Migrant Remittances and Economic Development
Lecture 11

SIPA U8159
Tuesdays 4:10 pm – 6:00 pm
IAB 410

Lenora Suki
Program on Remittances and Development
Center on Globalization and Sustainable Development
The Earth Institute at Columbia University

Remittances and Institutions

Identify institutional stakeholders

private sector *– governments - civil society*

Highlight features of the remittance market

organization – prices – products - trends

Address 1st generation responses/reforms

data - regulation - formalization

Look at evolving 2nd generation responses

expansion of pro-poor financial services

Who are the stakeholders/participants?

SENDING COUNTRY STAKEHOLDERS

Private Sector

Small immigrant-owned businesses (groceries, pharmacies, etc.)

Medium-sized package companies (sometimes immigrant-owned)

Large multinational money transfer companies (MTOs)

Large multinational financial institutions

Community banks/credit unions

Private Individuals

Sender

Sender's household

Immigrant community

Carriers

Public Sector

National and sub-national governments

Central Banks/Superintendencies of Banks

Other regulators/supervisors (anti-money laundering, financial supervision)

Consumer protection agencies

Civil Society

Private foundations

Immigrant Support Organizations

Hometown associations and other diaspora organizations

Who are the stakeholders/participants?

RECEIVING COUNTRY STAKEHOLDERS

Private Sector

Foreign exchange houses

Package and delivery services

Money transfer companies (large/intl. and smaller national)

Microfinance institutions/credit unions

Large commercial banks, mortgage finance, etc.

Retail stores (supermarkets, white goods, etc.)

Private Individuals

Recipient

Recipient's household

Migrant's home community

Moneylenders and other private intermediaries

Public Sector

National and sub-national governments

Central Banks/Superintendencies of Banks

Other regulators/supervisors (anti-money laundering, financial supervision)

Consumer protection agencies

Civil Society

Migrant families' groups

Hometown association counterparts

Rural NGOs

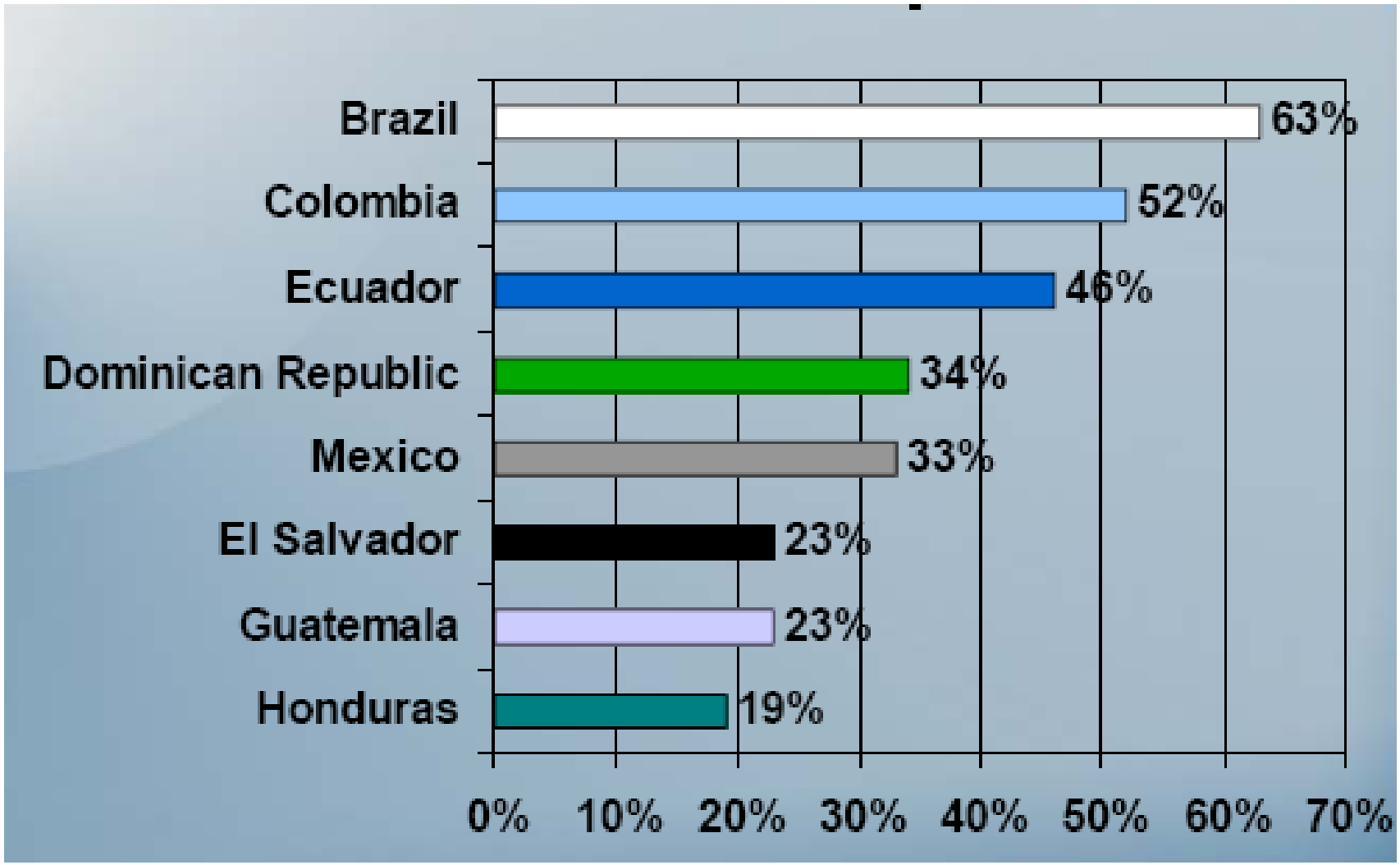
Remittances and Institutions

Market organization and institutional structure

- Fragmented markets or “micro” markets
- Limited accessibility to formal financial institutions
- Less transparency of prices/fees
- Social capital and inertia in experience goods
- Difficulty taking new services to scale

PHYSICAL AND SOCIAL NETWORKS KEY

Recipients with bank accounts



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.*

Remittances and Institutions

What creates the conditions for formal or informal money transfer?

- Financial infrastructure
- Strength of financial system
- Credible monetary policy
- Accessibility on both sides
- Legal and regulatory environment
- Social and political context

		Positive	Negative	Cost	Access	Service
Formal	**Bank**	Cheap for large transfers; reliable but slow; sending country network; ample liquidity	Costly for small transactions; acct. opening required; low convenience; tracking problems	High	Med/Low	Med/Low
	Post office	Cheap, good service network on both sides	Slow; poor service; delays; lack of liquidity	Low	High	Med/Low
	MTO	Fast, reliable, accessible, trust relationships	High cost; poor fx; accessibility	High/Med	High	High
Informal	**Hundi/ hawala**	Less costly; trust relationship; better fx; door to door; advance $; underserved locations	Cost depends on location	Med/Low	High	High
	Self, relatives, friends	Trust; no fee; direct to recipient; underserved locations	Slow; risk of loss with no redress	Low	High/Med	Med/Low

Source: adapted from Sander 2003 with lecturer's comments

Remittances and Institutions

Primary private sector institutional role:

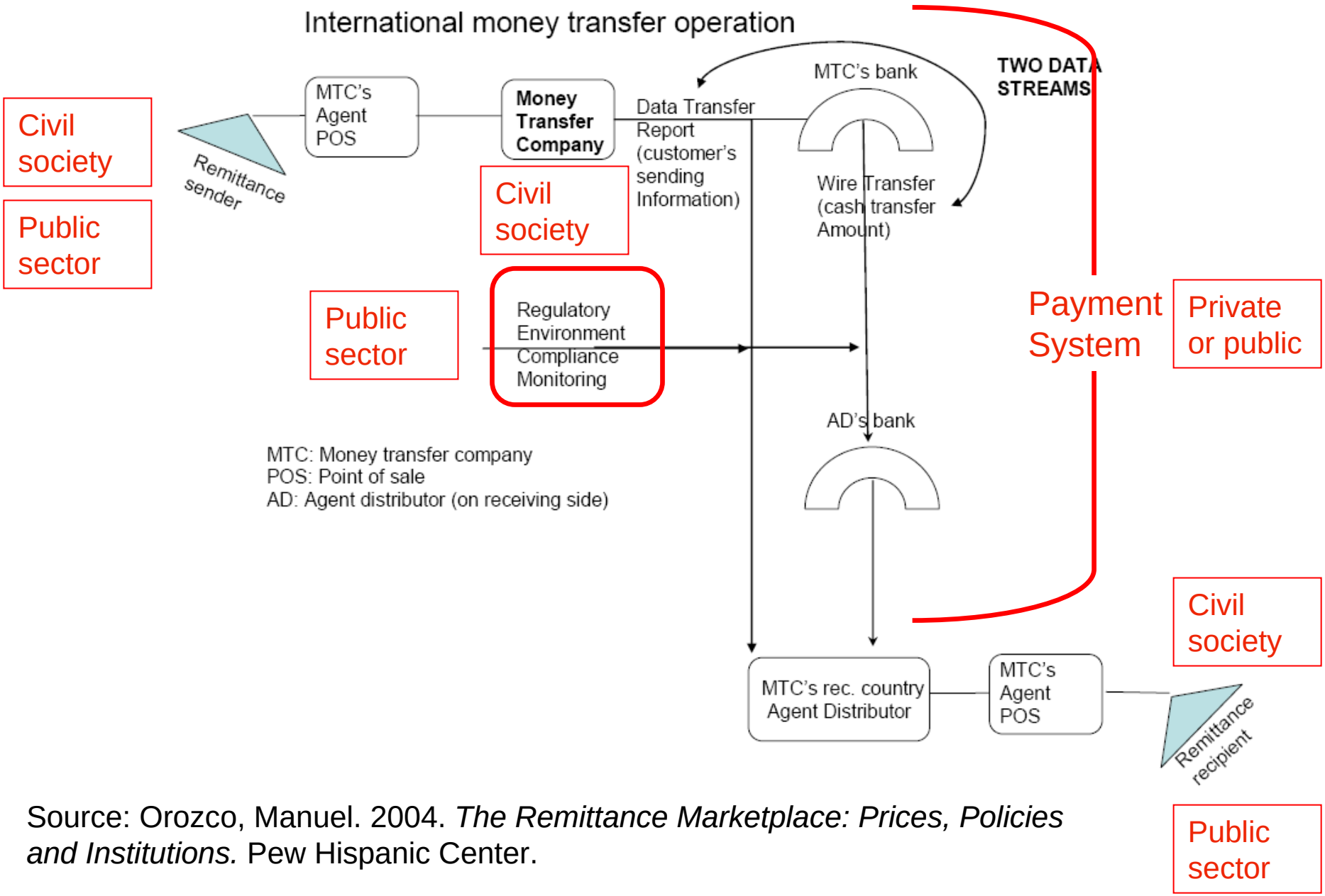
- Deliver money safely, quickly and reliably
  - **(and easily)**

Everything else is gravy:

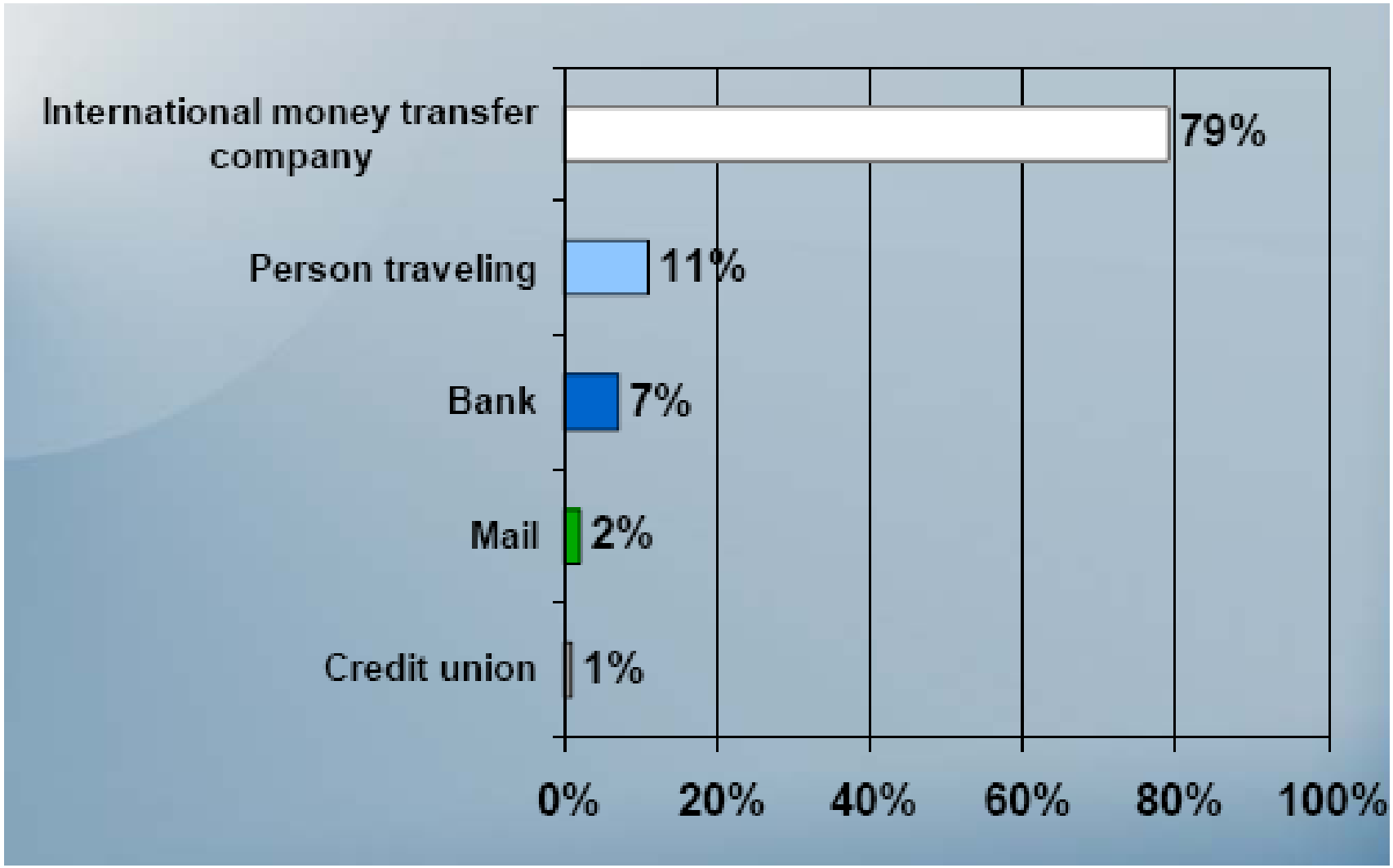
- Cost/technology (cards, etc.)
- Transparency
- Messages/packages
- Accounts/financial services
- Retail items/foodstuffs

Anything beyond primary mission requires an equivalent or more compelling value proposition

Figure 1: Structure of an international money transfer operation

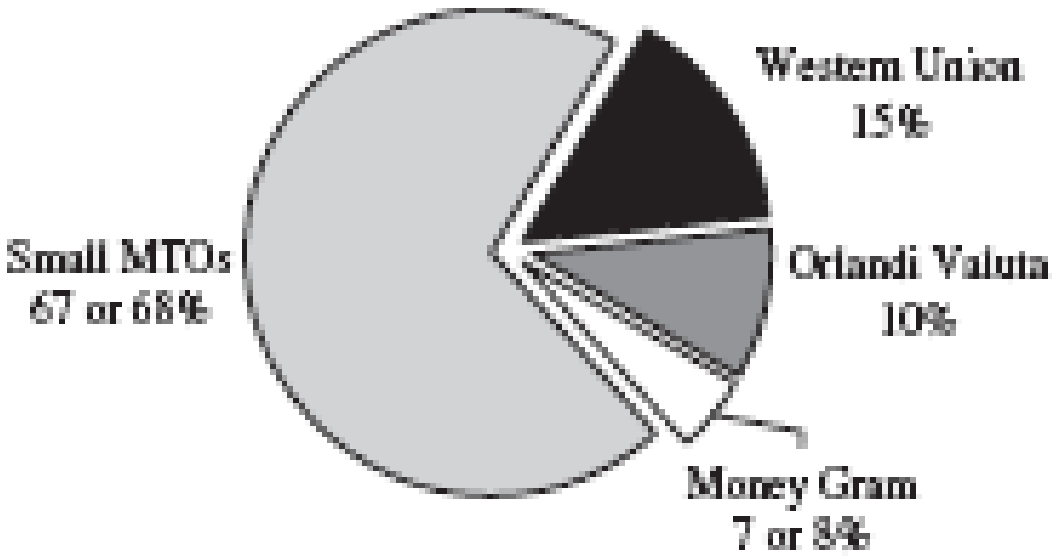


Source: Orozco, Manuel. 2004. *The Remittance Marketplace: Prices, Policies and Institutions.* Pew Hispanic Center.



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.*

Figure 2. Estimated Market Share for Origination (June 2004)



Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Inflows from Remittances

Millions of US dollars

	2000	2001	2002	2003	2004	2005 Jan-Apr
Total Remittances	6,573	8,895	9,814	13,396	16,613	5,647
Money Orders	1,434	803	687	1,623	1,883	564
Personal Checks	9	10	10	6	0	0
Electronic Transfers	4,642	7,784	8,798	11,512	14,496	5,011
Direct Transfers *	488	298	320	255	234	72

* Includes transfer of goods as well as cash. Data are drawn from Banco de México's International Travel Surveys.

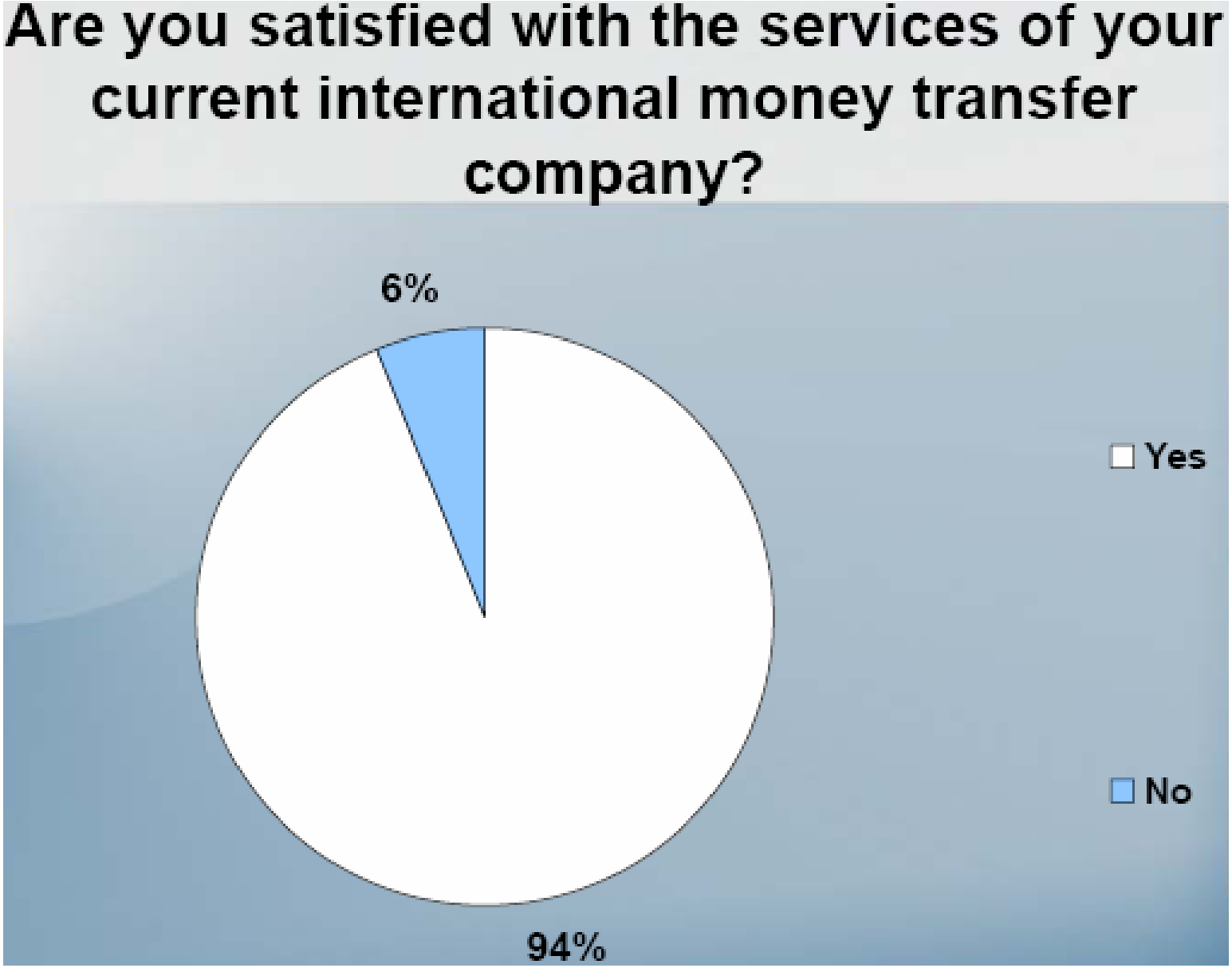
Source: Banxico. *Remittances and Development: The Case of Mexico.* Presentation at the IDB International Forum on Remittances 2005.

Table 1 — Transfer mechanism employed (by percentage)

Pick up at office, bank	86
Home Delivery	4
ATM, Debit or Smart Card	1
Bank, credit union deposit	4

Source: data compiled by the author

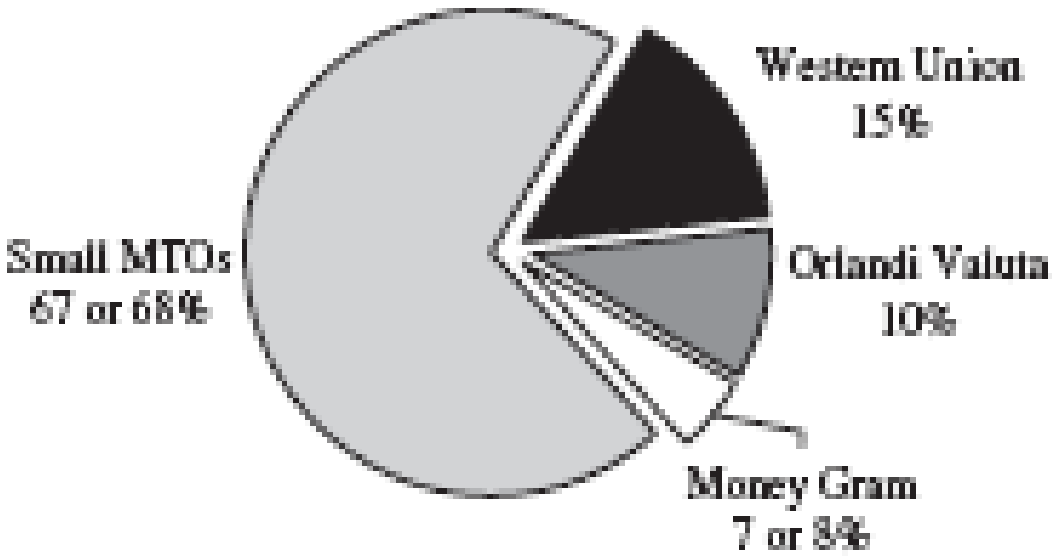
Source: Orozco, Manuel. 2005. *Markets and Financial Democracy: The Case for Remittance Transfers.* Journal of Payment Systems Law Vol. 1, No. 2.



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.* From DR survey 2004.

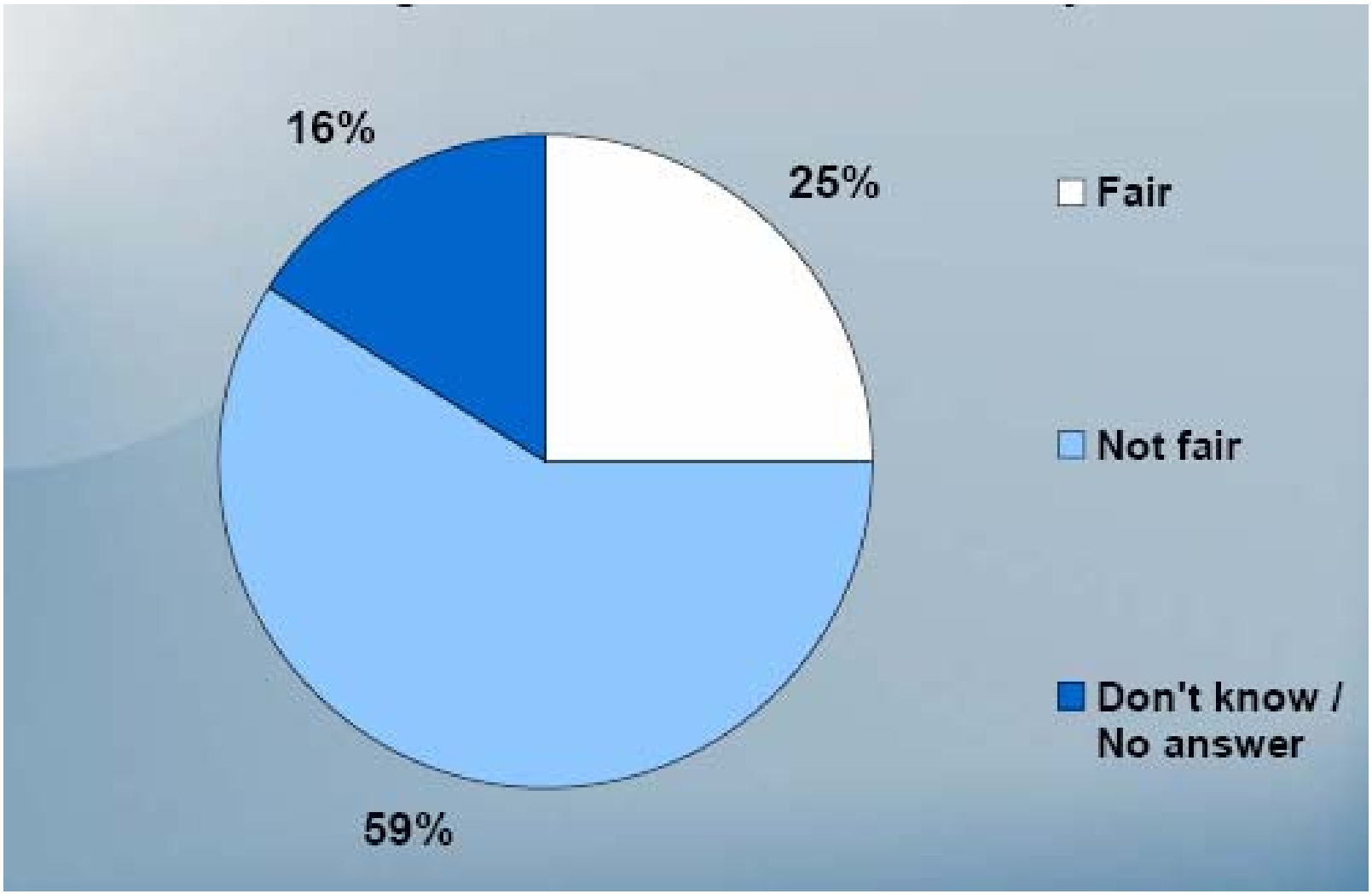
Take another look:
In late 1990s, top 3 companies had at least 80% of the market

Figure 2. Estimated Market Share for Origination (June 2004)



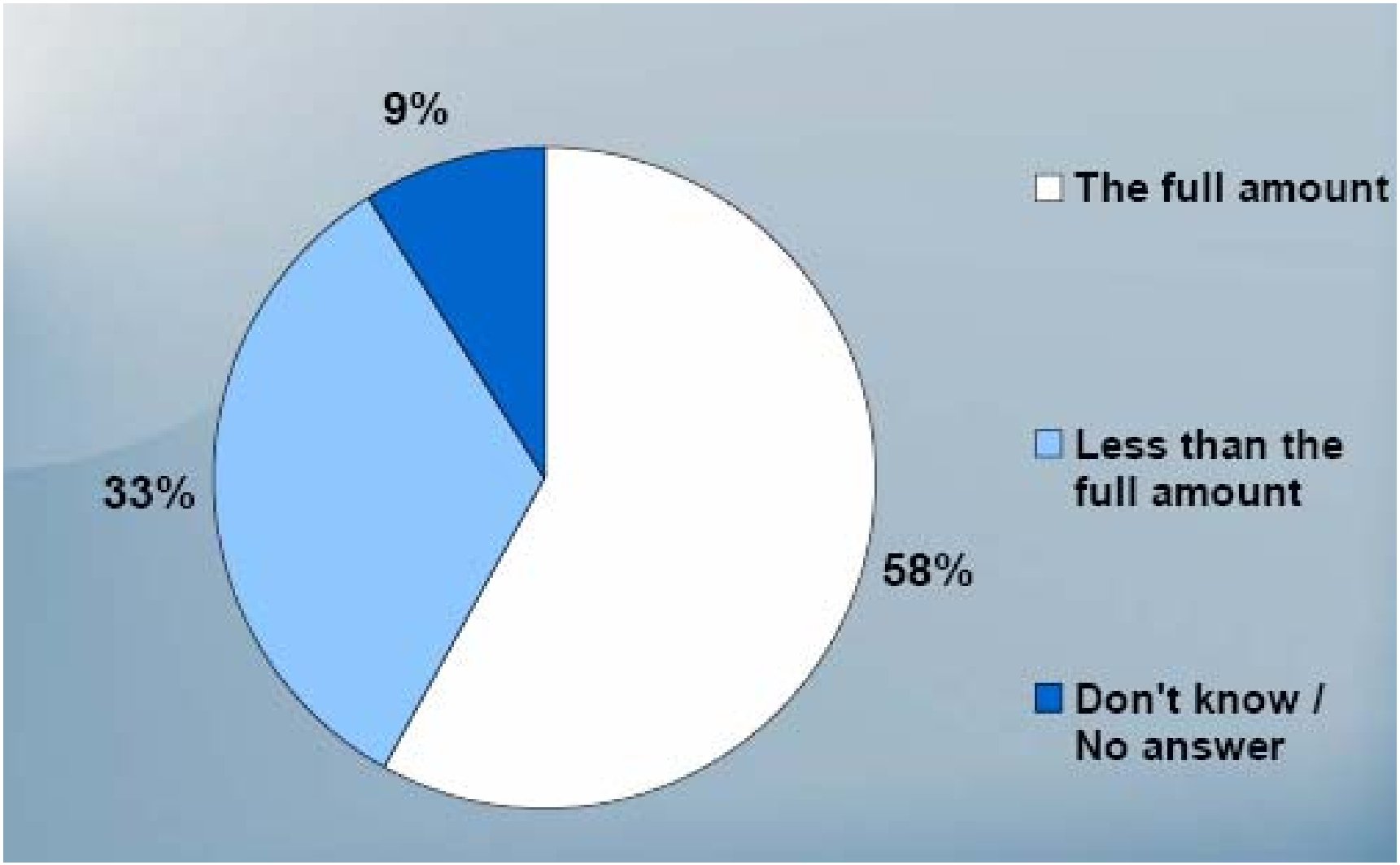
Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Prices fair or not fair?



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.* From US senders' survey 2001.

Family receives full amt or less?



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.* From US senders' survey 2001.

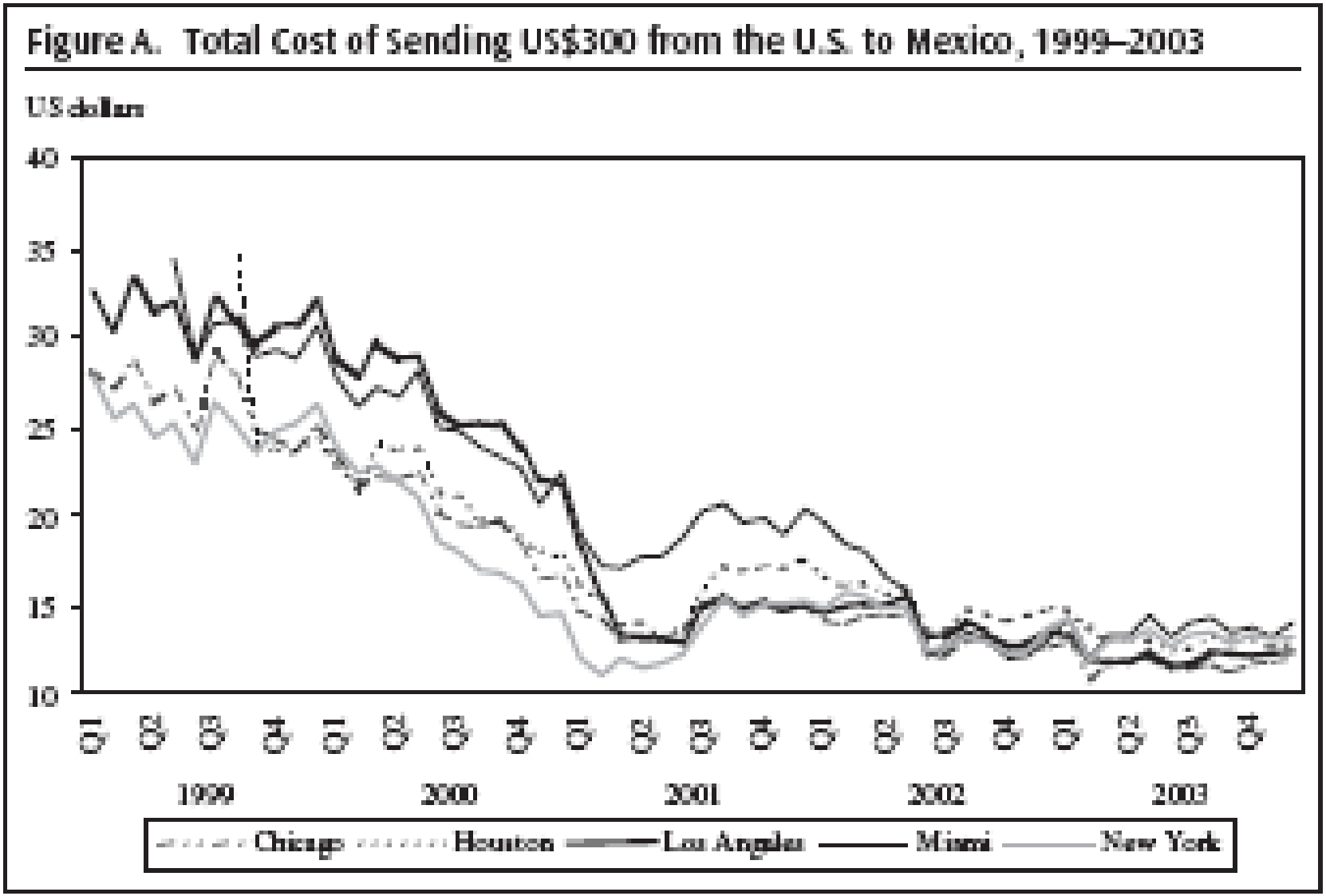
Money transfer services (and more)

Table 5: Percent of banks offering remittance related services

Remittance transfer offered only to institution's members	73.9
Issue an ATM card for relative in Mexico	31.9
Allow bank-to-bank deposits	34.8

Source: data compiled by the author based on inquires to sixty banks.

Source: Orozco, Manuel. 2005. *Markets and Financial Democracy: The Case for Remittance Transfers.* Journal of Payment Systems Law Vol. 1, No. 2.



Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Table 3: Average Transfer Fees to Send $300 to Mexico and the Philippines for Cash-to-Cash-Based Product Offered by the Providers

Country	MTOs' average transfer fees in U.S. dollars (number of respondents)	Banks' average transfer fees in U.S. dollars (number of respondents)	Credit unions'[a] average transfer fees in U.S. dollars (number of respondents)	USPS's average transfer fees in U.S. dollars (number of respondents)
Mexico	$10.70(4)	$8.80(5)	$10.29(6)	$10.00(1)
The Philippines	12.43(4)	25.00(1)	12.33(5)	Not offered

Source: GAO.

Table 4: Range of Transfer Fees to Send $300 to Mexico and the Philippines for All Remittance Products Offered by the Providers

Country	MTOs' range of transfer fees in U.S. dollars (number of respondents)	Banks' range of transfer fees in U.S. dollars (number of respondents)	Credit unions' range of transfer fees in U.S. dollars (number of respondents)	USPS's range of transfer fees in U.S. dollars (number of respondents)
Mexico	$4.90-$15.00(6)	$0.00-$10.00(10)	$8.00-$16.00(6)	$3.25-$10.00(1)
The Philippines	8.00-$16.88(6)	2.00-$25.00[a](4)	8.00-$16.00(5)	Not offered

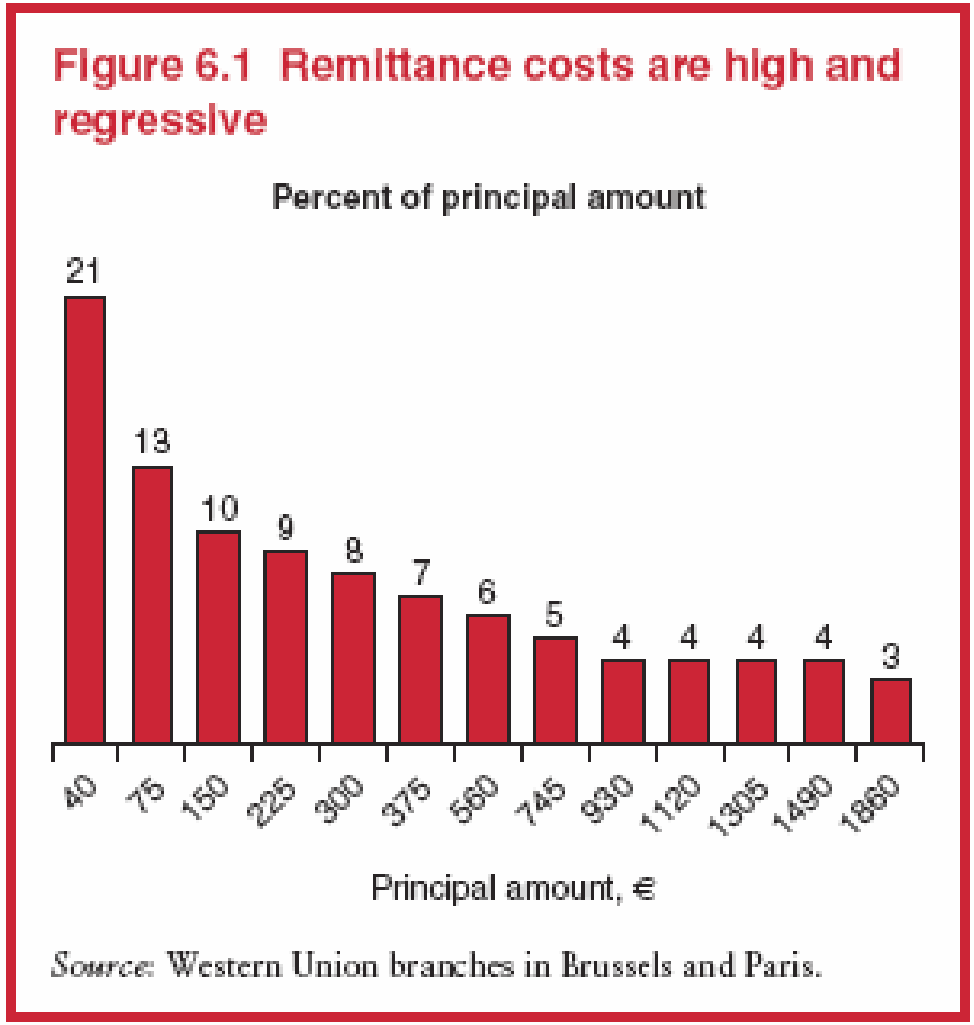
Source: GAO.

Table 12. New York's Market Is More Competitive But The Price Range Is Large

New York

	Pesos				USD				FX NY
	$50		$150		$50		$150		12-Nov
Money Gram	7.5	15.00%	12.5	8.33%	9.0	18.00%	17.0	11.33%	25.75
Mateo Express	7.5	15.00%	12.5	8.33%	9.0	18.00%	17.0	11.33%	25.75
Pronto Envio	7.5	15.00%	12.5	8.33%	9.0	18.00%	17.0	11.33%	25.75
Cibao Express	7.0	14.00%	12.0	8.00%	9.0	18.00%	17.0	11.33%	25.75
Western Union	10.0	19.98%	10.0	6.66%	15.0	30.00%	22.0	14.67%	25.75
Quisqueyana	5.0	10.00%	7.5	5.00%	8.0	16.00%	12.0	8.00%	25.75
La Nacional	5.0	10.00%	5.0	3.33%	7.5	15.00%	12.5	8.33%	25.75
Pujol	5.0	10.00%	5.0	3.33%	6.0	12.00%	11.0	7.33%	25.85
Agil	3.0	6.00%	4.5	3.00%	5.0	10.00%	7.5	5.00%	25.75
RIA	3.0	6.00%	3.0	2.00%	5.0	10.00%	7.5	5.00%	25.75
BHD	3.0	6.00%	3.0	2.00%	9.0	18.00%	17.0	11.33%	25.75
CAM	2.0	4.00%	2.0	1.33%	8.0	16.00%	14.0	9.33%	25.75

Source: Suki, Lenora. 2004. *Financial Institutions and the Remittances Market in the Dominican Republic.* Columbia University.



Source: World Bank. *Global Economic Prospects 2006.*

Money transfer services

Products

Traditional money transfer

Cash-to-cash wire

Account based transfers

Dual ATM cards

Stored value cards

Internet remittances

Cel phones

Money transfer services

Largest *range* of services in banks (plus value added financial services)

Table 2: Remittance Providers and the Different Product Types They Offer

	Cash-to-cash	Cash-to-account	Account/ credit card-to-cash	Account-to-account	ATM product	Stored value card	Money order
MTOs	X	X	X (via an on-line transfer)			X	X
Banks	X	X	X	X	X	X	
Credit unions	X		X	X			
USPS	X						X
Internet-only providers			X			X	

Source: GAO

Source: GAO 2005

MTOs still easier, more convenient

Distribution

Western Union has nearly 200,000 agents in 190 countries

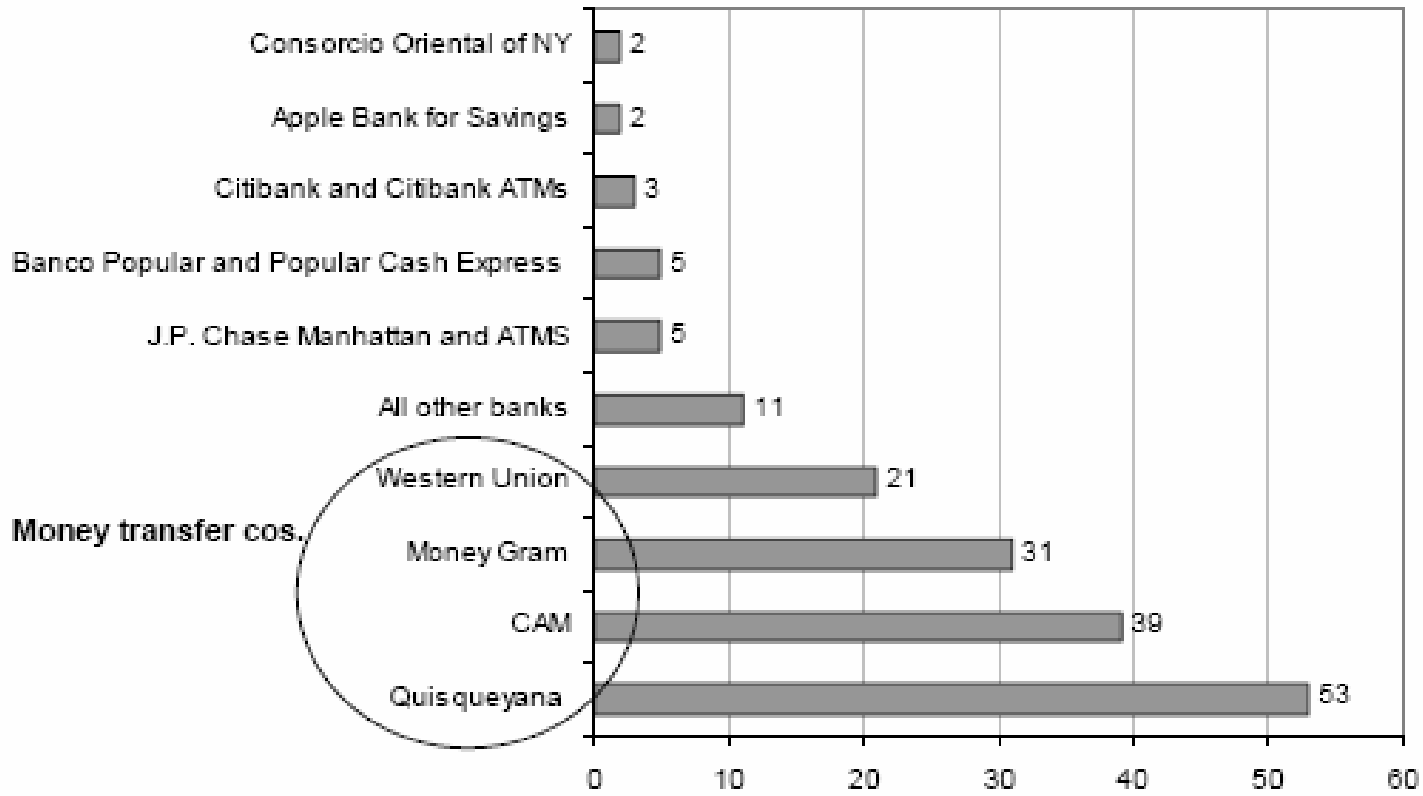
Money Gram has ~ 60,000 points of sale

Less than 5% goes through banks or bank accounts

Networks and local competition can account for price differentials

Table 13. 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

Individuals/civil society response

- Do nothing
- Send through the mail
- Law suits

  Class action law suits against First Data/Western Union for high, hidden f/x fees

=> Paid back through discounts

Set up charitable funds for Mexican and Mexican-American causes

Financial institutions response

1995 Wells Fargo starts Intercuenta Express to Mexico

2001 Second Federal Savings, Chicago – ATM card for Hispanics, first to accept ITIN and *Matricula Consular*

Citigroup buys Banamex

Wells Fargo accepts ITIN, MCAS

2002 Credit unions - limited remittances to non-members to build membership

Financial institutions response

More creative responses:

- Spanish-speaking tellers
- Mobile branches
- Partnerships with consulates
- Outreach
- Kiosks in grocery stores
- Aesthetics and amenities
- Cross-selling

Public sector/multilaterals response

Inter American Development Bank's Multilateral Investment Fund

President Bush and Partnership for Prosperity

FDIC and New Alliance Task Force

Federal Reserve *Directo a Mexico*

Mexican government – Profeco *Quien es Quien* and Condusef

Civil society response

Community groups and immigrant advocates

- Assist in financial literacy programs
- Represent interests of immigrants
- Help financial institutions enroll clients

Business associations like NMTA

- Represent rights of money transfer co's

Receiving side groups

- Advocate for migrants' families
- Productive use of remittances

Broadly Agreed Recommendations

Lower prices – fair and non-discriminatory

Improve regulation – competition, transparency

Improve data – who, where, how much

Encourage inclusion – welcome for low income

Bank the unbanked – integrated services

Use technology – tools for lowering costs

No taxes – discriminatory, counter-productive

Alliances – a means for delivering new svcs.

Broadly Agreed Recommendations

Improve regulation – competition, transparency

- Disclosure depends on type of institution and what jurisdiction
- MTOs argue they face a skewed playing field
- Patriot Act and Bank Secrecy Act
- Multiple federal agencies, overlapping mandates, over-zealous supervision?
- Some states require nothing of MTOs and more of credit unions and banks
- Bank account closures

Broadly Agreed Recommendations

Improve data and info – who, where, how much

- Give more information to customers
- Get more data from providers

Calculator for money transfer

condusef.gob.mx

Broadly Agreed Recommendations

Improve data – who, where, how much

- Give more information to customers

Get more data from providers

TEXAS ATTORNEY GENERAL'S OFFICE ENCOURAGES SENDERS TO INFORM THEMSELVES, ASK FOR A RECEIPT AND CHECK WITH RECIPIENTS FOR CHARGES OR COMPLAINTS

Broadly Agreed Recommendations

Improve data – who, where, how much

- More info for customers, more data from providers

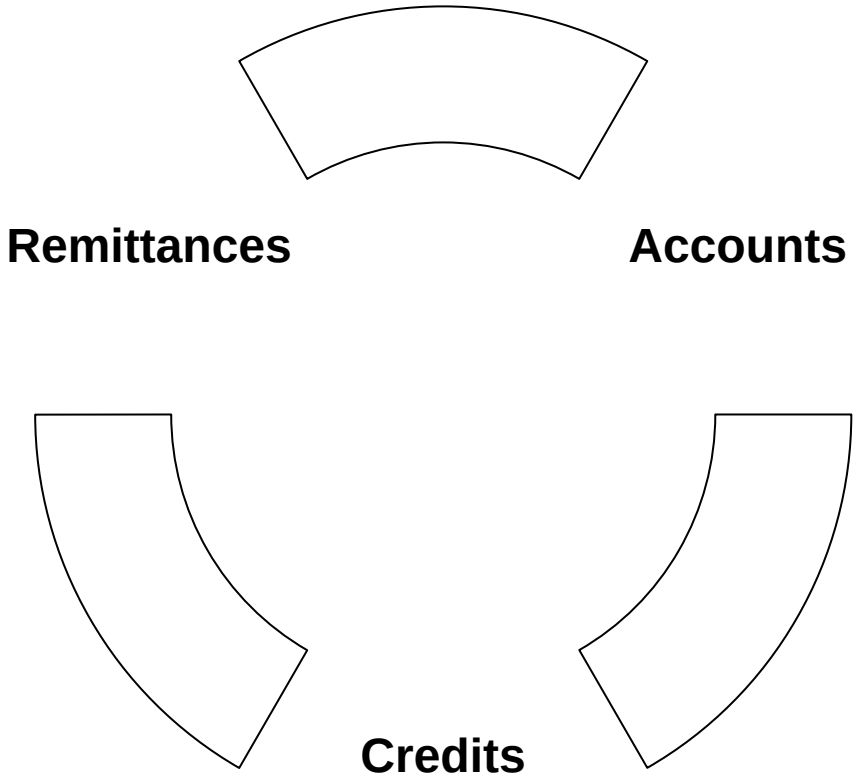
Ver características / Empresa	COBRO QUE REALIZAN LAS EMPRESAS EN ESTADOS UNIDOS			Diferencial (en Dólares)	Costo Total (en Dólares)	Dólares realmente enviados	Diferencia porcentual
	Monto original del envio en Dólares	Tipo de cambio aplicado por la empresa	Comisión en Dólares por Envío				
Western Union (En Minutos)	300.00	10.20	14.99	5.31	$20.30	279.70	6.8%
Western Union (Dinero día siguiente)	300.00	10.20	9.99	5.31	$15.30	284.70	5.1%
Western Union (Giro Telegrafico)	300.00	10.20	9.99	5.31	$15.30	284.70	5.1%
Money Gram	300.00	10.28	9.99	3.00	$12.99	287.01	4.3%
Ria Envia	300.00	10.43	18.00	-1.33	$16.67	283.33	5.6%
Order Express	300.00	10.21	8.00	5.02	$13.02	286.98	4.3%
Majapara PagaDólar	300.00	10.30	9.00	2.42	$11.42	288.58	3.8%
Majapara Maxipaga	300.00	10.46	15.00	-2.20	$12.80	287.20	4.3%

Broadly Agreed Recommendations

Encourage inclusion – bring in low income clients

Bank the unbanked – integrated services

Leverage remittances – realize latent demand



Broadly Agreed Recommendations

Use technology – tools for lowering costs

Broadly Agreed Recommendations

Alliances – a means for delivering new svcs.

Government with banks
Ex. Fed ACH, FDIC

Banks working with MTOs
Ex. HSBC and 42 MTOs

MTO and retail stores
Ex. MoneyGram in Walmart stores

Credit unions with MTOs
Ex. WOCCU and IRNet

MTO and cel phone company
Ex. Smart Communications Smart Padala to Philippines

Bank to bank/CU
Ex. Banco Solidario and La Caixa or Citibank