Billions in Motion: Latino Immigrants, Remittances and Banking

A Report produced in cooperation between The Pew Hispanic Center and The Multilateral Investment Fund

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MIF FOMIN

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The Pew Hispanic Center is supported by The Pew Charitable Trusts of Philadelphia. It is a project of the University of Southern California Annenberg School for Communication. Founded in 2001, the Center is a non-partisan research organization.

MIF (the Multilateral Investment Fund), founded in 1993, helps finance private sector development projects in Latin America and the Caribbean.

Authors:

Roberto Suro
Director
Pew Hispanic Center
Born in the United States of parents from Puerto Rico and Ecuador, Suro has more than 25 years of experience researching and writing about Latinos, most recently for The Washington Post. He also worked as a foreign correspondent for TIME and The New York Times in Latin America, Europe and the Middle East. Suro is author of *Strangers Among Us: Latino Lives in a Changing America* (Vintage, 1999).

Sergio Bendixen
President
Bendixen & Associates
Bendixen & Associates is a Florida-based survey, management and communications consulting group that focuses on the characteristics of the Latino population and market in the United States and Latin America. Before forming Bendixen & Associates, Mr. Bendixen was the on-air political analyst for the Spanish International Network (1985-86), Univision (1987-92), CNN en Español (1993) and Telemundo (1994-98).

B.Lindsay Lowell,Ph.D.
Director of Research
Pew Hispanic Center
Lowell previously directed research at the Institute for the Study of International Migration at Georgetown University and the U.S. Commission on Immigration Reform where he served as National Coordinator for the Mexico/U.S. Binational Study. He co-edited *Sending Money Home: Hispanic Remittances and Community Development* (Rowman & Littlefield, 2002).

Dulce C.Benavides
Project Specialist
Pew Hispanic Center
Benavides recently received a graduate degree in Clinical Psychology from St. Mary's University of San Antonio. Before joining the Pew Hispanic Center, she was a Research Associate for the Psychological Corporation, where she was part of a research team responsible for publishing clinical assessments that included Spanish language products.

The opinions expressed in this report are those of the authors and do not necessarily reflect the views of The Pew Charitable Trusts.

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Executive Summary

By Roberto Suro

Until recently, the money management practices of Latino immigrants in the United States aroused little attention outside their own communities. That changed as the remittance flow doubled in size during the second half of the 1990s. Although the size of the average remittance transfer is miniscule—$200 to $300—in the world of international finance, the cumulative sums have now captured the attention of government policymakers and bankers in the United States and Latin America. Remittances to Latin America and the Caribbean totaled $23 billion in 2001, according to estimates by the Multilateral Investment Fund.

Not long ago this was a cottage industry in which cash was often hand carried across borders. In the 1990s it evolved into a traffic dominated by wire-transfer services such as Western Union, and now it is becoming increasingly formalized as more credit unions offer remittance services and with the introduction of electronic banking products that allow a remittance deposited in an Automatic Teller Machine (ATM) in the United States to be retrieved almost instantly from an ATM in Latin America.

Central banks across the region are tracking remittance income more carefully which has somewhat boosted the numbers they report. Nonetheless, there seems little doubt that the remittance flow has continued to increase over the past two years even as the U.S. economy dropped from its boom time peaks. In 2000 remittances to Mexico, El Salvador, Guatemala, Honduras and Nicaragua—nations that receive almost all their money transfers from the United States—totaled some $10.2 billion. This year that figure could reach $14.2 billion or more, a flow of $39 million a day. By 2005 the sum, which does not capture all remittances to Latin America, will go beyond $18 billion, according to projections by the Pew Hispanic Center.

These figures are evidence of a kind of economic activity that is resistant to the U.S. business cycle. They also reflect the needs pressed by economic hard times in Latin America and efforts by governments in those receiving countries to smooth the flows. Moreover, they are indicators of an international financial activity that has grown markedly not only in size but also in the levels of competition and efficiency in the last few years. And, those sums are also the monetary expression of a profound human bond between people who come to the United States to work for long hours at low wages and the families they left behind.

Over the past two years Wells Fargo, Bank of America, and Harris Bank, as well as many other financial institutions, have launched initiatives to capture a larger share of the Latino immigrant market. Some U.S. banks have acquired stakes in Mexican banks or established cooperative arrangements to facilitate remittance flows. Many of the nation's credit unions have also created such programs and have entered the international money transfer arena.

What has not changed is the population of remittance senders—except that it continually grows larger. They are, as they long have been, mostly recent immigrants with little education and low earnings and not much familiarity with banking systems either in the United States or in their home countries. Because they are both the generators of wealth in this industry and the prime consumers, their decisions about how to manage their money will largely determine how the remittance flow evolves.

In order to better understand how remittance senders view the rapid changes taking place in the money transfer industry, the Pew Hispanic Center and the Multilateral

Investment Fund of the Inter-American Development Bank joined forces to produce this report. Together they retained Bendixen & Associates, a public opinion research company based in Miami that specializes in polling Latinos in the United States, to conduct an intensive study of how remitters choose the means to send money home. Extensive interviews with 302 remittance senders focused on their understanding of the costs involved and their willingness to use new methods, such as the electronic transfer products that U.S. banks are now putting on the market. This study builds on a Bendixen survey of Latino immigrants on remittance sending conducted for the Multilateral Investment Fund in 2001.

In addition, the Pew Hispanic Center is presenting two other pieces of research: projections of remittance flows to Mexico and Central America that illustrate the extraordinary growth in recent years and the potential for continued growth and a demographic portrait of Latino remittance senders drawn from the Pew Hispanic Center/Kaiser Family Foundation National Survey of Latinos.

Some of the key findings in this report include:

• Remittance senders are often unaware of the full costs they are paying to send money home and have made little effort to explore alternative methods. Instead, they tend to rely on word-of-mouth recommendations, familiarity and convenience in choosing a method for transferring money, even when they are concerned that they are paying high fees.

• When they become aware of innovations, remittance senders are willing to entertain new money transfer products and are not particularly wary of new technologies such as the use of ATMs for international transactions. Remitters in the United States, however, judge such products not only by how they operate on the sending end of the operation but also by the convenience, security and reliability on the receiving end. Thus, the quality of the financial services infrastructure in Mexico and the rest of Latin America is as important as the quality of the service in the United States to the future development of this industry.

• Many remittance senders take a skeptical view of banks and other financial institutions. These opinions are often based on impressions rather than firsthand knowledge because many remitters and their families do not have bank accounts or credit cards. Minimum balances and transaction fees are widely viewed as excessively burdensome and too expensive for the services rendered. Remitters who were not lawfully admitted to the United States have faced an added obstacle because of the requirement to present U.S. identity documents when applying for a bank account. This situation is now changing rapidly with the growing acceptance by banks of the ID cards issued by Mexican consulates.

"Many remittance senders take a skeptical view of banks and other financial institutions, and these opinions are based on impressions rather than firsthand knowledge..."

"Reducing the cost to 5 percent of the amount remitted would free up more than a $1 billion next year for some of the poorest households..."

- If present trends continue, remittance transfers from the United States to Mexico and Central America will exceed $20 billion a year within five years. In this decade, the transfers are likely to total more than $180 billion. These calculations are based only on the largest and most carefully monitored remittance flows to Mexico and four Central American nations. They do not include the substantial amounts going to the Dominican Republic, Jamaica, and other nations of the Caribbean and Latin America with large and growing immigrant populations in the United States.

- These very large amounts of money are coming from one of the least prosperous segments of American society. Remittance senders tend to be young immigrants who have relatively little education compared to the rest of the U.S. population and who are employed predominately as laborers for low wages.

The remittance flow is a topic of interest to the Multilateral Investment Fund of the Inter-American Development Bank because of its profound implications for the economic integration of the hemisphere and the future course of economic development in receiving countries. It is of interest to the Pew Hispanic Center because this form of economic activity could be the point of entry through which a broad segment of the Latino population in the United States engages the nation's banks, credit unions and other financial institutions.

The remittance process is a timely issue because it is experiencing rapid growth and change at the same time. The cost of sending money home from the United States has declined sharply in recent years. Research conducted by Manuel Orozco, project director for Central America of the Inter-American Dialogue, shows that the average transfer fees and foreign exchange charges for sending a $200 remittance to Latin America has dropped below $20, which is about half of what it was three years ago (Orozco, 2002). Many remitters pay more, and when the costs of cashing a paycheck and other fees are added into the picture, the total cost of the average remittance transfer often goes to 10 or 15 percent of the amount sent. There is cause to believe, however, that costs could decline further.

"One of the reasons that prices have remained high is a lack of competition in the money transfer business," said Sheila C. Bair, then Assistant Treasury Secretary for Financial Institutions, at a Multilateral Investment Fund regional conference earlier this year. "The industry continues to be dominated by a small number of money transmitters that generally tend to charge higher fees than banks or credit unions. By increasing competition, the price of remittances should continue to drop."

Reducing the cost to 5 percent of the amount remitted would free up more than a $1 billion next year for some of the poorest households in the United States, Mexico and the Central American countries covered in the Pew Hispanic Center projections. Between now and the end of the decade, the savings could amount to some $12 billion. It goes without saying that such a sum could change many, many lives. The interaction between financial institutions and this new population of consumers will determine whether or not the promise is realized. This report explores that dynamic primarily from the side of the remittance senders, and it identifies both the opportunities and the obstacles to further change.

The Remittance Process and the Unbanked

By Roberto Suro and Sergio Bendixen

Introduction

What do Latino immigrants know about the costs they pay to transfer money home? What do they think about U.S. banks and other institutions that are anxious to get in on the remittance sending business?

In order to answer these questions, the Pew Hispanic Center and the Multilateral Investment Fund commissioned a study composed of in-depth personal interviews designed to probe attitudes among remittance senders toward the process of sending money home and financial institutions. Bendixen & Associates, a public opinion survey firm, conducted the interviews to explore the thinking of the people at the center of this multibillion-dollar money flow but who have little say in it. Listening to the remittance senders themselves allows for new insights into how the remittance process is changing and the prospects for further change.

Most remitters use private money-transfer services, such as Western Union or MoneyGram, which are expensive relative to banks and credit unions. Remitters come disproportionately from the working poor, and many are in the United States illegally. They are seldom aware of either the full costs or of the alternative methods for remitting money. In principle, they are anxious to switch to cheaper methods and have no objections to dealing with the banking system or using technology such as Automated Teller Machines (ATMs) or debit cards. While simple familiarity and traditions within immigrant communities lead them to rely on check-cashing services, no substantial cultural factors appear to bar their engagement with U.S. banks. Indeed, Latinos who never had a bank account in their home countries and who come from families that never did business with banks are willing to consider opening accounts here if they think the costs are reasonable. However, a variety of legal and institutional factors impede their ability to do so. Many lack proper identity documents and fear that the failure to produce valid papers at a bank will jeopardize their ability to stay in the country. They enthusiastically embrace innovations that help overcome legal impediments to banking such as the identity cards issued by Mexican consulates in the United States known as the "matricula." Yet despite all the recent developments that have helped formalize and ease the remittance flow, for many Latinos it remains an expensive and bewildering process.

> "They started taking out a calculator and adding up the numbers and [they] weren't adding up properly..."
>
> —*Moreina, Venezuela*

Methodology

Due to its subject matter, this study could not be conducted readily as a survey of a random and representative sample of the population of interest. Standard sampling techniques frequently under-represent the poor and working class, the undocumented, and, in some cases, the foreign-born and Spanish-dominant. These are all important characteristics of the population this study set out to examine. Furthermore, bias is often introduced in polls that deal with personal finances and legal status because many people decline to disclose such information. Consequently, standard survey techniques for ensuring randomness and representativeness

were judged inappropriate for an in-depth investigation of remittance-sending practices and attitudes toward financial institutions in the low-wage Latino immigrant population. Therefore, the data presented in this study describe a group of remittance senders who were interviewed at length, but the results are not meant to reflect a randomly selected, representative sample of the population of remitters.

For this study, 302 participants were interviewed in July and August 2002 in Miami and Los Angeles. The participants were over 18 years old, born in Latin America, reside in the United States, and send remittances to their families in their home countries on a regular basis. The pool of participants was recruited to match the distribution of national origins among foreign-born Latinos residing in the United States.

All of the participants were interviewed in Spanish by two teams employed by Bendixen & Associates. The teams followed a set format of questions to facilitate a dialogue between the participant and the interviewer. Much emphasis was placed on creating a relaxed and trusting atmosphere with the participants in order to explore with them the major issues of the interviews. As a result, the interviewers were able to listen to and record a great deal of qualitative information about the interviewees' practices with remittances and their relationship to the banking systems in the United States and Latin America.

For specific details on sample construction and other methodology issues, please see Appendix: Methodology (page 23).

Overview

The first section of this paper examines the characteristics of the remitters and describes their reasons for sending money to their home country. The study results show that senders place a very high priority on sending money home. The interviewers found that those who remit for purposes of investment maintain greatest control over their remittances. In addition, this paper examines the problems facing those that send money. The high cost of transferring money, due to flat fees and unfavorable exchange rates, is especially important. Many of these problems can be overcome through the use of modern electronic banking technology. Therefore, the study examined participants' willingness to use new technology. Once the methods are explained, the study found, remitters are excited about using them. However, other impediments restrict immigrants' access to the banking system. In particular, participants avoid using banks because they fear having to pay high fees and maintain large minimum balances. Moreover, persons not legally authorized to be in the country have been substantially precluded from using the banking system until recently and lack of proper documents remains an obstacle for many.

An International Cash Economy

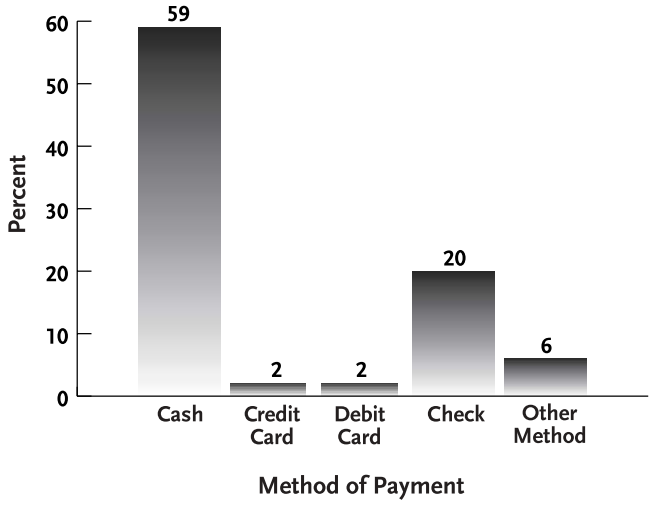
Almost all of the Latino immigrants interviewed for this study remit money to help their families pay ordinary living expenses, such as rent, utilities, and food, rather than for savings or to support a business endeavor. Indeed, it appears that the ability to contribute to a family budget back home is a major motivation in their decision to come to the United States. A substantial majority remits monthly, and a meaningful minority sends money at least quarterly. Given that engaging in an international transfer of funds is a major focus of their life here, it might seem surprising that a large proportion have no regular relationship with a bank or another financial institution.

> "Because I don't have a lot of bills, I just pay my light bills and things at the check-cashing store. Because I don't want to have an account so that they can keep charging me high fees, for two or three checks a month. For that (more expensive things) I use a money order."
>
> *–Evelyn, Dominican Republic*

In the Pew Hispanic Center/Kaiser Family Foundation National Survey of Latinos, 43 percent of the respondents who said they sent remittances regularly did not have a bank account, and 55 percent said they did not have credit cards. In this study 58 percent of the participants said they did not have bank accounts. A large majority of those interviewed for this study said they pay their bills with cash rather than writing a check or using a credit or debit card.

Lacking bank accounts, many either purchase money orders or use friends' checking accounts when cash cannot be used. Figure 1 below shows the breakdown of the different methods by which participants in the study pay their bills.

Figure 1: Breakdown of Participants' Payment Methods



For remittance senders, these payment methods are not mutually exclusive. In order to avoid paying monthly fees to a bank, the woman quoted above does not maintain a checking account. Nonetheless, she uses a check cashing service that charges fees for every transaction—cashing each paycheck and writing each money order. Her total costs are probably higher than if she properly managed a checking account, particularly if she could maintain a minimum balance. This example highlights how even those who require some banking services are not incorporated into the system, and it illustrates the misunderstandings and miscalculations that characterize many of the participants' handling of money.

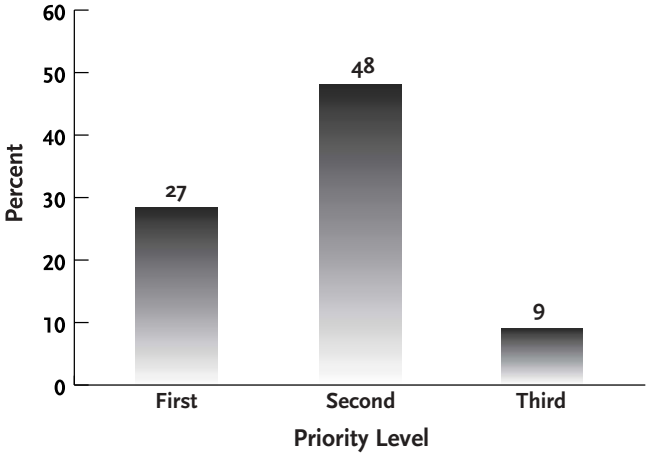
Since most remitters do not have any kind of bank account, they must rely on money transfer firms to send money to their relatives in Latin America. However, close analysis reveals that even among those that do have bank accounts, few use them to send remittances.

Sending Remittances Is a Priority

Participants in this study place a high importance on remitting money. As Figure 2 shows, a large proportion send money home first, even before paying their own bills. A substantial proportion also remits all money that remains after paying their bills. Only a small fraction does not seem to place a high priority on remitting.

> "Before anything, I send them the money because they count on it. Then afterwards I pay my bills, my rent, but the first thing I do is send it."
>
> *–Marisela, Mexico*

Figure 2: How Participants Rank the Importance of Sending Money Home



The importance senders place on remittances may stem from the purposes for which the money is sent. A large majority sends money to their relatives for mere subsistence.

"They use the money for food and the most basic of necessities and nothing else."

–Antonio, Mexico

[I send] "for their expenses, to eat, to pay the bills, telephone, electricity, buy clothes, all that they can buy."

–Leonor, Mexico

"One part is for savings, the other part for the primary necessities like education. It depends on my wife and the priorities she has. So I go ahead and send the money, and it just goes where she uses it."

–Eduardo, Mexico

The Pew Hispanic Center/Kaiser Family Foundation National Survey of Latinos showed that remittance senders tend to be young and that the greatest propensity to remit is among those who immigrated at the age of 20 or below. Many of the participants interviewed for this study who fit that profile said they were sending money home to their parents or spouses. In such cases remittance sending is more than an effort to help relatives. Participants spoke of remittances sent to parents as something of a sacred duty that springs from a profound emotional bond.

Money Sent for Investment Is Subject to Greater Control

As noted above, most remittances are sent to pay for necessities. Since the receiving families are poor and the remitters distant, remitters maintain little control over how the money is spent.

"No, I have never had control. They spend it on stuff like medicine for my mom and expenses they have to pay and I don't know what else they use it for."

–Elizabeth, Guatemala

However, money sent for investment purposes is subject to greater control and oversight.

"Part of it is for them to save for me and the other is for their expenses. That's why I am so aware of it."

–Marisela, Mexico

Indeed, remitters distinguish between money sent for necessities versus that sent for investments and the different levels of oversight that each use merits.

"At first I sent money for them to spend. But then I sent it for the store. It's my store, they run it. If they need something for the store, they let me know and I send it."

–Juan, Mexico

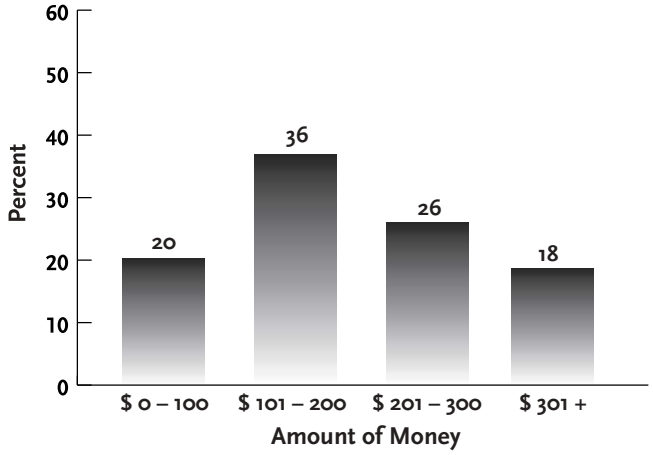
Despite the increased control, those who remit for investment purposes are no more knowledgeable about the various processes for sending money. Among the group who remits for investment, the overwhelming majority consider themselves unknowledgeable about the options for remitting money.

High Costs and Exchange Rates

The most serious concern voiced by remitters is the high cost of sending money. Although costs have declined significantly in recent years, remittance-sending firms still predominately charge flat fees (Orozco, 2002). This results in a regressive price structure, which puts the average Latino remittance sender at a distinct disadvantage. Because most remittances originate from low-wage workers in the United States and are destined to support basic living expenses for low-income families in Latin America, they are sent at regular intervals—often monthly—and in relatively small amounts—$200 at a time on average and even less in many cases (Bendixen, 2001). Flat fee pricing structures, of course, impose the highest costs in percentage terms on remitters sending the smallest amounts of money.

Past research shows that fees for money transfers can reach as high as 15 percent. For a remitter converting part of a paycheck issued by a U.S. employer into money sent home to Latin America, the actual costs often include a check-cashing fee and other expenses in addition to the international money transfer fee. This can prove a disheartening and expensive process for the unwary remitter.

Figure 3: Average Amount of Money Participants Send Home



"I used (Western Union)...and it went badly. They increased the taxes and fees. I would send $50 sometimes and they would charge me $17 for $50. Or $17 for $20."

–Isaid, Mexico

Remitters incur a second set of costs that are less well recognized. Wire transfer services and banks usually charge fees to convert remitted dollars into local currency. Moreover, these firms set the exchange rate. Finally, additional fees are sometimes deducted at the receiving end. Participants in this study said they had often been surprised that the amount of money delivered to their relatives was less than they had expected and said they were unaware of the total costs prior to the transaction.

"....when they [my relatives back home] go to change it [a remittance] they [the money changers] take away 60 over there. They say it's so that something is left; but I really don't know why or what for. But they have always taken something away."

–-Elizabeth, Guatemala

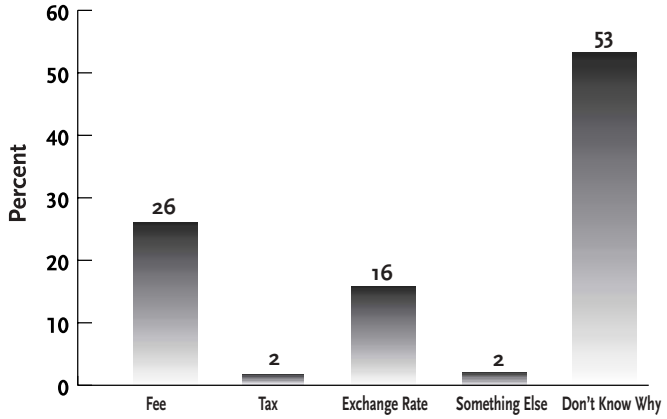
Most commonly, the remittance is smaller on the receiving end than the sender expected because firms make a profit on exchange rate differentials.

> "Western Union takes a lot—for instance if the exchange rate is 9.9 they charge 9.1"
>
> *–George, Mexico*

Mexicans interviewed in Los Angeles for this study showed a considerable awareness of the extent to which currency conversion reduced the size of their remittances. Many of these participants said they were regularly apprised of the official exchange rate through the daily reports in the Spanish-language media. When they send their remittances and are told what exchange rate the money transfer agency is using, they are aware that it is less favorable.

However, this study found that a substantial number of the remitters, probably a majority, is unaware that there are costs in addition to the flat fees they are charged for a wire transfer. In numerous interviews, participants seemed surprised when the process was explained to them and commented that they had not given it much attention.

Figure 4: Participants' Perceptions of Why Money Transfer Service Takes Additional Money



As Figure 4 shows, more than one-half of the participants interviewed had no idea why the sums received by their relatives were less than expected. Only a small percentage of the participants identified exchange rate differences as the source of additional costs.

As with consumers in any market, lack of knowledge among remittance senders limits the efficiency of the marketplace for transfer services and leads to artificially high costs due to lack of effective competition.

Some remitters report that they have tried to circumvent the costs arising from currency conversion by sending U.S. dollars to their families only to be thwarted by transfer services that require the exchange of funds into local currency.

> "I would like them to send the money in dollars, and have them receive it in dollars there, but they don't give it to them like that. They can't."
>
> *–Leonor, Mexico*

> "It never arrives in dollars, it always arrives in Bolivares. It is more expensive because they add on an extra charge."
>
> *–Moreina, Venezuela*

Remitters Are Often Passive Consumers

More than three-quarters of the participants in this study described themselves as lacking knowledge of the available options for sending remittances and indicated they had done little to explore the market. Past work (Bendixen, 2001) shows that remitting methods are selected primarily by the proximity of the transfer agency and the speed with which the money arrives in the home country. Convenience and force of

habit are the governing factors rather than effective cost comparisons. When participants in this study were asked how informed they considered themselves about the various methods and systems available to send remesas, nearly all admitted that they were not well informed at all. Most reported that they had begun using one or another transfer agency on the advice of a friend or family member or in response to advertising and had remained faithful to it. Their brand loyalty to a specific money transfer agency was underscored when participants were asked whether they had ever used other firms or methods to send money home. About two-thirds said they had not done so. Even among those who have ventured beyond the cash economy and have opened checking or savings accounts few were aware that they had options other than wire transfer services for sending remittances. Indeed, less than a quarter of participants with bank accounts understood that banks could send remittances.

Is Technology a Solution?

The widespread availability of ATMs in the United States and of debit cards linked to bank accounts, along with developments in the use of digital information technologies for international bank transactions, all raise the prospects for increased technical efficiency in the remittance-sending process. In the United States, Latino remittance senders tend to be young, poorly educated laborers, according to the results of the Pew Hispanic Center/Kaiser Family Foundation National Survey of Latinos. Given such limitations, these remitters might seem unlikely customers for computerized methods of money transfer. However, this population does not appear overly concerned about the use of digital information technology, and participants in this study responded enthusiastically when informed about modern banking techniques that might be applied to remittance sending.

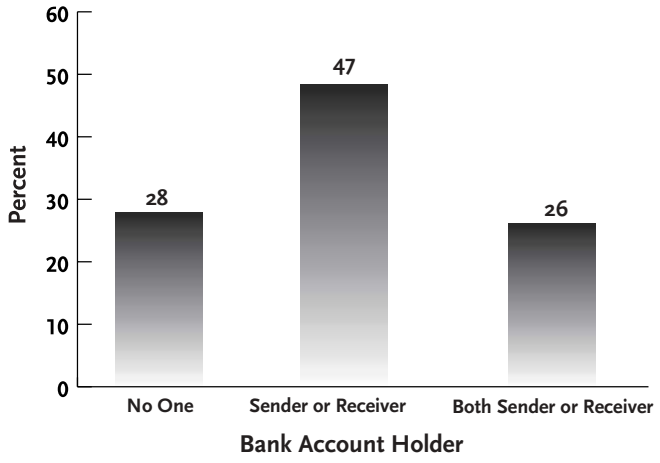
For the most part, remitters do not have firsthand experience with the technology that is now a common feature of personal banking in the United States, but the barriers to the use of such technology by Latino immigrants are hardly insuperable.

Some participants in this study interviewed in Los Angeles reported having seen advertising by banks offering new remittance sending services that use ATM technology. But, a substantial majority of the remitters interviewed was not aware that modern banking technology could be used to remit money to their families. That is not to say, however, that such technology is entirely alien to them. A sizeable number of remitters have bank accounts or credit cards, according to the Pew Hispanic Center/Kaiser Family Foundation National Survey of Latinos. As indicated in Figure 5, many relatives on the receiving end have bank accounts. These individuals and many who do not have relationships with financial institutions have at least a passing familiarity with the use of ATMs, credit cards, and other methods that produce a digital transfer of funds. The key point of information that they are lacking is that such methods can be used to remit funds internationally, and indeed the use of this technology for remittance sending is a very recent and still limited development.

> "It sounds good. I don't see any negative about it. They give me the card and send it to my family. All I have to do is call them and tell them I put in some money and they can take it out, just like they can here. In an emergency, the money gets there really fast and the cost is less than using one of the services."
>
> *—Antonio, Mexico*

During the interviews conducted for this study, participants were told of a hypothetical banking product modeled on ones recently launched by several U.S. banks in partnership with banks overseas, primarily in Mexico. This product

Figure 5: Breakdown of Participants' Payment Methods



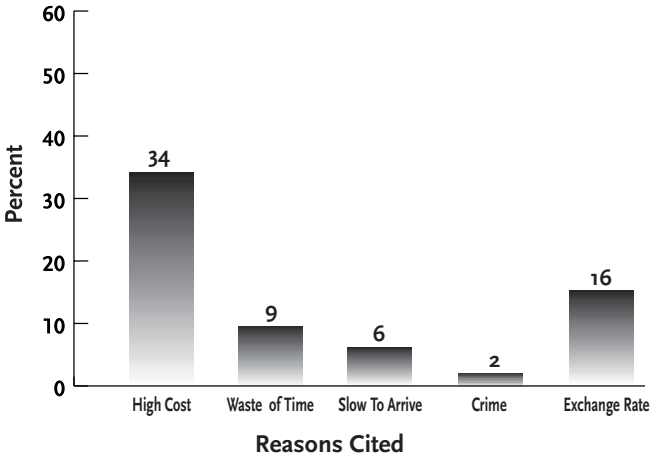
would allow the use of ATMs at both ends of a remittance transaction. In effect, the remittance sender would make a deposit at a financial institution in the United States and the recipient would make a withdrawal in the home country. Once this process was explained, every interview participant said they understood it. Moreover, an overwhelming majority said that they would use the system. Without prompting they cited the benefits of faster, safer more reliable, and more convenient money transfers.

> "In my country, when you send money it's very dangerous because everyone knows the places where people pick up the money. They rob people and steal their money. But if I send it this way, from bank to bank, I don't think that anything would happen to them."
>
> —-*Claudia, Colombia*

This enthusiasm, however, was based on the assumption that ATMs or some other convenient mechanism for withdrawal would be available on the receiving end, and many participants noted that this kind of banking infrastructure does not currently exist in their home communities.

Lowered costs were another important factor conditioning the remitters' willingness to consider this method of money transfer. It appears unlikely that many remitters would be willing to use new transfer methods, unless they offered tangible savings. Conversely, as indicated in Figure 6, sizeable numbers of the remitters interviewed said they would switch their remittance business to a bank from a money transfer service if the fees were lower and the exchange rates were more favorable.

Figure 6: Reasons Participants Cite for Switching to the Banking System from Wire Service



The eagerness to try a new remittance-sending system expressed by survey participants when presented with a hypothetical case needs to be balanced with the inertia that the same participants expressed in their current real life choices of money transfer methods. Large majorities after all acknowledged they know little about the fees they currently pay and said they have done little to learn about alternatives. They gave no indication they would rush to a new competitive product simply because it is put on the market. Several other factors, moreover, impede engagement with the U.S. banking system for many Latino immigrants.

"They explained it to me and to me it is a good idea because the process and the money that is being sent is cheaper. And you know that the person has the card and in any emergency, you can take out the money fast. And the value of the money is the value of the exchange rate of the bank, so they give you more."

—-*Evelyn, Dominican Republic*

Impediments to Banking: High Fees, Minimum Deposits, and Legal Status

Many participants in this study expressed negative views of U.S. banks primarily due to the cost structures for checking accounts. Typically, consumers must choose between the size of the minimum balance they maintain in an account and the fees they pay for the services they utilize (i.e., fees decrease as the minimum balance increases). Maintaining a minimum balance large enough to reduce or eliminate fees—often as much as $1,000—is beyond the abilities of many Latino immigrants who earn low wages, live payday to payday, and dispatch most of their disposable income in remittances. But, aside from this obstacle, participants in this study expressed what appeared to be exaggerated concerns about the fees charged by banks especially when compared to the fees they must pay to check-cashing services when they pay their bills with cash or money orders. In general, there seemed to be a widespread perception among remittance senders that bank accounts are not meant for people of modest financial resources such as themselves and that banks charge too much for the services they do deliver.

"I had no problem opening an account but I did cancel it because of all the fees. And now I use all cash"…"I cancelled my two accounts and when I cancelled it they charged me $20 per account. So, they even charge me to cancel."

—*Catalina, Colombia*

Others who used bank accounts to send remittances expressed dissatisfaction with the costs, but these concerns at least in part seem to reflect a lack of understanding that numerous small transactions can prove expensive when flat fees are charged for each transaction.

"When my aunt came to this country, she opened an account at Washington Mutual and asked for 2 ATM cards, one for her and one to send to Columbia, and it ended up being exaggeratedly expensive. For every transaction they charge $17.50. For example, if she deposited $100, and in Columbia they spent $50 on groceries, they would pay out the $50 at whatever the exchange rate was, and then here, Washington Mutual would take out $17.50 for making a transaction there… "

—-*Catalina, Colombia*

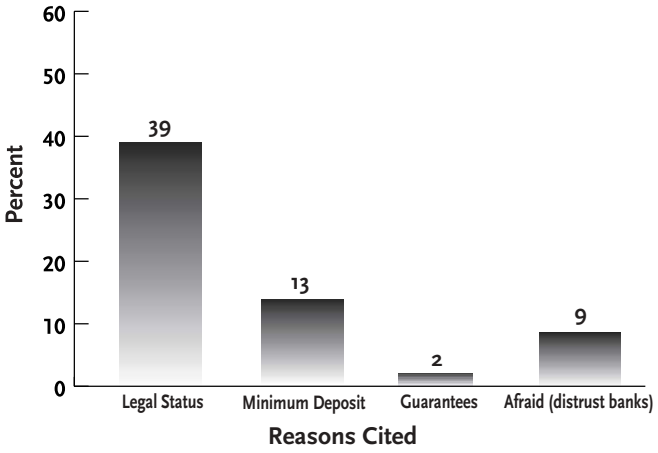
According to a range of estimates, at least two-fifths of the adult Latino immigrant population is made up of individuals not authorized to be in the country (Lowell and Suro, 2002). As such, they cannot legally obtain a social security number which until recently was generally required to open a bank account. In addition, they often lack other forms of authentic identification such as driver's licenses or rental leases that are also frequently required by banks.

"Of the papers they need, I don't have one of them, which is the social security number. So I have a friend who is a citizen and through him I do my transactions. So, if I need a check, my friend writes it and I give him the cash."

—*Nestor, Colombia*

Lack of legal status and the documents that come with it are clearly a major obstacle to the opening of bank accounts for a substantial segment of remittance senders. Aside from the difficulties of producing documents, some participants expressed fears that by applying for a bank account they might expose themselves to detention and deportation by the immigration authorities. There is no ready method, however, for estimating the number of remittance senders who are unauthorized immigrants. As Figure 7 indicates, however, some two-fifths of the participants in the interview survey indicated that their immigration status was the primary impediment they faced to opening a bank account. Indeed, that complaint was voiced about three times more often than concerns over the need to maintain a minimum balance. The growing acceptance by U.S. banks of Mexican consular ID cards is now rapidly alleviating this predicament for undocumented immigrants from that country.

Figure 7: Participants' Reasons for Not Opening a Bank Account



The Widespread Impact of Matriculas

"I got it before it became famous. I saw the commercial on TV and then I went to go get it."

—- *Leonor, Mexico*

For many decades Mexican consulates around the world have issued a simple identity card for Mexican citizens living abroad known in Spanish as a "Matricula Consular." To obtain it, an individual needs to present a Mexican birth certificate, another official identity document such as a Mexican voter's registration card or driver's license, and something that attests to their address in the United States such as a utility bill. The card bears the individual's photograph and their U.S. address. The document does not connote any legal status other than Mexican citizenship. It cannot be used for travel or employment or for driving in the United States or Mexico. The matricula simply attests that a Mexican consulate has verified the individual's identity and their home address in the United States. Nonetheless, the matricula

suddenly has proved very useful to a large number of Mexican immigrants.

According to Mexico's Secretariat of Foreign Relations, its consulates in the United States issued some 740,000 matriculas in the first nine months of this year. (Comunicado, 2002). More than any other recent development, the growing acceptance of the matricula has reduced the barriers to banking for remittance senders.

Several interrelated factors have produced this surge: For the past several years, and especially since Vicente Fox became president in 2000, the Mexican government has aggressively expanded the consular services it offers to its citizens living in the United States. Since the terrorist events of September 11, 2001, produced increased law enforcement scrutiny of the foreign born, many immigrants of all nationalities have expressed a sense of apprehension and insecurity which has led some to acquire better identity documents.

"There was no way to open a bank account without the proper identification of California or any other state and a social security number or residency, etc. It was difficult to open a savings account because they need the identification or social security number that says you are able to open an account. But this little card is going to help a lot of those people who can't open an account or have no way of having identification."

—-*Isaid, Mexico*

Over the past year a number of municipalities from Los Angeles to Waukegan have begun accepting a matricula as a valid identity document. And, most significantly for this study, a variety of banks, large and small, have also begun accepting the matricula. At the Mexican government's last count, those identity documents were being accepted by 66 banking institutions, 801 police departments and can be used to acquire drivers' licenses in 13 states.

"A bank didn't let me open an account after September 11. And now the whole thing of the matricula with the Mexican consulate, which is helping us do a few things, but it's also helping us open a bank account. The checks that I get I can now deposit in my bank account, instead of getting charged to cash them."

—-*Juan, Mexico*

"Yeah, yeah, it's a good idea the matricula because if something happens, like an accident, they have a way to identify you and it's very necessary to open a bank account."

—-*Marisela, Mexico*

Participants in this study indicated that knowledge of the matricula is widespread but by no means universal. Currently, only the Mexican government offers a specific identity document for its expatriates; however, according to recent news reports several Central American governments are considering whether to offer a similar service to their nationals in the United States. As acceptance of the Mexican matricula increases, other countries with large immigrant populations are likely to find themselves pressured to follow suit. To the extent that such documents facilitate and potentially increase remittance flows, they are of direct material benefit to the immigrants' home countries.

"I haven't gone to find out if they give the matricula to us, the one that's for Mexicans. I don't know if it extends to Guatemalans. And for that reason I don't have a bank account,

—-*Elizabeth, Guatemala*

Several non-Mexican participants in this study expressed their hope of someday acquiring a matricula of their own to facilitate opening a bank account.

"I heard that in California, they worked out a system with the consulate with a card that they give them which permits them to get a bank account with that number. That's what I've heard. It seems like a viable solution. Above all for the people who are of that legal status."

—-*Israel, Venezuela*

Conclusion

Across the United States in communities with large Mexican immigrant populations, a scenario that would have been unthinkable not long ago is now playing out on a regular basis: In a strip mall storefront, on a school parking lot, or in the offices of a community organization, a Mexican "mobile consulate" sets up shop. Matriculas are available on the spot. But that is not all. Often, there is someone there who helps the new recipients of the ID card apply for an Individual Taxpayer Identification Number (ITIN). This nine-digit identifier issued by the Internal Revenue Service (IRS) looks like a social security number, but there are important differences. While a social security number is available only to citizens or people lawfully admitted to the United States, getting the taxpayer number does not require a showing of legal status. Also on the scene is an account manager from a local bank that has decided to accept the matricula and the taxpayer number as valid identification. In just minutes, an unauthorized Mexican immigrant can overcome the documentation barriers and be on his or her way to opening a bank account.

U.S. banks are moving aggressively to capture a greater share of the remittance market, and they are getting encouragement, even assistance, from both the U.S. and Mexican governments. In principle, these developments should increase competition and, hence , lead to lower fees, greater investments in technology, and a more efficient remittance flow. In principle, engagement with banks, credit unions, and other financial institutions should produce benefits beyond the remittance flow for both the senders and receivers. However, ensuring these outcomes will require specific efforts by all the parties involved to overcome some substantial obstacles.

The results of this study and the initial success achieved by banks that have targeted Latino immigrants clearly indicate that a large segment of the remitting population is willing, even eager, to explore new methods of sending money home. But this study also shows that familiarity, convenience, and simplicity have kept remitters going back to the old methods, chiefly wire transfer services like Western Union,

even when they are concerned that they are paying excessive transaction fees and foreign exchange costs. This study also shows that there is a widespread wariness of banks among remitters, especially when it comes to managing a household's month-to-month or week-to-week finances, primarily because of minimum balance requirements and the fees charged.

These findings suggest that a wholesale move by remitters to banking channels will only take place if banks can match or surpass the services provided by wire transfer firms at significantly reduced costs. And, given the intimate family connections between remittance senders and receivers, the convenience, reliability, and safety of the services provided in Latin America will have to meet or exceed those currently available there. In effect, U.S. banks will need to guarantee competitive pricing and quality of service at both ends of the remittance transaction. This will involve more than simply putting an effective product on the market and letting it go head-to-head with existing products. This study and others show that most remittance senders and receivers do not currently have bank accounts of any sort and probably never have. Banks, therefore, must successfully convince two populations—Latino immigrants in the United States and their families in Latin America—to trust their money to institutions that are unknown at best and might actually be viewed with some suspicion.

Substantial challenges also face the remitters. The reliance on cash, the lack of knowledge about fees, and the minimal efforts put into investigating alternatives for remittance sending that were reported by participants in this study all bespeak low levels of financial literacy. Failure to understand the fundamental workings of a bank account, such as the need to keep track of a balance, can spell disaster for the neophyte in the form of bounced checks, cancelled accounts, and the rapidly mounting fees that result. Such problems prove the undoing of many an American college student every year and could prove all the more daunting to a Latino immigrant trying to manage international money transfers.

In addition to learning the basic rules of managing a bank account, remitters will have to change some deeply imbedded behaviors in order to make effective use of U.S. banks. Fixed transaction fees are already emerging as a standard feature of some of the new remittance products. For example, Bank of America's SafeSend charges $10 or $15 per deposit, up to a maximum single deposit of $500 depending on the type of account, each time a remitter in the United States deposits money into an account that the recipient can draw on with an ATM card in Mexico. A remitter who sticks to old habits of repeatedly moving small amounts—recall that the average is now $200 to $300—will pay far more than one who accumulates funds and makes a single transfer for the maximum amount. Similarly, such programs allow subscribers to make a minimum number of withdrawals without a fee. SafeSend, for example, allows one free ATM withdrawal for each deposit. Thus, the recipients will have to change their behavior as well to minimize costs in programs that favor a small number of transactions.

If Latino immigrants were to break the financial cycle of living from month-to-month, paying off bills, and then sending what remains home, they would reap benefits that go beyond economizing on the costs of remittance. The habit of accumulating money in a bank account is the first step toward full engagement with the U.S. financial system. There are a variety of potential benefits, including reduced banking costs, interest-paying savings accounts, the responsible use of credit, and ultimately financial practices that are rewarded by the tax system, such as home ownership and retirement savings accounts. If remittances are the point of entry for such engagement in the U.S. economic structure, the long-term benefits for the Latino immigrant population, and for the nation as a whole, could be quite substantial. Newcomers start out as remitters, but many settle here, become permanent residents, and start families as parents of U.S.-born children.

Remitters will need help in accomplishing this evolution. Currently, some banks offer financial literacy training to new customers. For example, the North Shore Bank of Brookfield, Wisconsin, has mounted registration drives with Mexican consular officials to get matriculas for immigrants and sign them up for bank accounts. Every new customer is offered

free training on the skills necessary to manage checking and savings accounts. Some Latino groups, such as the National Council of La Raza (NCLR) through its network of 270 affiliate organizations around the country, have made financial literacy training a major priority. NCLR has determined that the most successful programs have the following elements: (1) they use materials tailored to a specific audience, like recently arrived immigrants; (2) they are tied to a specific product or service; and (3) they are delivered by groups or individuals well-known and trusted by the target community (Yzaguirre, 2002). Greatly expanding these efforts is essential to ensuring that the remitters' engagement with the financial industry is a success. Indeed, failure to adequately educate Latino immigrants who open bank accounts could produce unnecessary setbacks for all concerned.

The nation's regulators also have responsibilities in this area. In a speech earlier this year, Sheila C. Bair, then Assistant Treasury Secretary for Financial Institutions, said,

> In closing, I would like to reiterate Treasury's support for efforts that will expand the availability and affordability [of] remittances to Latin America. We particularly encourage initiatives that, in addition to providing remittance services, will bring groups that have traditionally been outside of the mainstream banking system into it.

A key challenge for federal officials, Bair said, is to implement anti-terrorism and anti-money laundering regulations in ways that do not interfere with legitimate remittance transfers. Moreover, such regulations have to apply equally to the wire-transfer services that now dominate the remittance industry and the banks that are now moving into it. "A level playing field provides an incentive for traditional banking institutions to enter the remittance business, thereby providing additional market competition and leading to lower prices for remittance services, " Bair said (Bair, 2002).

Ensuring transparency in pricing and greater consumer awareness of the available options are also important in achieving fair competition and an efficient market for remittance transfers. Federal legislation introduced by Rep. Luis Guitierrez (D-IL)—the Wire Transfer Fairness and Disclosure Act—would require full disclosure of all fees involved in any transaction of money wiring services, including the relevant exchange rate. The fees and exchange rates would have to be posted in the offices of money transfer agencies and in their advertising, and remitters would be provided with a receipt stating the exact amount of foreign currency to be received in the foreign country (Guitierrez, 2002).

In explaining how policy makers and industry leaders might set priorities for these efforts, Robert Gnaizda, general counsel and policy director for The Greenlining Institute, an advocacy organization based in San Francisco, offered a simple formula during a recent presentation to Secretary of the Treasury Paul H. O'Neill: "If transparency in the pricing and simplicity in the procedures are absolute priorities, then less effort will have to go into ensuring the financial literacy of remittance senders." (Gnaizda, 2002)

Demographic Portrait

The Pew Hispanic Center/ Kaiser Family Foundation National Survey of Latinos: *A Demographic Portrait of Latino Remittance Senders in the United States*

By Dulce C. Benavides

- 47% of all Latinos born outside the United States regularly send money to their country of origin
- 45% of immigrants from Mexico send remittances compared to 57% from El Salvador and 59% from the Dominican Republic
- 60% are male
- 63% are under the age of 40; the average age is 37
- 59% are married
- 59% have not completed high school
- 57% make less than $30,000 a year
- 72% rent their homes
- 47% have arrived in the United States over the last 10 years
- The average number of years in the United States is 13 years
- Average age at arrival is 25 years
- Average number of people who live in household is 4
- 64% of those who are employed are unskilled laborers
- 50% have visited their home country in the last 3 years
- 45% say they plan to move back to their home country
- 55% do not have credit cards
- 43% do not have bank accounts
- 63% watch TV, listen to radio predominately in Spanish
- 54% stated that they speak and understand English "just a little" or "not at all."

The Pew Hispanic Center/ Kaiser Family Foundation National Survey of Latinos: A Demographic Portrait of Latino Remittance Senders in the United States is an excerpt from the National Survey of Latinos which will be released in full on December 17, 2002. The survey was conducted by telephone between April 4 and June 11, 2002 among a nationally representative sample of 4,213 adults, 18 years and older, who were selected at random. Of those who were interviewed 2,929 identified themselves as being of Hispanic or Latin origin or descent. Representatives of the Pew Hispanic Center and The Kaiser Family Foundation worked together to develop the survey questionnaire and analyze the results. International Communications Research of Media, PA conducted the fieldwork in either English or Spanish, based on the respondent's preferences.

Remittance Projections:
Mexico and Central America, 2002–2030

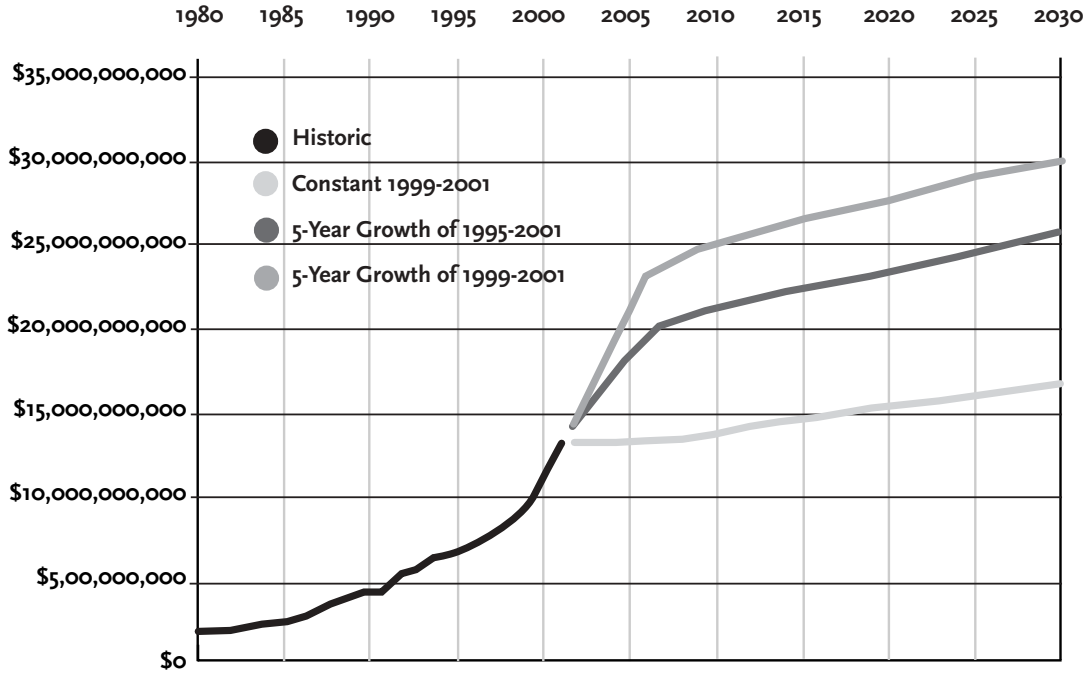
By B. Lindsay Lowell[1]

In 2001, a total of $13 billion of officially counted remittances were sent to Mexico, El Salvador, Guatemala, Honduras and Nicaragua. Immigrants from these countries make up about 85 percent of the foreign-born Hispanic population in the United States. Remittances received in those countries almost entirely originate from those immigrants.[2] In the rest of Latin America and the Caribbean official remittance estimates include substantial amounts received from Europe, Asia and elsewhere in Latin America.

Remittances to Mexico and Central America grew at a rapid rate in the 1990s. The reasons for this growth lay in both demographic and market forces. Almost half the immigrant population from this region arrived in the 1990s. During this period, the U.S. economy boomed and these Latino immigrants were drawn into the labor force in great numbers; as a result their wages increased, and they were able to send more money to their families back home.

At the same time, in the mid-1990s deregulation and increased regional economic integration stimulated the sending of remittances. Non-bank financial institutions, like the well-known Western Union, competed to send immigrants' remittances. As more of these companies entered the market,

Remittances Received in Mexico and Central America Projected 2002-2003



the transfer charges for immigrants decreased. Immigrants have switched from using informal transfers (sending money home with friends) to sending their remittances though the formal transfer companies. This may have stimulated the sending of more remittance dollars. There is also reason to believe that the central banks in the receiving countries are now capturing more of the remittance flow in their national accounts.

Remittances To The Rest of Latin America

The $14.2 billion in remittances projected here for 2002 are for Mexico, El Salvador, Nicaragua, Guatemala, and Honduras. Almost the entire remittance flow to these countries originates in the United States. Of course, there is a significant flow of remittances to the balance of the Caribbean and South America. However, Mexico and Central America receive about two-thirds of the $23 billion of officially counted remittances from all source countries flowing to Latin America and the Caribbean as of 2001. Other significant recipients are the Dominican Republic ($1.8 billion) and Jamaica ($959 million); much of these monies likely come from the United States. But in South America, where Brazil is the major recipient ($2.6 billion), their expatriate populations are often found in surrounding nations, Asia or Europe; not just the United States.

Project Methodology

Because of these forces, the growth of remittances has been non-linear in the past few years (i.e., they are increasing at a historically unusual pace). Projecting the future of remittances requires that one ask whether or not this pace will continue, or whether the market forces will play themselves out in the next few years. Will competition finally drive the market costs of transferring monies down to a level below which it can go no further, leaving the volume of remittances to be driven primarily by demographic forces? It seems that this is the most likely scenario, as is the case whenever new markets are developed.

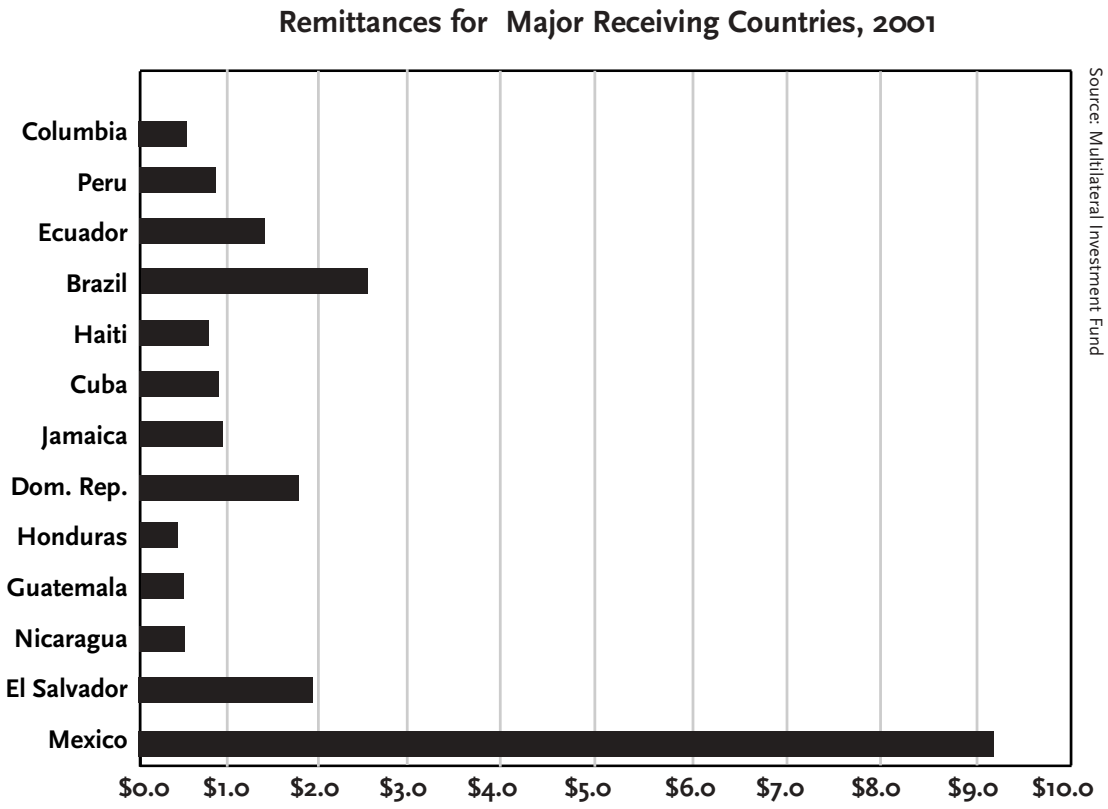
These projections assume two things:

• Remittances can be projected on a *per capita* basis (e.g., remittances divided by the foreign-born population in the United States).[3] There are historical data for remittances and the immigrant population, as well as U.S. Census Bureau middle-range projections of the future population.[4] The *per capita* remittance for 2001 is $1,260; much greater than the $950 average of 1995–2001.

• Remittances grow into the future at some rate characteristic of the recent past. Three scenarios are played out yielding a low, medium, and high set of estimates:

1. today's 1999–2001 *per capita* rate ($1,110) is assumed to apply to tomorrow's projected immigrant population;
2. the latter nineties (1995–2001) average rate of *per capita* growth (8.7 percent) will hold for another five years into the future; and
3. the very rapid average rate of *per capita* growth of 1999–2001 (12.3 percent) will hold for another five years into the future.

In other words, the low projection assumes that the already high *per capita* flow of the last three years reflects the highest rate possible and that only the future growth of the Latino immigrant population will drive growth in remittances.



However, 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. Ongoing growth in remittances will then be driven by the growth of the Latino population.

The projections show a range by the end of this decade, in 2010, of $14 billion, $21 billion, and $25 billion in remittances received in Mexico and Central America. In another three decades, by 2030, the range is extremely large with a low of $17 billion, a mid-range of $26 billion, and a high of $30 billion.

The middle range is the preferred set of projections for remittances from the United States to Mexico and Central America. It assumes a rather high rate of growth, but it also assumes that the unusually high rate of just the past three years is not likely to continue. Nonetheless, the medium set of projections shows that remittances will grow ever larger, doubling in magnitude in the next three decades. It also suggests that most of that growth will likely occur in the near future, by the end of this decade.

FOOTNOTES:

1 These projections were made by B. Lindsay Lowell in consultation with Manuel Orozco. Acknowledgement goes also to Richard Fry and Roberto Suro.

2 There are no reliable estimates of remittances sent from the United States by immigrant group. Instead, the commonly heard remittance figures, and those used herein, are drawn from the receiving countries' official data on expatriate or "workers' remittances" from anywhere in the world.

3 Remittance data are from the World Bank's World Development Indicators: 2002 on CD-ROM (see www.worldbank.org/data).

4 Foreign-born historic and projected data can be found on the U.S. Census Bureau's website (http://www.census.gov/population/www/socdemo/foreign/datatbls.html). The Census Bureau's projections are for the Hispanic foreign-born population. To calculate just the Mexican and Central American data, the total population is adjusted to the region's average share for 1995-2001.

Appendix: Methodology

The results of this study are based on interviews with 302 Latinos living in Miami and Los Angeles in July of 2002. Respondents were selected to include only those adults born in Latin America and currently residing in the U.S. who remit money to their families on a regular basis. The sample was selected such that approximately 60% of respondents do not have bank accounts in the U.S.

The interview format was casual. Respondents were asked 32 questions in an atmosphere designed to facilitate dialog between interviewer and respondent. The context in which the surveys occurred is important because of the sensitive nature of the study (many respondents are illegal immigrants and many of the questions deal with monetary issues). The surveys and interviews were conducted in Spanish. Questions were designed to assess their background, habits, satisfaction, and knowledge of various methods of transmitting money. Following the survey, respondents were asked if they were willing to be videotaped.

In order to ensure diversity of respondents, the sample was constructed such that the nation of origin among respondents varied in a manner roughly corresponding to studies of remittances sent to Latin American countries (see Bendixen, 2001). Consequently, 54% of respondents were Mexican-American, 14% South American, 18% Central American, 9% Cuban, and 5% Dominican.

In addition to the selection criteria established above, the respondents have the following characteristics: About 44% of respondents were male, 99% have lived in the U.S. more than five years, and all respondents have family or friends in their home country to whom they send money (100%).

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1919 M Street, NW
Suite 460
Washington, DC 20036
202.292.3300 telephone
202.785.8282 fax

www.pewhispanic.org

www.pewtrusts.com
www.usc.edu

1300 New York Avenue, NW
Washington, DC 20577
202.942.8100 fax

www.iadb.org/mif