Financial Institutions and Remittances in the Dominican Republic

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Introduction

Earth Institute – MIF Project
on Dominican Republic
Financial Institutions and Remittances

Dominican Republic:
Financial Institutions and Remittances

Project objective:

To understand the financial channels through which remittances travel and how to leverage remittances for financial and economic development

Case study:

Dominican Republic

Dominican Republic:
Financial Institutions and Remittances

Why?

- Size of flow ($2.7 billion est. 2004)
- Frequency of flow (12-15/year)
- Costs paid by senders
- Financial services not received - neither by senders nor receivers
- Development impact

Dominican Republic:
Financial Institutions and Remittances

Methodology: Interviews and data analysis

Money transfer companies

Commercial banks

Development banks

Community financial institutions

Microfinance institutions

Regulators

Overseas development agencies

Dominican Republic: Financial Institutions and Remittances

Aim to identify:

Institutions
Products
Technologies
Regulation
Data issues
Transmission channels
Government policy

To find:

Market innovation

New services

Delivery platforms

Partnerships

Dominican Republic: Financial Institutions and Remittances

Our Conclusions

Few institutions, products and little technology

Uneven regulation (US/DR)

Data problems

Costly transmission

Little government policy

**Dominance of Cash Home Delivery

Little innovation

BUT

Improving platforms

New partnerships

Dominican Republic: Remittances and Development

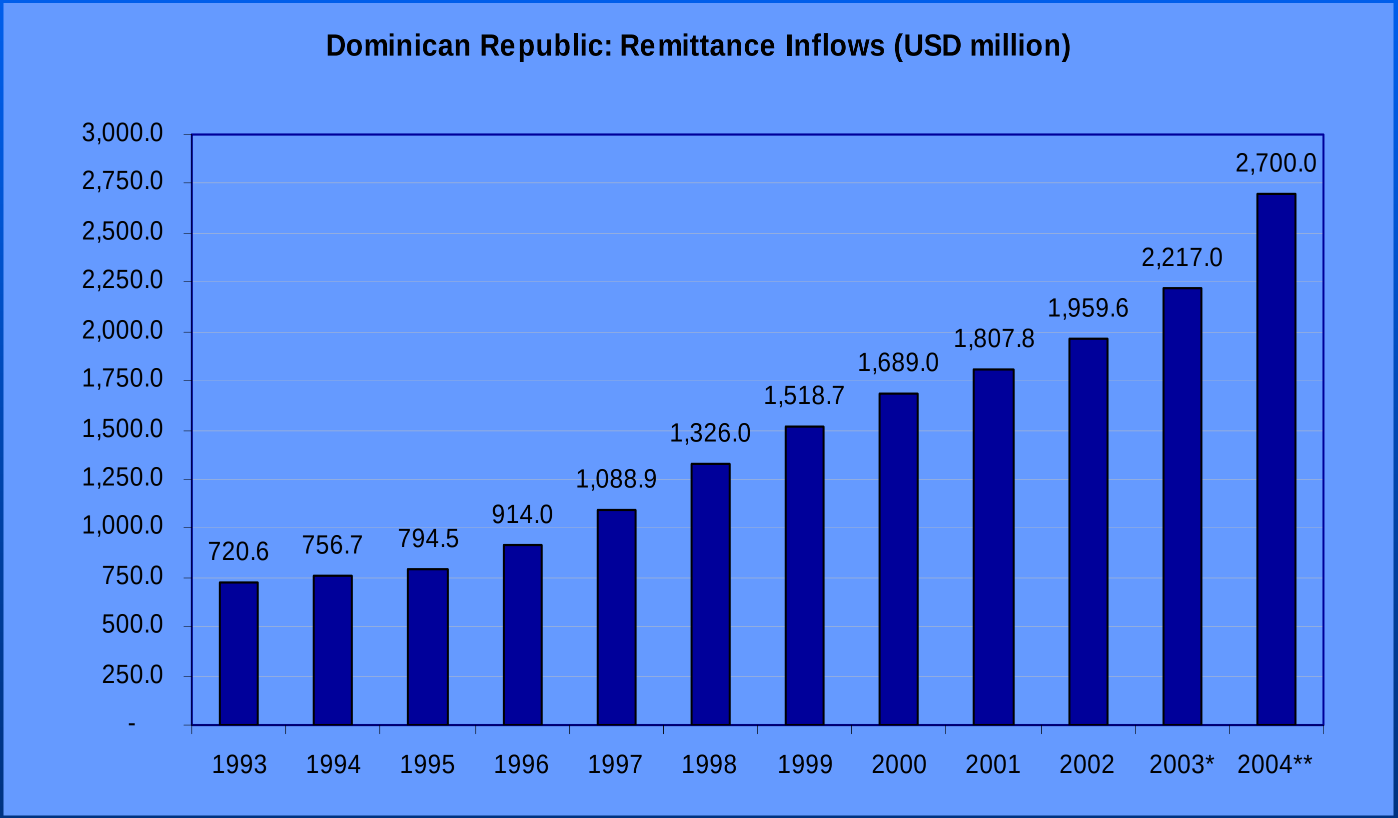
Among the Top Remittance Developing Country Recipients

Top 20 International Remittance Receivers in Developing Countries (US million)

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

Dominican Republic: Remittances and Development

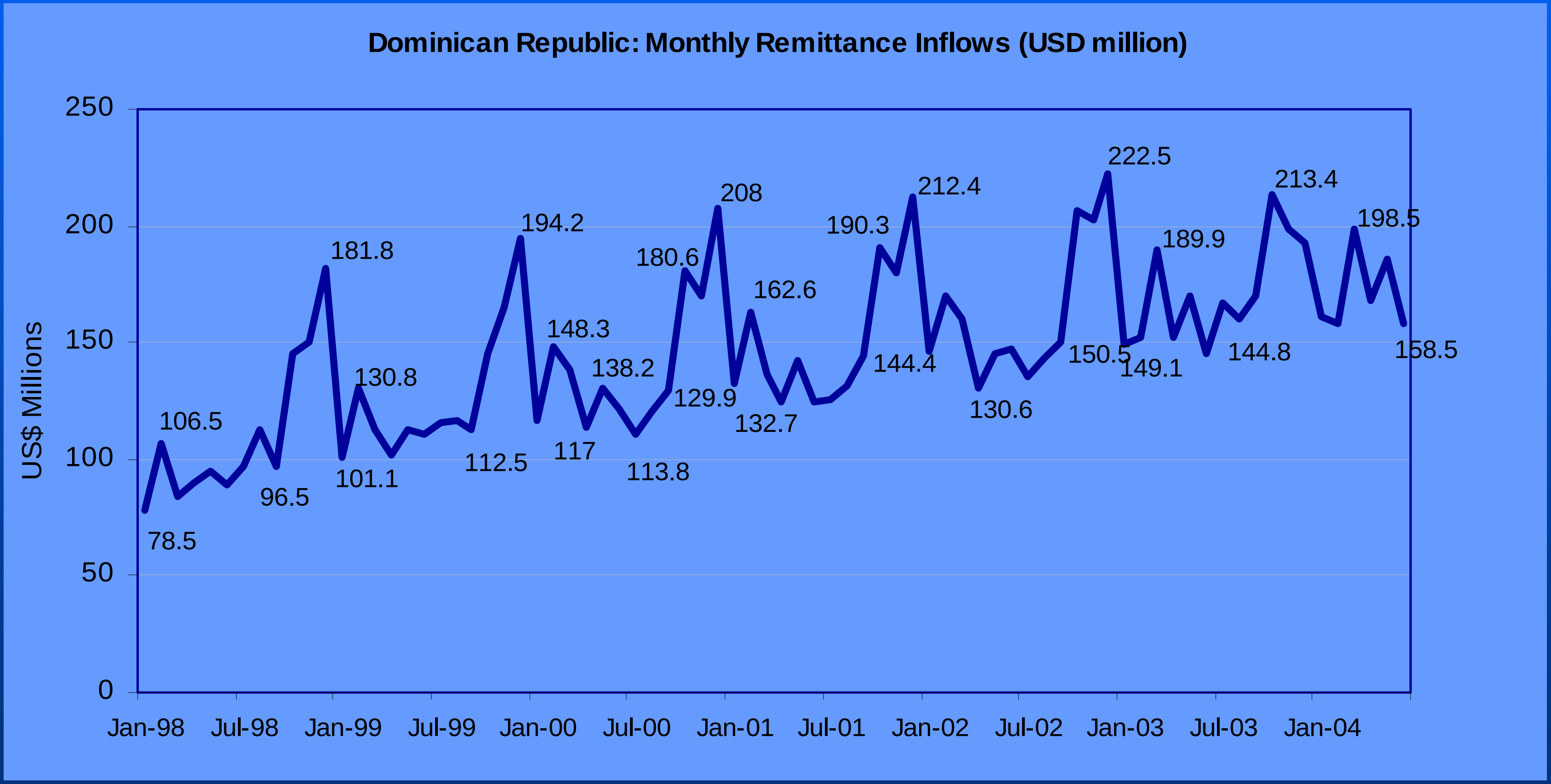
Rapid Growth and Better Quality Data



Source: Inter-American Development Bank, Central Bank of the Dominican Republic
*2003 IADB estimates **2004 IADB forecast

Dominican Republic: Remittances and Development

Monthly Remittance Flows Exhibit Seasonality



Source: Central Bank of the Dominican Republic

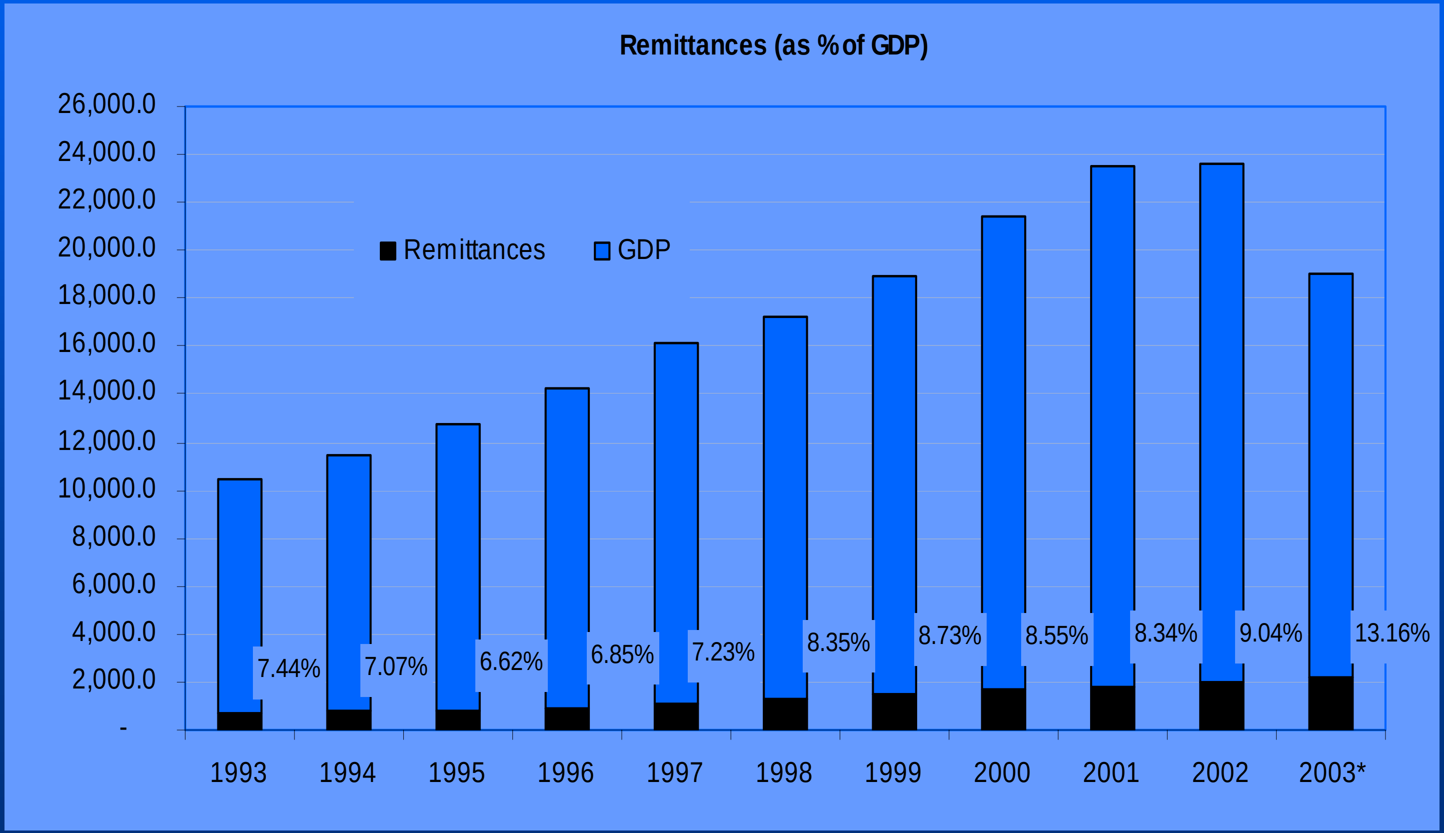
Dominican Republic: Remittances and Development

Inflows are of increasing importance at both the macroeconomic and household levels:

- 13% of GDP in 2003
- 47% of free trade zones exports
- 62% of tourism receipts
- 1-3 times FDI (6 times in 2003)
- 4 times foreign portfolio investment
- Approx. 20% of disposable income

Dominican Republic: Remittances and Development

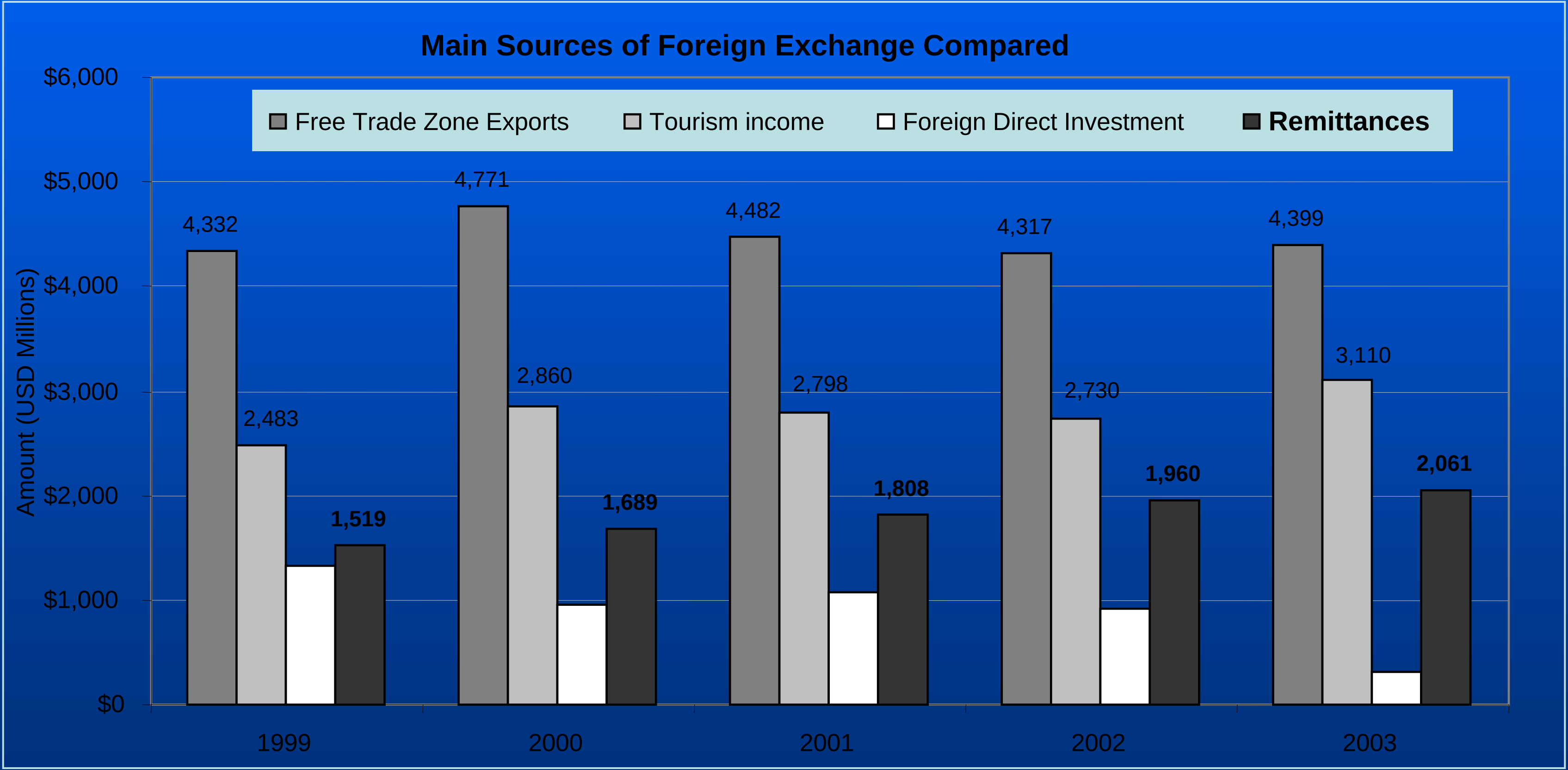
Increasingly Important Economic Impact



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

Dominican Republic: Remittances and Development

Remittances Are A Major Source of Foreign Exchange



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

Dominican Republic: Remittances and Development

Remittances Are Already Saved And Invested

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

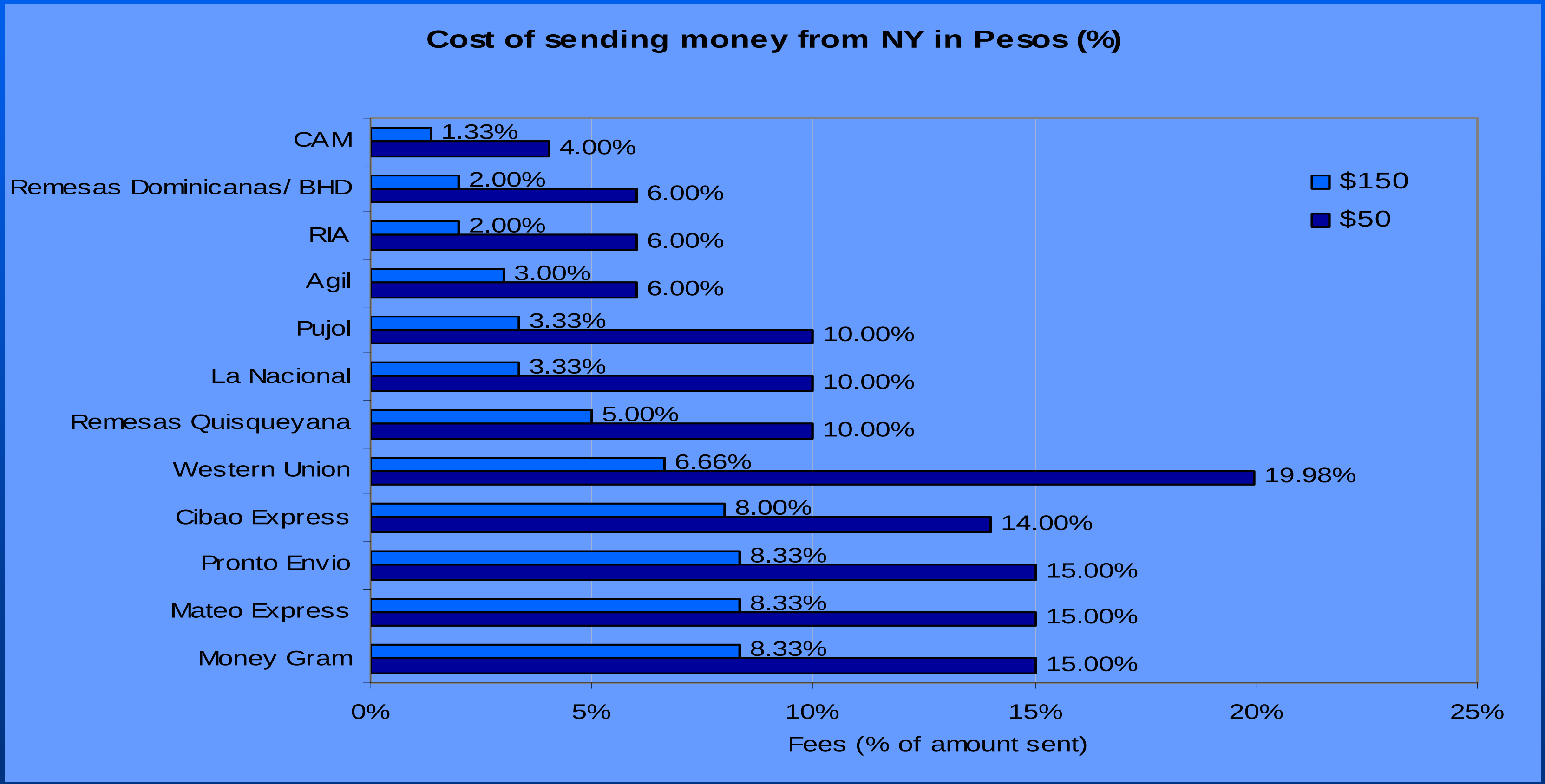
Source: Percentage of each remittance spent comes from Bendixen 2004 Survey "Remittances and the Dominican Republic". Amount of potential flow into various uses: author's calculations.

Dominican Republic:
Remittances and Development

- High costs reduce the amount available for savings and investment
- Increase savings mobilization and relieve credit constraints for low and low-middle income groups
- Use remittances to modernize financial and communications infrastructure
- Harmonize with government objectives in other areas - hunger, access to education, gender equality, rural development and public health

Dominican Republic: Costs of Remittances

Prices Have Fallen But Price Range Is Large



Percentage fees do not include foreign exchange

Source: Survey conducted on November 12, 2004

Dominican Republic: Costs of Remittances

NY More Competitive But No Competition on FX

New York	Pesos $150		USD $150		FX NY 12-Nov
Money Gram	12.5	8.33%	17.0	11.33%	25.75
Mateo Express	12.5	8.33%	17.0	11.33%	25.75
Pronto Envio	12.5	8.33%	17.0	11.33%	25.75
Cibao Express	12.0	8.00%	17.0	11.33%	25.75
Western Union	10.0	6.66%	22.0	14.67%	25.75
Quisqueyana	7.5	5.00%	12.0	8.00%	25.75
La Nacional	5.0	3.33%	12.5	8.33%	25.75
Pujol	5.0	3.33%	11.0	7.33%	25.85
Agil	4.5	3.00%	7.5	5.00%	25.75
RIA	3.0	2.00%	7.5	5.00%	25.75
BHD	3.0	2.00%	17.0	11.33%	25.75
CAM	2.0	1.33%	14.0	9.33%	25.75

Central Bank Rate = 27.50

Percentage fees do not include foreign exchange

Dominican Republic: Costs of Remittances

Massachusetts	Pesos $150		USD $150		FX MA 12-Nov
Western Union	13.5	9.00%	18.0	12.00%	26.5
Money Gram	12.5	8.33%	17.0	11.33%	25.8
Quisqueyana	7.0	4.67%	12.0	8.00%	26.6
Pronto Envio	4.6	3.07%	17.0	11.33%	26.5
La Nacional	2.0	1.33%	4.5	3.00%	26.5
CAM	2.0	1.33%	0.7	0.45%	26.5

Florida	Pesos $150		USD $150		FX FL 12-Nov
Western Union	15.0	10.00%	18.0	12.00%	26.5
Money Gram	12.5	8.33%	17.0	11.33%	26.5
CAM	0.8	0.50%	1.4	0.96%	26.5

Online	Pesos $150		USD $150		FX Online 12-Nov
Money Gram	20.0	13.33%			26.0
Western Union	15.0	10.00%			26.5
Cashpin	12.5	8.33%	17.0	11.33%	26.5
XOOM	11.4	7.60%			27.5
Ikobo	9.5	6.33%			25.4

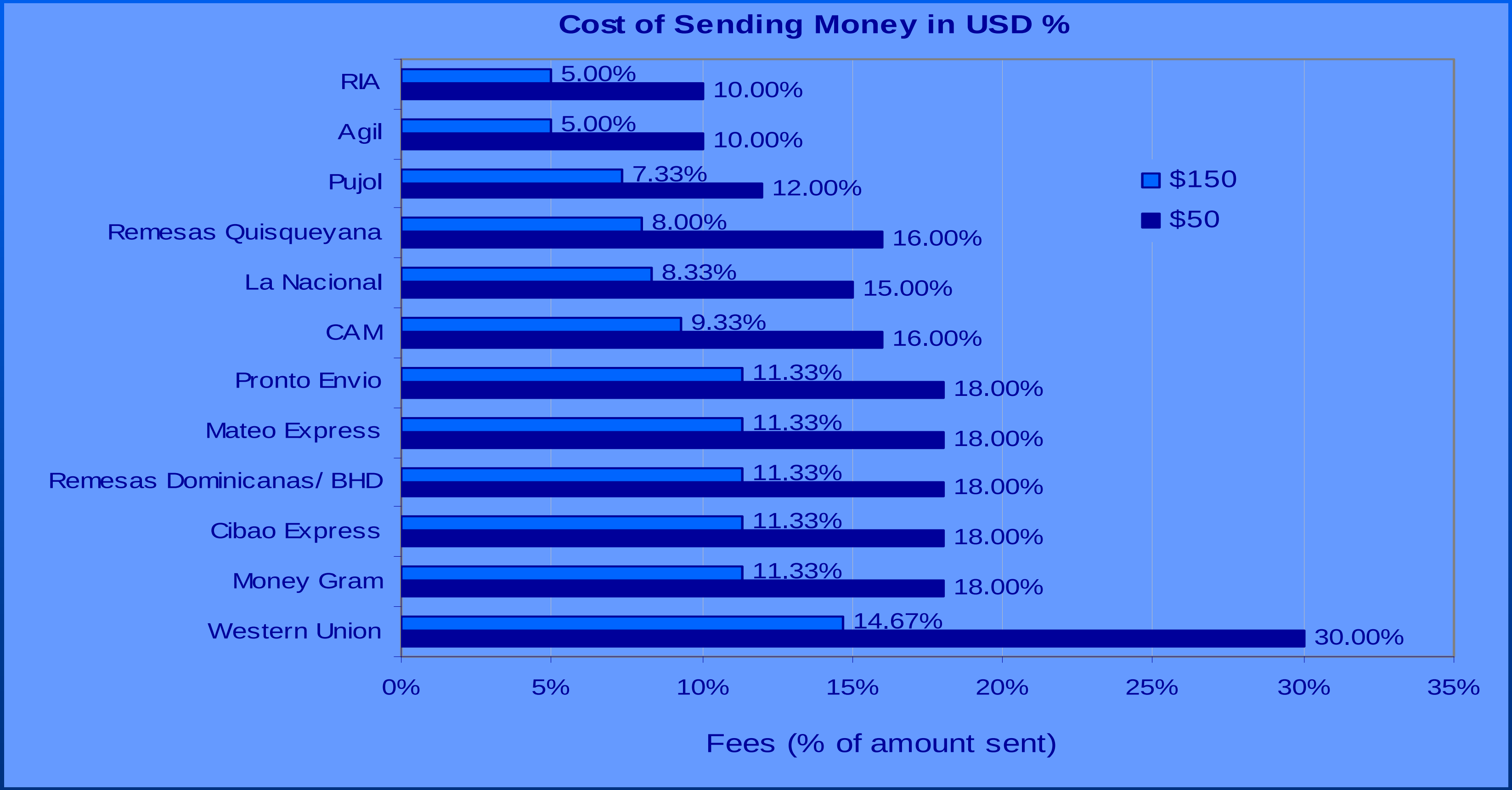
Source: Author's survey November 12, 2004.

Central Bank Rate = 27.50

Fees do not include foreign exchange

Dominican Republic: Costs of Remittances

Transmitters Prefer Not To Disburse in Dollars



Source: Survey conducted on November 12, 2004

Dominican Republic:
Remittances Companies and Products

Very Few Products Are Offered Outside of Cash Money Transfer

Remittance sending institutions to Dominican Republic from NY

	Money transfer	**Debit Card**	**Telecom**	**Cargo**	**Shopping**	**Travel**	**Online**
Bancomer Transfer Services	X						
BHD Corp.**	X		X			X	
CAM	X			X			
Cibao Money Transmitting	X						
Envios de Valores La Nacion	X						
Remesa Agil	X						
Pronto Envios	X						
Mateo Express,	X						
MoneyGram	X						X
Remesas Pujols	X					X	
Remesas Quisqueyana	X	X	X	X	X	X	X*
RIA Telecommunications	X						
Vigo Remittance	X						
Western Union	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.

Dominican Republic: Remittances Companies and Products

Commercial Banks	Home delivery	Remit branch	Bank branch	POS	Card	Wire transfer
Banco BHD/Rem. Dom.	X	X	X	X[1]		
Banco Com. Sa.						X
Banco de Reservas						X
Banco del Progreso			X			X
Banco Mercantil	X	X		X	X	
Banco Popular Dominicano						
Citibank						X
The Bank of Nova Scotia	- unknown -					
Banco Multiple León				X	X[2]	
Banco Vimenca		X				

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

[2] **Banco 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.**

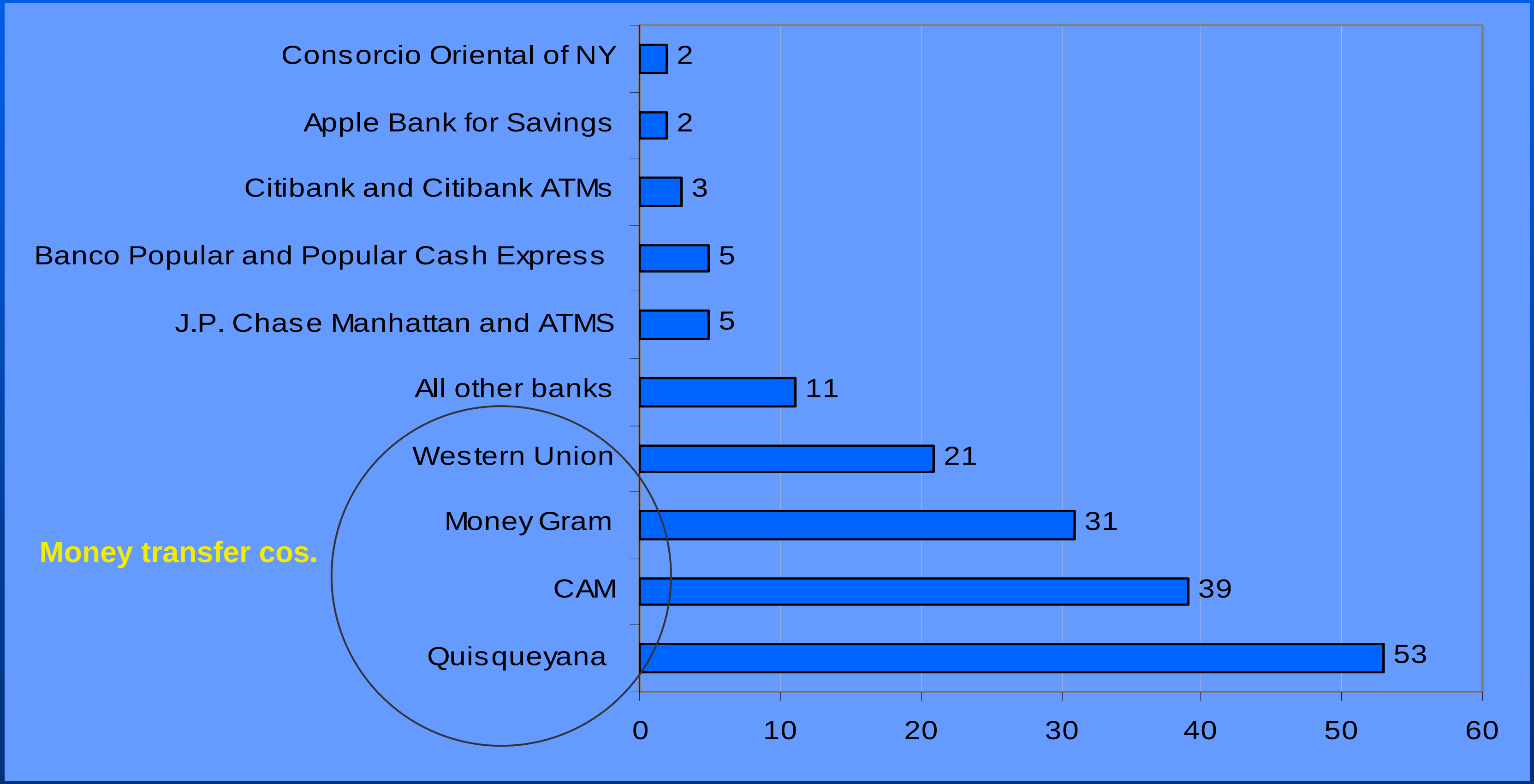
Dominican Republic: Remittances Companies and Products

	Home delivery	Remit branch	Bank branch	POS	Card	Wire transfer
Development Banks						
BHD PyME				X		
Associations						
AIRAC			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					

Dominican Republic:
Increasing the Role of Commercial Banks

Few Banks Can Compete With Money Transfer Presence

Bank branches and Money Transfer Companies in Washington Heights*



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

Dominican Republic:
Increasing the Role of Commercial Banks

Head-to-Head Competition For Foreign Exchange In Dominican Republic

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

Dominican Republic: Costly Web of US Money Transfer Regulation

Regulatory bodies involved in money transfer industry	
State banking regulators	Licensing, consumer protection, financial products, criminal investigations. Lack of clarity on authority vs. federal agencies.
Internal Revenue Service	Implement/enforce Bank Secrecy Act
Office of Foreign Assets Control	OFAC list of those identified as risks to national security. All compliance filters through this list.
Office of the Comptroller of the Currency	Supervisory guidance to national banks on due diligence of money transmitters.
Financial Crimes Enforcement Network	Investigation and law enforcement. Leads interagency and international anti-money-laundering efforts. Strategic analysis for government and policymakers.

Dominican Republic: Costly Web of US Money Transfer Regulation

Uneven Results

- Little attention to consumer protection, transparency, relationship between agents and transmitters
- Some money transfer companies go further than regulations
- US banks closing accounts

Partnerships:
New Clients, Products and Processes

Market Expansion

- 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

Community Development

- Western Union – First Data/Western Union Foundation
- Money Gram – Habitat for Humanity, New York

Information Technology

- Xoom Corp.- Envios Boya
- Quisqueyana – Banco Mercantil
- Quisqueyana- AOL, Terra.com
- BPD Bank – PayQuik

Government Innovation: *Comer Es Primero* and Debit Cards

Comer Es Primero program

- Food subsidy distribution
- 6,000 families
- Smart Cards
- Connects small groceries
- Other government services can be added
- RD$ 500/month

Benefits

- Distribution not political
- Will be scaled up in future
- Access to new technology and services
- Businesses see benefits of connecting in sales
- Demonstration effect of cardholders

Recommendations: Public Sector Institutions in the Dominican Republic

Policy interventions

- Strengthen relations with the Dominican diaspora
- Improve access to financial literacy and basic technology training
- Systematically analyze remittances in the Dominican economy
- Make regulation and financial system responsive to industry needs

Recommendations: Public Sector Institutions in the Dominican Republic

Financial infrastructure

- Integrate remittances explicitly into financial system modernization
- Promote transparency in the remittances market
- Open negotiations for Automated Clearinghouse (ACH) system
- Automate data sources and data collection
- Increase public access to data about remittance options
- Make regulation and financial system responsive to industry needs

Recommendations: Financial Institutions in the Dominican Republic

- Expand access to existing value-added financial services to remittance senders and receivers
- Sponsor incentives and education for financial responsibility and empowerment
- Adoption technology based services for remittances receivers
- Community-based financial institutions should consider the broadest possible range of partnerships and technology deployment

Recommendations: State and federal public sector in the United States

- Promote a more open and inclusive dialogue with the money transmitters industry in the United States
- Improve monitoring of money transmitters for transparency and consumer protection
- 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: 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