increasing a country's capital-output ratio.[8] Within that context, four factors were considered: foreign direct investment, official development assistance, foreign trade and the transfer of technology.

As globalization has deepened throughout the world, the relationship between development and migration or movement of people, and the resulting effects of these economic ties between diasporas and home country economies (household and business sectors) are becoming more relevant for development policy makers.

Specifically, international development organizations have paid attention to the effect of family remittances on the household economy as well as the nation. More importantly, such attention is gradually translating into development strategies, such as offering financial services to individuals in a transnational household, seeking to enhance the financial literacy of remittance senders, or promoting development partnerships with hometown associations.

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[8] Tarp, Finn, *Foreign Aid and Development*, London: Routledge, 1999.

Several donor groups such as the Inter-American Development Bank, the United States Agency for International Development, the International Fund for Agricultural Development of the United Nations, the Inter-American Foundation, GTZ, the World Bank, and foundations like Ford and Rockefeller, have allocated resources that are tied to remittance related practices.

[One page as to what these donors are doing]

Conclusion—the future that lies ahead in money transfers [one page]

References—




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