

Session 9

Part III: Institutions and First Generation Policy Response: Remittance Markets and Private/Financial Sector Institutions

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Guest Lecturer: David Grace, World Council of Credit Unions

Course Lecture:

Stakeholders and Participants

This part of the course turns to looking at some of the first policy and institutional responses to the remittance phenomenon we have been describing thus far. There are a host of mechanisms through which to send money internationally, including: banks; money transfer organizations (MTOs) like Western Union and Moneygram; internet services similar to PayPal; post offices; package services; and informal couriers.

1. Sending Side Stakeholders

One of the first things to notice is the wide variety of services and mechanisms that vary in price, convenience and effectiveness.

- a. Private Sector
 - i. Small businesses which are often immigrant owned.
 1. May be partners with larger MTOs to send remittances.
 2. Can be adversely affected by new security laws aimed at fighting terrorism and illicit international financing.
 - ii. Medium sized package companies
 1. Began by shipping goods internationally and gradually branched out into sending money as well.
 - iii. Large multinational MTOs
 1. Western Union, Moneygram and Vigo.
 - iv. Large financial institutions.
 1. Citibank or Bank of America.
- b. Public Sector – Governments are involved in providing and tracking information, data and consumer protection, among other roles. Defining the rules of the game and regulatory framework is a major role of the public sector.
 - i. National and sub-national governments.
 1. In the US, various agencies within the Dept. of the Treasury exercise substantial oversight powers over the money transfer industry.
 2. For example, the New York State Banking Commission is involved in monitoring the activities of smaller MTOs.
 - ii. Central Banks/Superintendencies of Banks
 1. Data
 2. Information
 3. Analysis of economic aspects
 - iii. Other regulators/supervisors
 1. Competition authorities

- iv. Consumer protection agencies.
 - 1. New York's consumer protection agency conducted a survey of MTOs in New York revealing a huge variety of fees and available foreign exchange rates.
 - c. Civil Society.
 - i. Limited role but may depend very much on the migrants' home country environment, or on host country conditions
 - ii. Private foundations.
 - 1. Certain foundations are involved in supporting transnational communities and hometown associations.
 - 2. Ford Foundation and Rockefeller good examples of support to hometown associations
 - iii. Immigrant support groups
 - 1. La Raza in the US
 - 2. El Rescate in CA
 - iv. Hometown associations and other diaspora organizations
 - 1. Mexican organizations well known
 - 2. Organizations engage in social and cultural initiatives
 - 3. Have been involved in collective investments
 - d. Private Individuals – Migrants sending money are important stakeholders. Important to include senders in institutional dialogue.
 - i. Sender
 - ii. Sender's household
 - iii. Immigrant community
 - iv. Carriers
2. Receiving Side Stakeholders (most of the same actors with a few nuances)
- a. Private Sector
 - i. Foreign Exchange houses
 - 1. Convert currencies and have sufficient liquidity, so they tend to make very natural partners for MTOs.
 - ii. Package and delivery services.
 - iii. Microfinance institutions/credit unions.
 - 1. This is an emerging market for microfinance.
 - 2. The Inter-American Development Bank and the Consultative Group to Assist the Poorest (CGAP) are among the organizations exploring this actively.
 - iv. Large commercial banks
 - v. Retail stores are partnering with MTOs.
 - b. Public Sector
 - i. National and sub-national governments
 - ii. Central Banks/Superintendencies of banks
 - iii. Other regulators/supervisors
 - iv. Consumer protection agencies.
 - c. Civil Society

- i. Migrant family groups
 - ii. Counterparts to hometown associations based in sending country.
 - iii. Non-governmental organizations.
 - d. Private Individuals
 - i. Recipient
 - ii. Recipient's household
 - iii. Migrant's home community
 - iv. Moneylenders and other private intermediaries
3. Market Organization and Institutional Structures – some stylized descriptors of the market organization of remittances
- a. Fragmented market or “micro” market.
 - i. Widely dispersed consumer base (recall ethnic enclaves) makes it very difficult for a small actor to break into the money sending business.
 - ii. This market model works for large MTOs because they have such a large infrastructure of agents and access points that they can take advantage of economies of scale.
 - b. Limited access by the demand market (senders) to more formal financial institutions results in MTOs having a somewhat captive audience.
 - i. Difficulties presented by the formal financial sector include: legal status uncertainty, documentation problems, language barriers, distrust, rules relating to fees and minimum balances.
 - c. Supply side challenges (eg. regulation) make this a difficult market to break into for many of the reasons described above.
 - d. Social capital
 - i. Migrants typically rely on the recommendations of their friends/family.
 - ii. Remittances are experience goods, i.e. you don't know how a service works until you try it. Creates inertia and unwillingness to try new services.
 - iii. May reinforce barriers to entry by new service providers.
4. What creates the conditions for formal or informal money transfer?
- a. Accessibility to informal money transfer is very easy and, generally, very reliable. There are circumstances in which informal systems are preferable to formal systems.
 - b. Factors influencing decisions:
 - i. Access to financial infrastructure – MTOs need good market penetration/distribution in order to be convenient. In rural areas in less developed countries, there may be very little access even to formal MTOs.
 - ii. Strength of financial system
 - iii. Credible monetary policy – It may be preferable to mail dollars or use a courier because of an unreliable foreign exchange.
 - iv. Legal and regulatory environment – there should be an even playing field for all participants.

- v. Social and political reasons – it may be difficult to use formal systems because of conflict, security or political tensions.
- c. Informal MTOs
 - i. Generally well-established with long histories and established reliability.
 - ii. May be necessary because formal options simply don't exist in receiving areas.
 - iii. Rising regulatory restrictions place high costs on MTOs remaining in the formal sector.
 - iv. Some informal participants may not be able to afford compliance measures.
- d. Formal MTOs
 - i. Fragmented markets with limited access.
 - ii. Can also lead to financial disintermediation.
- 5. Pros and Cons.
 - a. Most important part of the money transfer industry is the **safety, speed and reliably (and easily/conveniently)**.

	Formal	Informal
Pros	Improve transparency Improve data Increase fx flows/reserves Improve financial access in future	Pros Lower transaction costs, higher incomes Better foreign exchange rates Access to informal credit High trust and familiarity Social capital self-enforcing
Cons	Low trust and familiarity Little access to credit Costly regulation	Cons Difficult to track No legal redress

Guest Lecturer: David Grace, World Council of Credit Unions (WOCCU)

Background

1. What is a credit union?
 - a. Non-profit bank, democratic participation (member-elected board of directors), and microfinance institution.
 - b. Financial cooperatives that provide services to the poor, low-income, often to middle income as well
 - c. May or may not be regulated, depending the country's frameworks.
2. History of WOCCU – global trade association of credit unions and development agency.
 - a. Idea of connecting credit unions in the US with some outside the US. In 1999, WOCCU began making these links. Today WOCCU includes over 40,000 credit unions.

Activities

1. Public Policy Engagement.
 - a. Congressional testimony and advocacy to promote larger integration of banking systems across borders by reforming the Automated Clearing House regulations.
 - b. Advocating increased competition in the remittance industry.
 - c. Support for undocumented immigrants' access to financial services in the US.
 - d. Highlighting barriers to credit unions access to remittance industry throughout the world.
2. First Mile & Last Mile activities.
 - a. First Mile – senders point of access. This is a very difficult area to break into because of the access infrastructure problem. Instead, WOCCU has begun working to establish alliances with organizations that already have developed access infrastructure.
 - i. Working with 160 credit unions in the US and over 480 points of service to originate transactions.
 - ii. Difficulty with access to volume. The business model of successful MTOs is very difficult to mimic.
 - iii. Very difficult to determine what will make access points successful. Successful examples have happened in urban & rural, large and small, more community fields of membership than workplace fields of membership.
 - b. Last Mile – receivers point of access.
 - i. Goal is to increase transactions flowing into credit unions.
 - ii. They have actually recently just passed the \$1 billion total mark distributed through credit unions globally.
 - iii. Approximately 25% of distribution goes to existing member at institutions.
 - iv. Approximately 10% of these funds are being saved.
 - v. Very positive results.
3. Lessons Learned

- a. Needs to be equal interest in both first and last miles, regarding partnerships and transactions.
- b. Financial standards are a prerequisite. Very difficult to work with institutions that don't already have strong financial standards.
- c. Market is more competitive than micro-credit market.
- d. Scale is everything.

Questions

- What should be done to the rules regulating the Automated Clearing House to ease access to Mexico?

The rules are not the problem with getting money to Mexico. Not all institutions have access to ACH. For instance, credit unions in Mexico do not have access despite the fact that many are closely supervised and institutionally very sound.

- Does the political character of the *matricula* consular and remittances, more generally, add too much risk to the remittance industry?

The *matricula* has been in place for a very long time, but recently it has become something of a lightning rod because of certain political actors' issues with immigration reform. The *matricula* has primarily been a vehicle for emotional arguments about money laundering and immigration opponents.

There is a false perception that immigrants don't trust financial institutions. Generally, it is more simply about being misinformed about how accessible formal banking is to them. Many show great willingness to join credit unions or use banks. This is a dangerous assumption that immigrants somehow don't trust these institutions.

Lenora Suki addition: True that many surveys indicate interest and willingness on the part of some immigrants. Many, however, have had bad experiences with financial institutions in their home country. Or, they may not be comfortable with what might happen with their money if forced to leave the country involuntarily. Finally, they often find fees and minimum balances difficult to understand and non-transparent.