

CRS Report for Congress

Received through the CRS Web

Foreign Remittances to Latin America

Updated December 12, 2003

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Foreign Remittances to Latin America

Summary

The volume of foreign worker remittances, money sent back to the workers' home countries, has grown with the U.S. economy's increasing use of foreign and immigrant labor. The cost of international money transmission is important to these workers and the recipient countries because of the relatively low incomes of the workers and the intended recipients, and the positive impact on the recipient countries' economies. Remittances from the United States are sent through banks and credit unions, money transmitter companies (both large and small), postal services, and individual couriers. Currently, the U.S. foreign remittance market is dominated by non-bank financial institutions (NBFIs). The main reason immigrants use NBFIs for remittance services is that the workers are often unbanked; that is, they do not have an account with a depository financial institution. The cost associated with these money transmissions is often high. Foreign workers often lose a significant percentage of the value of their remittances through fees and unfavorable exchange rates.

In the United States, the actual licensing and primary regulation of most non-bank money transmitters is a matter of state law. Several types of federal laws, for example, anti-money laundering laws, are applicable to all money transmitters. Federal law requires money transmitters to register with the Treasury Department's Financial Crimes Enforcement Network (FinCEN). FinCEN requires the NBFIs to be licensed, if they operate in a state that requires licensing.

In Latin America and the Caribbean countries, the monetary regulatory authorities, led by the central banks, have not greatly intervened in the remittance market. None of the countries discussed in this report have specific regulations controlling the flow of remittances. The central banks usually track the flow of remittances and make estimates on the total volume coming into their countries. But, in general, financial authorities allow money transmitters to operate with minimal regulation, letting the remittance market regulate itself.

Congressional oversight hearings on remittance services offered by U. S. banks, credit unions, and non-banks were held in February 2002 by the Senate Banking Committee and in October 2003 by the House Financial Services Committee. The hearings focused on the high costs of remittance transmission and how to introduce unbanked immigrants to mainstream financial services. In the 108th Congress, legislation to facilitate foreign remittances has been introduced. H.R. 2074 would provide increased disclosure of all fees and rates involved in these money transmissions. Title III of omnibus regulatory relief legislation, H.R. 1375, would permit credit unions to offer financial services to consumers without accounts.

This report describes the remittance market place, and then using selected Latin American and Caribbean countries as examples, shows how competition and government regulation affect the price of remittances. It concludes with a discussion of policy issues and current legislation.

This report will be updated as legislative developments warrant.

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Foreign Remittances to Latin America

Introduction

The cost of international money transmission is important to foreign and immigrant¹ workers and the recipient countries because of the relatively low incomes of the workers and the intended recipients, and the impact these remittances have on the local economies. By one estimate, Latin American immigrants who earn \$25,000 or less a year tend to routinely send home payments or remittances of about \$200 monthly to family, friends, and communities. The cost associated with these money transmissions is often high. Remitters can lose a significant percentage of the value of their remittances through fees and unfavorable exchange rates. In addition, the total cost of a money transfer is frequently not fully disclosed when the transfer is initiated. There is evidence that the recent growth in competition in this market is leading to lower transfer costs.

This report provides background and analysis of issues surrounding the high cost foreign workers often pay to send money to their families and communities in Latin America. It begins with an explanation of how the remittance market functions in the United States. Various methods of remitting money to Latin America and the costs associated with money transmissions are discussed. Using selected Latin American and Caribbean countries as examples, the report shows how competition in, and government regulation and supervision of, remittance markets affect the price. The report concludes with a discussion of policy issues and current legislation that would facilitate fair and equitable pricing of foreign remittances.

The business of providing foreign workers with the means to send money back to their home countries is expected to continue to grow with the U.S. economy's increasing utilization of foreign labor. The U.S. service-dominated economy has increased the demand for low wage workers, many of whom come from Latin America and the Caribbean. The volume of remittances has grown with this labor force. One study estimated that between 1991 and 1996, the international component of the U.S. money transmission business sector grew at the remarkable rate of 20% per year and recent immigrants were a major contributor to this growth.² Remittances to Mexico and selected countries of Central America provide an

¹ The words "immigrant" and "foreign" are used interchangeably throughout this report to describe these workers.

² "Non-Bank Financial Institutions: A Study of Five Sectors for the Financial Crimes Enforcement Network," a report by Coopers and Lybrand for the Financial Crimes Enforcement Network, Feb. 28, 1997, p.15.

illustration of the rapid growth: the volume of transfers grew from approximately \$3.7 billion in 1990 to nearly \$8 billion in 1998.³

The remittance has also become a significant part of the recipient countries' economic activities. In 2001, remittances to 10 Latin American and Caribbean countries were estimated (in a report commissioned by the Inter-American Development Bank) to total more than \$18 billion. These estimates may be low because it is difficult to estimate the volume of funds sent to home countries through informal channels such as personal couriers and letters. Remittances through these informal channels are largely undocumented, and, therefore, it is extremely difficult to calculate the total remittance flows based on data from financial institutions. **Table 1** shows the relative significance of remittances as a percentage of gross domestic product and exports in 10 selected countries.

Table 1. Remittances to 10 Selected Countries, 2001
(In Dollars and Percentages)

Country	Remittances	As a % of GDP	As % of Exports
Mexico	9,273,747,000	1.7	6.5
El Salvador	1,972,000,000	17	60
Dominican Republic	1,807,000,000	10	27
Ecuador	1,400,000,000	9	20
Jamaica	959,200,000	15	30
Cuba	800,000,000	5	40
Colombia	600,000,000	1	5
Nicaragua	600,000,000	22	80
Guatemala	584,000,000	5	16
Honduras	400,000,000	7.5	17
Ten Countries	18,295,947,000		

Source: "Attracting Remittances: Market, Money and Reduced Costs," report commissioned by the Inter-American Development Bank, Jan. 28, 2002.

³ Manuel Orozco, "Remittance and Markets: New Player and Practices," working paper for the *Inter-American Dialogue* and the *Tomas Rivera Policy Institute*, May 2000, p. 2.

The United States' Remittance Marketplace

Money Transmitters

Remittances are sent through banks and credit unions, money transmitter companies (both large and small), postal services, and individual couriers. Currently, the U.S. foreign remittance market is dominated by non-bank financial institutions (NBFIs).⁴ One 2003 estimate is that the foreign remittance market in the United States could be as large as \$28 billion.⁵ The vast majority of remittances are transferred electronically or by international money order. The main reason foreign remittance customers use non-bank money transmitters is that they are often unbanked; that is, they do not have an account with a depository financial institution. The foreign workers' lack of bank accounts is attributable to poor English language skills, low levels of education, high cost of banking services, little or infrequent need for banking services, and questionable U.S. residency status. Generally, NBFIs provide their customers with the convenience of longer hours of operation than offered by banks and credit unions. In addition, money transmission services may be an ancillary service: the foreign remittance customer may be able to cash a paycheck, send money to family in his home country, and shop for groceries or fill his car's gas tank. Moreover, most foreign workers have never held a bank account in their lives, and many are distrustful of banks. In Mexico, for example, only 20% of families have bank accounts.⁶ Immigrants from other parts of Latin America are likely to have an aversion to banks due to a history of losing money deposited in banks in their home countries, through bank failures and currency devaluations.

Western Union and MoneyGram are the two largest money transmitter companies, but there has been a proliferation of companies offering remittance services in the last few years. Many are smaller, ethnically focused businesses concentrated in U.S. cities with significant immigrant populations. Any country with a substantial immigrant population in the United States will probably have a number of courier agencies providing remittance services. Examples would be RapidMoney—a company that sends remittances to Mexico and El Salvador from Texas and Arizona—and Mateo Express—a courier agency favored by Dominicans. A 1997 study found approximately 8,000 money transmission outlets not affiliated with the

⁴ The Bank Secrecy Act (P.L. 91-508) defines any enterprise that is not a bank and that is engaged in money services businesses as a non-bank financial institution (NBFI). NBFIs cover a broad variety of enterprises ranging from the small and simple to large firms with numerous branches or outlets. The term includes the United States Postal Service, because it issues money orders.

⁵ U.S. Congress, House Committee on Financial Services, *Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market*, hearings, 108th Cong., 1st sess., 2003. Opening remarks by Rep. Paul E. Gilmore, [<http://financialservices.house.gov/media/pdf/100103gi.pdf>].

⁶ U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Issues Regarding the Sending of Remittances*, hearings, 107th Cong., 2nd sess., 2002, p. 6. [<http://www.senate.gov/~banking>].

two largest companies.⁷ Money transmission outlets were more concentrated in the six states with the largest immigrant populations: California, New York, Texas, New Jersey, Florida, and Illinois. In addition, the U.S. Postal Service offers international money orders and an electronic money transfer service to Mexico called Dinero Seguro. Although the volume of transfers by Western Union and MoneyGram has not declined, there is evidence that their market share has declined due to competition.⁸ The two have sophisticated and widespread company infrastructures. Western Union has more than 117,000 agent locations in over 186 countries. Western Union is a subsidiary of First Data Corporation; the corporation's businesses include payment, merchant, and card issuing services. MoneyGram, a subsidiary of Travelers Express, provides services through approximately 50,000 agents in more than 150 countries. Travelers Express is operated by Viad Corporation; the corporation's businesses include payment, convention and event, and travel and recreation services. Agents for Western Union and MoneyGram in the United States are often involved in a wide variety of other businesses, including supermarkets, check cashing, gas stations, liquor stores, convenience stores, and currency exchange offices.

Banks and credit unions have recently shown a greater interest in the business of providing remittance services. Conventional international bank wire transfers, available for a fairly high fee, are usually offered to corporate customers. Individual institutions did not view low wage foreign workers as potential regular banking customers. They were likely to return to their country or move to other parts of the United States. Current interest stems from the growing immigrant populations in parts of the United States and efforts by the Federal Reserve System to encourage depository institutions to reach out to unbanked consumers.⁹ Remittance services are a way to bring low-income immigrants into the financial mainstream, to introduce these consumers to other financial products and services. Credit union participation has also been encouraged by the development of the World Council of Credit Unions' (WOCCU) International Remittance Network (Irnet), a credit union network for international money transfers. Participation in the remittance market by banks and credit unions, while growing, is still limited.

Methods and Cost of Remittances

Method. Two major developments in the foreign remittance market are the proliferation of money transmitters and the increased use of electronic transfer as a transaction method. Although there are still paper-based and even hand-carried remittances, today, most types of remittance transfers involve electronic technology. This includes transfers between depository financial institutions, from NBFIs to

⁷ "Non-Bank Financial Institutions: A Study of Five Sectors for the Financial Crimes Enforcement Network," a report by Coopers and Lybrand for the Financial Crimes Enforcement Network, Feb. 28, 1997, p.19.

⁸ Manuel Orozco, *Family Remittances to Latin America: the Marketplace and its Changing Dynamics*, paper delivered at the Inter-American Development Bank Conference, May 17-18, 2001.

⁹ See the Federal Reserve of Chicago Symposium on the Unbanked at [<http://www.chicagofed.org/unbanked/conferences/index.cfm>], visited Dec. 9, 2002.

banks, and NBFIs to NBFIs. Mexico provides an illustration. Electronic remittance transfers there increased from 43% in 1994 to 70% in 2000.¹⁰ Technology has increased the speed of the transfers and expanded the products used in the money transfer process. The great majority of sender and receiver transfer agents use computers, linked to a central office, to process the money transfer. Bank of America's SafeSend program offers a reloadable debit card that can access 20,000 ATMs (automated teller machines) in Mexico. The Dinero Seguro program is an electronic money transfer service between the U.S. Postal Service and 2,300 branch offices of Bancomer, a retail banking institution in Mexico. Dinero Seguro's process time is about 15 minutes. These are a few examples of the variety of electronic instruments used.

Paper-based money orders remain popular because in many of the recipient countries money order type instruments are familiar ways of making certain payments. In addition, they may be a more convenient and cheaper method of transfer. Money orders can be delivered through the postal system to the recipients at their local post office. The cost to transfer up to \$700 to Mexico by a U.S. Postal Service money order is \$7.50.¹¹ However, theft is a major problem of remitting with a money order because it takes such a long time for a money order to reach its recipient. By the time the stolen money order is determined to be missing, usually two to three weeks, it has already been cashed. The volume of remittances made through money orders is undocumented.

Seeking to reduce the cost of sending money home, many foreign workers still rely on hand delivery and even personal letters. Money is sometimes delivered by the actual sender (*encomendero*) through frequent trips home, or by a third party (*viajero*). Another way a large number of migrants avoid paying the high fees of remitting funds safely is to form "hometown associations." When members of these associations are returning home, they deliver other members' money directly to the recipients for a nominal fee. There are reportedly more than 400 such groups from Mexico alone in the United States.¹² The volume of remittances made by hometown associations, letters, and other informal couriers is unknown. The cost and exposure to fraud as a result of using couriers and letters is not known.

Cost. The price of sending a remittance can vary significantly. A number of factors affect the transaction fee charged including operating costs, the volume sent, the transfer mechanism, and the level of market competition (in both the sending and receiving country). The exchange rate used in the transaction can significantly affect the funds actually delivered to the recipient (see discussion on exchange rates that follows). The estimated cost to remitting firms of executing a transaction is between \$3 to \$6 per transfer.¹³ Depository financial institutions that have an infrastructure

¹⁰ Ibid.

¹¹ Dean Owen, "Remittances to Mexico," *Banks and Money*. [<http://web.utk/~tnlatina/banksmoney.html>], visited Apr. 10, 2002.

¹² "Making the Most of an Exodus," *The Economist*, Mar. 12, 2002. p. 4.

¹³ Manuel Orozco, "Attracting Remittances: Market, Money and Reduced Costs," report (continued...)

in place in the receiving country may have lower costs. Transaction fees tend to decline with the volume sent. Labor and capital affect the mechanism costs. The new entrants into the business and the resulting competition have lowered the price of sending remittances.

The general trend of the cost to foreign workers over last few years has been a decline in transaction fees. In 1999, for example, Western Union charged \$22 for transferring up to \$200 to Mexico, and by 2001, the fee had dropped to \$15. In 1999, the average charge for sending remittances to Latin American countries totaled 15% of the amount being sent. In 2002, the average charge has dropped to 7.5% of the amount transferred. Foreign remittances are still a very profitable business for money transmitters. **Table 2** provides an example of the relative competitiveness of nonbank transmitters, banks and credit unions.

**Table 2. Average Charge for Transferring \$250
By Type of Institution**

Type	Average Charge	Percent of Remittance
NBFI	\$18.84	7.54
Banks	10.60	4.24
Credit Unions	7.67	3.07

Source: "Migration, Money, and Markets," A paper by Manuel Orozco, project director for the Inter-American Dialogue, 2001.

Western Union defends its charges by arguing that the company provides a premium service. It indicated its service is guaranteed in terms of location, speed, reliability, and safety. Western Union has a large number of transfer agents and extensive geographic locations. Some of the company's outlets offer additional customer services, such as notifying recipients that their money has arrived and providing toll free numbers to clients to check on the status of a transaction.¹⁴ Bank remittance services usually are credits to a deposit account in its branch or a correspondent bank's branch in the recipient's country. The recipient may or may not be notified of the credit by the banks involved. Credit union fees are usually the lowest, but there are very few credit unions in Latin America. Consequently, getting the remittance in the hands of the recipient could become very expensive when time and transportation are considered. Both banks and credit unions are expanding the number of agents and branches of banks to which remittances can be delivered. However, increasing the convenience of remittances may raise the banks' and credit unions' prices.

¹³ (...continued)

commissioned by the Inter-American Development Bank. Jan. 28, 2002. p.15.

¹⁴ Ibid. p.16

The Exchange Rate Factor. How much purchasing power the recipient of the money transfer gets depends on the exchange rate used by the money transmitter. Benchmark exchange rates are set daily by the international currency markets. Money transmitters often arbitrarily and unilaterally impose exchange rates that vary significantly from the benchmark. The difference between the two rates is called the spread. The spread can equate to an additional fee deducted during the transaction. If the transmitter does not promulgate or notify the sender of the exchange rate being used in the transaction, the sender may be unaware of this “hidden” fee when initiating the transaction. Artificially established exchange rates can significantly increase the profit from a transaction.

The spread can vary considerably. **Table 3** provides an example of the range of exchange rates offered by Western Union to nine countries in April 2001. The table compares the Western Union rate with the market (benchmark) rate and profits are calculated for a \$250 transaction. There is evidence that competition in the remittance market, both in the United States and recipient countries, has reduced these hidden fees. Competition encourages the disclosure of exchange rates for comparison shopping by consumers. **Table 3** compares two sets of figures for Mexico and shows a significant drop in spread profits between 1999 and 2001 which can be linked to increased competition. In addition, dollarization, where residents of a country use foreign currency alongside or instead of the domestic currency, has decreased profits from exchange rate spread.

Table 3. Exchange Rates Offered to Customers Wiring Money to Selected Countries, April 25, 2001

Countries	Western Union Rate	Official Rate	Western Union Rate as a % of the Official Rate	% Profit	Profits from \$250.00
Colombia	2220.0	2317.5	95.8	4.2	10.50
Cuba	1.0	1.0	100.0	0.0	0.00
Dominican Republic	16.3	16.2	100.6	-0.6	-1.50
Ecuador	1.0	1.0	100.0	0.0	0.00
El Salvador ^a	8.8	8.8	100.0	0.0	0.00
Guatemala	7.7	7.8	99.1	0.9	2.50
Honduras	15.3	15.4	99.9	0.1	0.30
Jamaica	44.29	45.5	97.4	2.6	6.38
Mexico 2001	8.81	9.2	95.9	4.1	10.30
Mexico 1999	9.0	10.1	88.8	11.2	27.90

Source: “Family Remittances to Latin America: the marketplace and its changing dynamics,” a paper by Manuel Orozco project director for the Inter-American Development Dialogue, 2001.

a. Dollarization was not 100%; some remittances are exchanged for Colons.

Selected Countries' Foreign Remittance Marketplaces

Two reports were recently commissioned by the Inter-American Development Bank to provide a greater understanding of the remittance operations between the United States and Latin America. Both reports were written by Manuel Orozco in January 2002. One report, *Attracting Remittances: Market, Money and Reduced Costs*, analyzes the business environment of several countries' remittance marketplaces. The second report, *Enabling Environments? Facing a Spontaneous or Incubating Stage*, examines what several Latin American governments and businesses are doing to encourage or facilitate their countries' remittance markets. The reports were based on an analysis of the operations of more than 70 money transmitters and extensive interviews conducted in the United States and recipient countries. The following discussion of the remittance market environments of Mexico, El Salvador, Dominican Republic, Jamaica, and Guatemala is largely taken from the original research contained in these two reports. **Table 4** provides information on the volume of remittances sent to the five selected countries and the range of transaction costs found. These five countries account for approximately \$14.5 billion of the estimated \$18 billion that went to Latin American and the Caribbean countries in 2001 (**Table 1**).

Table 4. Selected Countries: 2000-2001 Total Remittances and the Average, Minimum, and Maximum Cost of Sending \$250
(In Dollars)

Country	Remittances	Average Cost	Minimum Cost	Maximum Cost
Mexico	9,273,747,000	13.55	9.00	35.00
El Salvador	1,972,000,000	14.29	6.50	25.00
Dominican Republic	1,807,000,000	21.98	20.00	25.00
Jamaica	959,200,000	20.00	15.00	25.00
Guatemala	584,000,000	16.50	6.50	25.00

Source: Reports by Manuel Orozco, project director for the Inter-American Dialogue.

Mexico

Mexico accounts for the largest immigrant population, over 7 million, of the countries Orozco studied in Latin America. The remittances to Mexico from the United States have risen to between \$8 billion and a little over \$9 billion annually.¹⁵

¹⁵ According to two estimates: "Mexican Remittances to Go Up 25 Percent This Year to \$8 Billion," *Hispanic News*, Nov. 27, 2001, p.1, and the higher estimate in **Table 4** is from (continued...)

It is also the country with the greatest range of choices for the remittance customer. Consequently, the cost of sending remittances to Mexico is generally the lowest. The competition ranges from a growing number of small businesses that are outgrowths of courier services and hometown associations to large corporations. In 2001, the major remitter in Mexico was Western Union; the company had 6,300 agents located in Mexico.¹⁶ One estimate attributed at least 41% of the Mexican remittance market to Western Union and MoneyGram.¹⁷ The Mexican banking industry has added significantly to the competition. Bancomer, Banamax, and Bancomex are major players offering direct money transfer services by establishing offices in the United States. These banks also work jointly with other money transmitters like MoneyGram and Ria Envía. The banks provide customer services similar to those of Western Union; for example, they send notices to the recipient that the money is available for pickup at the transfer agent or bank branch location. Bancomer also works with the United States Postal Service to offer the Dinero Seguro program. In addition, Mexican credit unions are becoming involved in remittance services. There is evidence that Western Union has gradually lost some market share in Mexico to the entrance of new competitors. On the other hand, the lower fees resulting from the highly competitive market may make it more difficult for smaller and/or new entrants to survive.

El Salvador

El Salvador was the second largest of the foreign remittance markets Orozco studied. The Salvadoran population in the United States is estimated to be at least 1 million, and in 2001 they transferred almost \$2 billion back home. In January 2001, El Salvador's economy was dollarized; the government made the U.S. dollar legal tender in the country while maintaining parity with the Colon (the local currency). This action reduced the cost of remittances. In addition, competition has kept fees lower. The two largest competitors are Western Union and Gigante Express, each with about a 25% share of the market. Gigante Express is a courier service company that sells and sends money orders. Salvadoran banks are active players: four banks—BanSol, BanComercio, Banco Agrícola and Banco Cuscatlan—operate as money transmitters in the United States. The largest, Banco Agrícola, has approximately 10% of the market. A relatively small but growing competitor is the EL Salvador Federation of Credit Unions (FEDECACES). FEDECACES works with the Innet system (credit unions) and three money transmitters, Vigo International, Rapid Money, and Viamericas.

¹⁵ (...continued)

Manuel Orozco, "Attracting Remittances: Market, Money and Reduced Costs," a report commissioned by the Multilateral Investment Fund of the Inter-American Development Bank, Jan. 28, 2002. p. 2.

¹⁶ Salo Eduardo Levy, "Outline of the Western Union Transfer Process," Federal Reserve of Chicago Symposium on the Unbanked at [<http://www.chicagofed.org/unbanked/conferences/index.cfm>].

¹⁷ Orozco, Manual, "Attracting Remittances: Market, Money and Reduced Costs," p. 9.

Dominican Republic

The remittance market in the Dominican Republic is one of the least competitive in Latin America despite having a large presence in the United States (nearly 1 million immigrants) and a high volume of \$1.8 billion in remittances. The reason is that an association of more than 15 remittance companies dominates the market. The association is called the Asociacion Dominicana de Empresas Remesadoras de Divisas, Inc. Members of the association generally have similar prices. This is evident in **Table 4** where the difference between the maximum and minimum transaction cost is just \$5 for the Dominican Republic, while the other countries show a much greater range. The companies generally charge a fixed fee of \$8 for sending dollars plus 5% of the amount sent. For sending local currency, the fixed fee is \$5 plus 5% of the amount sent. Consequently, the average cost of remittances in the Dominican Republic tends to be higher than the other countries studied. However, the charges usually include a home delivery service; when offered in other countries this service involves additional fees. For the most part, banks are relatively uninvolved in the remittance business. The Dominican Republic does have a cooperative system (similar to credit unions). The Association of Cooperatives is working on the development of an ATM network that would be able to offer less expensive remittance services.

Jamaica

Jamaica's remittance market is the least competitive of the five countries. Consequently, money transfers tend to be more expensive. The Jamaican population in the United States is estimated to be 800,000 and in 2001 they transferred approximately \$900 million back home. One company, Western Union, dominates the remittance market through an arrangement with a local firm, Grace Kennedy Remittance Services Ltd. Grace Kennedy manages 65% to 70% of the 200,000 transfers per month from the United States. The major competitor is Jamaica National Overseas, part of a building society, which controls about 10% of the remittance market. **Table 3** suggests the exchange rate spread also contributes to high price of remittances to Jamaica. Some of the other banks in Jamaica are agents for MoneyGram, and their transaction fees are similar to Grace Kennedy. The Jamaica Cooperative Credit Union League is currently working with Innet to offer remittance services.

Guatemala

Guatemala has a relatively small immigrant population in the United States, less than 500,000, but they sent nearly \$700 million back home in 2001. The remittance market is competitive. The large remittance companies like Western Union and Gigante Express have a presence in the Guatemala. Banks are important players and Innet is working with credit unions as well. The banking industry has established offices in the United States. Three commercial banks, G&T Continental, Agromercantil de Guatemala, and De Occidente, have aggressively pursued Guatemalan customers in the United States by opening branches in Los Angeles where there is the largest concentration of Guatemalan immigrants. In addition, there

is the Guatemalan National Federation of Credit Unions (FENEACOAC) an organization working with Innet.

United States Regulation of Foreign Remittances

U.S. banks and credit unions are chartered by both federal and state law. The operations of U.S. banks and credit unions are closely regulated and supervised at both the state and federal level. Foreign bank branches and agencies are also governed by a combination of state and federal statutes, provisions of which include licensing requirements and permissible activities. While the actual licensing and primary regulation of most non-bank money transmitters is a matter of state law, federal law requires money transmitters to register with the Treasury Department's Financial Crimes Enforcement Network (FinCEN). FinCen requires the NBFIs to be licensed if they operate in a state that requires licensing. Several types of federal laws are applicable to all money transmitters. The remittance business in the U.S. is subject to the record keeping and reporting requirements of federal anti-money laundering laws. Remittances to certain foreign countries may be subject to sanctions under various federal statutes administered by the Treasury Department's Office of Foreign Assets Control (OFAC).

Omnibus anti-money-laundering legislation was recently enacted in Title III of the USA PATRIOT Act (P.L. 107-56).¹⁸ This legislation amends and builds on earlier statutes dealing with international money laundering and the financing of terrorism. The implementation of the USA PATRIOT Act could have far reaching consequences for the remittance business and for individual immigrants seeking financial services. Provisions of the law deal with increased cooperation by financial institutions in responding to government requests for information and new requirements for regulations mandating standards for identifying persons opening accounts. In addition, the statute requires all types of financial institutions to establish a program designed to prevent their use in money laundering or terrorist activities.

According to the National Consumer Law Center,¹⁹ approximately 28 states have laws requiring money transmitters to be licensed by the state banking agency. Some of these states (usually those with significant immigrant populations) have specific licensing requirements for transmitters sending money to foreign countries. Individual states have passed disclosure regulation statutes that require money transmission companies to provide customers with receipts, with the name of the licensee, the amount paid by the consumer, fees charged and retail exchange rates paid by consumers. However, states do not regulate the fees money transmitters charge.

¹⁸ For more detailed information on this Act and pre-existing law, see CRS Report RL31208, *International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, Title III of P.L. 107-56*, by Maureen Murphy.

¹⁹ See [http://www.consumerlaw.org/osi/miscellaneous/wire_transfer.html].

Government Regulation and Facilitation of the Remittance Market in Selected Countries

The monetary regulatory authorities, led by the central banks in Latin America and the Caribbean countries, have not greatly intervened in the remittance market. None of the countries studied have specific regulations controlling the flow of remittances. The central banks do track the flow of remittances and make estimates on the total volume coming into their countries. In general, financial authorities allow money transmitters to operate with minimal regulation, letting the remittance market regulate itself. Some governments have established programs for the purpose of directing a share of remittances into their economic development plans, but there are few widespread initiatives. The following discussions of the remittance market environments of Mexico, El Salvador, Dominican Republic, Jamaica, and Guatemala are taken from the two Manuel Orozco studies mentioned in the last section.

Mexico

The federal government in Mexico does not have one clear set of regulations governing the transfer of remittances.²⁰ Financial institutions in Mexico do have to use the *Banco de Mexico* official exchange rate, when they handle money from abroad. Non-financial institutions operate under their own rules and do not even need authorization from the banking authorities to start operations. Theft has been a rising concern with remittances sent through informal channels, such as letters and personal couriers. A few Mexican states have started their own programs to ensure safe, low-cost money transfers to their communities. For example, the state of Jalisco has made an arrangement with BankAmerica to create *Raza Express*. A side benefit of this program has been a reduction in transaction costs compared with other money transmitters. The state of Zacatecas created similar mechanism called Ivermatico-Zacatecas with three other American banks, the California Bank, Commerce Bank, and Wells Fargo. The current Mexican government has recognized the economic potential of remittances and established a new office to work with immigrant associations to encourage remittance investment in their Mexican hometowns.

El Salvador

As in Mexico, the central banking authorities exercise little regulatory control over the El Salvadoran remittance market. The central bank's main concern is that institutions authorized to carry out international financial operations keep records of incoming flows and their sources. The Salvadoran government has also established an office to link the government with emigrants. The office works with hometown associations on development projects. The office coordinates with other

²⁰ A paper "The case for Remittance Policy in Mexico" by German A. Zarate-Hoyos was used in addition to the Orozco reports for Mexico. The paper can be found at [<http://www.chicagofed.org/unbanked/conferences/remittances>].

government agencies, such as the Ministry of Agriculture, to reach out to emigrants and attract investment capital through remittance programs.

Dominican Republic

The government of the Dominican Republic has very few regulations pertaining to the remittance market, which is dominated by the members of the Asociacion Dominicana de Empresas Remesadoras de Divisas Inc. Banks, with a few exceptions, are relatively uninvolved in the remittance business. If the transaction exceeds \$5,000, banks and non-banks must register and report the transaction. The central bank does track the flow of funds and estimates the total volume of remittances into the country. These estimates have brought recognition from government officials of the value of remittances as a resource for the economy. The Foreign Affairs ministry created an Overseas Affairs Office, which is in the process of developing outreach policies.

Jamaica

Currently, Jamaica has no restrictions on foreign exchange capital flows. The main concern of Jamaica's central bank has been monitoring the volume of remittances. The banking authorities have been reviewing money laundering regulations. Of the countries studied, Jamaica has the largest proportion of its population living abroad. Although there is an awareness of the economic importance of remittances, there are no concrete policies and programs to channel funds into economic development.

Guatemala

Guatemala's central bank has no restrictions that control the flow of remittances. The Bank does track the flow and measures the volume through reports of banks and foreign currency exchange houses. Guatemala allows transfers in dollars, but many commercial banks require a \$500 deposit before a dollar account can be opened. Those customers must also keep an account in quetzales (the local currency) as well, and this policy limits access. Currently there are no policies and programs to attract remittances for economic development in Guatemala.

Legislation and Policy Issues

Legislation to facilitate fair and equitable pricing of foreign remittances from the United States has been introduced in the 108th Congress. H.R. 2074 would require increased disclosure of all fees and rates involved in the transmission. Title III of omnibus regulatory relief legislation (H.R. 1375) would permit credit unions to offer financial services to consumers without accounts. Congressional oversight hearings on remittance services offered by U. S. banks, credit unions, and non-banks were held in February 2002 by the Senate Banking Committee and in October 2003 by the House Financial Services Committee. The hearings focused on the high costs that can be a part of the remittance transmission and how to introduce unbanked immigrants to mainstream financial services. Provisions of the USA PATRIOT Act,

enacted in response to the events of September 11, 2001 could broadly affect the remittance business.

The International Money Transfer Disclosure Act (H.R. 2074) would provide full disclosure of all fees and costs involved in money-wiring transactions. The legislation would direct federal agencies to jointly prescribe regulations to require a financial institution or money transmitting business which initiates an international transfer for a consumer to make a good faith effort to provide certain disclosures before the consummation of the transaction. The disclosures would be required whether or not the consumer was an account holder. Information provided would include any fees to be charged to the recipient (including any exchange rate or currency conversion fees), a final itemization of all costs to the consumer, and the exact amount of foreign currency to be received by the recipient. The bill also addresses the need for disclosure in languages other than English. The legislation was introduced on May 13, 2003, no further action has been taken.

H.R. 1375 would alter or eliminate statutory banking provisions considered outdated, unnecessary, or ineffective in an effort to lessen the overall burden of regulatory compliance for banks, thrifts, and credit unions. The legislation was introduced on March 20, 2003, and was reported from the House Financial Services Committee on June 12, 2003, as well as, the Judiciary Committee on July 14, 2003. Title III of H.R. 1375 would expand access to credit unions and allow credit unions to offer wire transfers, check-cashing, and money orders to anyone in their “field of membership.”²¹ This provision would allow credit unions to offer remittance services to immigrants who are not account holders.

Oversight hearings in the 107th and 108th Congresses focused on the high costs often associated with remittances, general concerns of the unbanked, and how financial literacy, disclosure, and competition might address the issues raised.²² Unbanked consumers often pay more for financial services, including remittances, because NBFIs tend to charge more than banks or credit unions. Witnesses encouraged banks and credit unions to use remittance services as a means to introduce immigrants to the opportunities for saving and borrowing at mainstream financial institutions. By educating these consumers, institutions could expand their potential customer base. In addition, increased competition in the remittance marketplace could lower transmission costs. The need for a regulatory framework to provide disclosure and consumer protection was also debated. Finally, the economic importance of remittances to home countries and how partnerships could be established to channel these funds into development programs were discussed.

A more complete picture of the remittance business and the policies needed to support it might be provided by a better and more comprehensive system of data collection. A major data collection problem is that data gathered in the sending

²¹ Credit unions are granted charters on the basis of a common bond which determines their field of membership. The common bond may be occupational, associational, or community.

²² U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Issues Regarding the Sending of Remittances*, 107th Cong., 2nd sess., Feb. 28, 2002, [http://www.senate.gov/~banking/02_02hrg/022802/sarbanes.htm], visited Nov. 03, 2002.

countries often do not coincide with the data gathered in the recipient countries. A significant reason for the discrepancy is the difficulty in tracking informal money transfers from sending countries, like the United States. To overcome this problem, data gathering institutions in remitting and recipient countries under the auspices of the IMF or the IADB could ask uniform questions that capture the most useful information.²³ Uniform methodologies for measuring remittance flows by recipient countries would also be included. Finally, the growing remittance activities of U.S. banking institutions strongly suggest that the Federal Reserve's bank operations and payment systems division could play a major role on the federal level in this data gathering process.

USA PATRIOT Act

The implementation of the USA PATRIOT Act raises issues for immigrants seeking financial services and for the financial institutions providing those services. An overall goal of this Act is to prevent, detect, and prosecute international money laundering and the financing of terrorism. Although immigrants sending small amounts of money home are not directly targeted under this law, it has resulted in increased scrutiny of the remittance market. Costs resulting from compliance with certain provisions of the Act have proved prohibitive for smaller money transmitters. For example, in April, 2002, the Treasury Department published an interim rule requiring NBFIs to establish anti-money laundering programs commensurate with the risks posed by their size, location and financial activities.²⁴ Written policies, procedures, and internal controls must be developed. These include record keeping, reporting, and verifying customer identification. Banks and credit unions are subject to record keeping and reporting requirements that build on existing law. These requirements have made it difficult or expensive for individual institutions to do business with foreign banks and remittance companies. Despite costly examinations by government agencies, the number of financial firms entering into the remittance trade has been increasing which is helping to drive down the price of remittances.²⁵ The Treasury jointly with other federal regulators have issued minimum standards for identifying customers opening accounts at depository financial institutions. These standards have made it more difficult for immigrants to establish account relationships with banks and credit unions, because they fear the added scrutiny of the standards may endanger their immigration status

²³ Such an approach has been suggested by Manuel Orozco project director for the Inter-American Dialogue.

²⁴ U.S. Dept. of the Treasury, "Financial Crimes Enforcement Network; Anti-Money Laundering Programs for Money Services Businesses," *Federal Register*, vol. 67, no. 82, Apr. 29, 2002, p. 21114.

²⁵ U.S. Congress, House Committee on Financial Services, *Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market*, hearings, 108th Cong., 1st sess., 2003, Testimony of Ezra C. Levine on the Behalf of the Non-Bank Funds Transmitters Group, p. 3. [[http://www.House.gov/gov/~Financial services/](http://www.House.gov/gov/~Financial%20services/)]