

Session 13

Part IV: Second Generation Policy Response: Housing and Payment Systems Panel

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Course Lecture

Public Sector Involvement in Transfer Process

1. Various points of access for the Public Sector, examples of which are:
 - a. First mile
 - i. Increasing provision of information
 - ii. Increasing financial literacy
 - b. Last mile
 - i. Consumer protection
 - c. Regulatory environment
 - i. Improving competition and transparency
 - d. Payment systems: what sorts of participants have access (i.e. currently not MTOs, at times not credit unions in developing countries)
 - e. Improvements in data: who, where and how much
 - f. Fiscal policy: some governments with intent to tax, unresolved discussion, generally not advocated, may be discriminatory and counter-productive.
2. **General Principles for International Remittances Practices** described in the Committee on Payment and Settlement Systems Consultative Report, March 2006.
 - a. The Market for Remittances should be **transparent** and have adequate **consumer protection**.
 - b. **Improvements to payment system infrastructure** that have the potential to increase the efficiency of remittance market should be encouraged.
 - c. Remittance services should be supported by a **sound, predictable, non-discriminatory and proportionate legal and regulatory framework**.
 - d. **Competitive market conditions**, including appropriate access to payment infrastructures, should be fostered.
 - e. Remittance Services should be supported by **appropriate governance and risk management practices**.
3. Data Issues
 - a. Primarily a gap for the public sector to fill as private sector players generally have their proprietary initiatives to map and analyze data on remittances
 - b. Public sector may also work with civil society to achieve this objective
 - c. A major problem for private and public sector players because it is still very hard to know what the market looks like.
 - d. As has been noted previously, most countries underestimate numbers.

- i. Central banks, which report the numbers, typically don't ask all the right players:
 - 1. 90% of commercial banks are surveyed,
 - 2. 65% of exchange bureau and credit unions,
 - 3. 38% of money transfer companies,
 - 4. 35% of post offices.
 - e. ATM transactions, which could increase in coming years, are rarely counted.
 - f. There is also the inherent difficulty of the counting the informal system (*hawala* system or cash couriers), which will likely continue to be a big player in future years. (Informal transfers generally estimated through household surveys or travelers' surveys.)
 - g. There is also a difficulty in determining what should count as a remittance. Many countries use different definitions, leading to discrepancies in comparisons.
- 4. Public Sector Regulation and Supervision.
 - a. The general principles described above outline an active role for the public sector in providing adequate and responsive regulation and supervision for the money transfer industry.
 - b. Anti-money laundering (AML) laws and counter-terrorism financing are the major issues.
 - c. Not all institutions participating in remittances are supervised. In some countries, there is little supervision of institutions involved.
 - d. Many institutions involved in the remittance industry may be outside the Central Bank's or Superintendency of Banks' jurisdiction. MTOs are regulated by financial authorities in only 60% of countries.
 - e. Another challenge: Not to undermine the achievement of general principles by over-regulation.
 - i. Who is the proper authority to regulate the industry? Not always clear, which can result in several institutions regulating institutions participating in the industry.
 - ii. MTOs face new burdens of reporting and compliance in many sending countries or must submit financial bonds/sureties that may be outsized relative to the risk of the institution.
 - iii. Banks in the US and elsewhere on the sending side currently are challenged by banking supervisors, which are scrutinizing money transfer businesses. As a result, closures of MTO bank accounts.
 - f. Major issues:
 - i. Developing minimum registration and reporting standards.
 - ii. Information about price, time to delivery
 - iii. Regulation-harmonization across international jurisdictions. Not just from sending to receiving countries, but within countries (i.e., many US states, for example, have very different banking regulations).

- iv. Level playing field for participants in terms of access so the industry can evolve without compromising the integrity of the flows.
- v. Taxation of money transfers is also an issue. It is rare, but tempting for many countries and may drive remittance flows further into the informal sector.
- vi. Desirability of foreign currency transfers.
- g. Information/Financial Education
 - i. Mexico and the US have worked on increasing coordination. Dissemination of information about remitting – this has been done in TX. *Matricula Consular* helps increase options for senders.
 - ii. In the Mora article's discussion of Central Bank surveys, only Mexico and Sri Lanka worked to improve information about fees to the consumer. In every other of the 40 countries surveyed, consumers were expected to inform themselves.
 - iii. UK DFID provides information on providers and prices in a range of major corridors between the UK and other receiving countries.
- h. Financial Infrastructure.
 - i. Clearing and settlement systems
 - 1. Credit unions and MFIs generally have very limited access to larger clearing and settlement systems that commercial banks use, giving preferential access to banks.
 - ii. National savings banks
 - 1. Mexico is using its national savings bank to connect citizens in the US to savings institutions in Mexico.
 - iii. Postal Service
 - 1. Big potential because of tremendous global access points, but generally underutilized or monopolized by a single MTO.
 - iv. Alternative networks.
 - 1. USAID and WOCCU have set up alternative clearing systems in several countries to facilitate payment/transfers to leverage access to formal financial information.
 - v. Non-bank financial institutions such as mortgage companies or pension firms – underexploited at this moment

Guest Panelist: Morgan Doyle, IDB

1. Remittances and Housing in LAC
 - a. There is interest and demand
 - b. Important to determine the scope and the opportunities
2. Remittances and Housing generally
 - a. The money belongs to the senders and receivers. Important to re-emphasize.
 - b. Very much dependent on choice of the investors
3. Housing
 - a. Large housing deficit in Latin America– this depends on how you define deficit, but all agree there is at least some deficit.
 - b. 17 million households share dwellings, 26 million live in inadequate homes.
 - c. There is an economic and human cost associated with lack of housing – ranging from infant mortality to literacy.
 - d. Surveys indicate that some portion of remittances in Latin America is being dedicated to housing.
 - e. Remittances also positively correlate with better homes and health outcomes.
 - f. The connection is simple: more money = more house.
 - g. Some organizations have begun to extend remittances-backed mortgages.
4. Constraints
 - a. Financial literacy is a problem. Buying a home is a relatively complicated task.
 - b. Perception of risk by financial institutions. Need more data to justify the of risk tying remittances to a mortgage.
 - c. Mismatches between loan and collateral or payments. This can be problematic.
 - d. Legal issues regarding foreclosure and governing jurisdiction. If a mortgage is created in the US for a property abroad, how would foreclosure occur?
 - e. Remittances alone aren't going to fix the housing deficit problem. Collateral enforcement mechanisms are problematic. Title insurance is very expensive.
5. What has happened with financial institutions that have tried this so far?
 - a. Results are disappointing.
6. Are remittance-backed mortgages the right instrument? Maybe not.
 - a. Most families buy homes progressively. They may buy a little land, build a small house, then add a room, then another and so forth. New homes are not as in demand in Latin America as they are in this country.
 - b. Maybe home improvement loans are more appropriate or micro-credit. Home Depot and Cemex now provide credit in Mexico to allow people to speed up the process of building a new room.

Milena Gomez, Colombia University

Highlights of Remittances to Colombia and Housing

1. Colombian remittance experience
 - a. \$3.9 billion in 2004
 - b. 4% of GDP
 - c. Four times the value of coffee exports and 10% larger than oil exports
 - d. About half of all Colombian remittances come from the US
2. Why housing?
 - a. Because it is a leading sector of the economy in Colombia. Since the 1970's, there have been programs to speed up construction and attempt to ease price constraints, though they have met with limited success.
 - b. The cycle has been a boom, bust then boom again, or maybe just recovery.
 - i. 1993 and 1994 there was a boom
 - ii. 1998 – 2001 there was a economic crisis and real estate crash. Mortgages had collapsed and have not yet recovered.
 - iii. 2002 – present there has been a recovery.
 - c. Important for economy:
 - i. Creates jobs and equity.
 - ii. Multiplier effects – increased demand for furniture; construction; legal and business services.
 - iii. Also a huge housing shortage – last year there was 41% housing shortage in Colombia.
 - d. Rise and fall in housing market correlates closely with migration. At the end of the 1990's there was a mass exodus from Colombia. Now there is a boom with many Colombian returning.
 - e. Some suggest that remittances have been a huge part of the new construction boom.
 - f. Selected findings:
 - i. 76.44% are interested buying real estate
 - ii. 74% want a mortgage.
 - iii. 68% have saved for a mortgage.
 - iv. Migrants tend to buy “up” – spending more than average on a new home in their home country
 - g. There are several banks that have gotten interested in the cross-border mortgage market.
 - h. There is a massive lack of knowledge about the process of buying homes in a cross-border fashion.

Gregory Watson, IDB Payment Systems

1. Helped create a CPSS report on remittances and payment systems. These reports are very influential with central banks.
2. What is a payment system?
 - a. This is the guts of the MTO process.
 - b. Remittances touch both domestic and international payment systems. Most of these systems were designed to transfer very large sums of money, and are not properly set up to address the small payments resulting from
 - c. Two parts of money transfer: Messaging and Settlement.
 - i. Some of the messaging systems are very old and slow. Others are more modern and fast.
 - ii. An example of a messaging system is the Automated Clearing House (ACH) in the US. Mexico and US created an agreement for use of this system over the course of many years. The central banks of both countries act as clearing agents for money transfer processes.
 - iii. Because the system is so big it has reduced costs to about 0.02 per transaction.
 - iv. There is talk about connecting ACH to Philippines.
 - d. Different types of payment systems:
 - i. ACH is a public institution.
 - ii. SWIFT is an example a private sector solution – these tend to be very fast because they are created by one company.
 - iii. Correspondent banking – this is used for non-money centers, often rural or developing areas. This is very slow and costly.
 - e. One of the problems is that all these systems don't all talk to each other. Achieving this would be a tremendous accomplishment, but be very cumbersome and difficult.
 - f. General Principles:
 - i. Transparency and consumer protection. The goal is to have receipts that have all the relevant information for both senders and receivers. This enables people to shop around.
 - ii. Payment system infrastructure. The goal is to get central banks to talk with each other and get an ACH in place among relevant countries. Central banks should facilitate that kind of dialogue, but currently they do not.
 - iii. Appropriate access to domestic payment systems. MTO's need to use bank accounts and their access to banks needs to be facilitated without discrimination.

Mark Scher, Postal Financial Services Development

Postal Savings

1. What do people expect from financial services?
 - a. Security
 - b. Access
 - c. Simplicity
2. What is a postal savings system?
 - a. Postal savings provide more access points than all of the world's banks combined.
 - b. They serve the financially excluded in developing countries. They exist in places that most commercial banks would not be found.
3. Main activities of many post offices in many countries is financial.
 - a. India example: 154,000 points of access, all of which serve as banks.
 - b. 600,000 savings and remittances points in about 80 countries.
 - c. 51% of world's small savings are in Postal Savings banks.
 - d. Many which exist in Asia have been in existence for over 100 years.
4. The use of postal services as money transfer agents has a great deal of history, extending into the 1800's.
5. Major Issues Confronting Postal Savings Start-Ups.
 - a. Secure savings by investing for development.
 - b. Savers are risk averse – interested in institutions that have strong reputations. In some countries this is the post office.
 - c. Regulatory issues about what the mail can be used for. As discussed above, who should regulate, Post Office or Central Bank?
6. Credit? Some suggest that the demand for secure savings exceeds the demand for credit.

Questions

How can private sector compete with public sector clearing systems?

Most private sector institutions feel that it is too costly to get into this business. In the Philippines, the government is creating a clearing system that will allow for less than \$1.00 per transaction. This is a recent phenomenon because the Philippine government had been waiting for the private sector to step in and build a system, but it never did.

How receptive has the private banking sector been to providing housing for immigrants?

Depends on the country – some banks have been aggressively pursuing this idea, but are having a hard time closing deals. When we tie this into the payment systems issue, things get more interesting. Banks that exist in both jurisdictions find it easier to facilitate transactions and transfer information. There is a big question as to who should be the appropriate partner on the other end, in the home country.

What will happen with migration patterns over an inter-generational timeline with immigrants?

Much of this is very new so there is a very small data-set for us to work with. People who tend to buy houses across borders do it for the same reasons people do it in domestic settings.