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“Reforming the Remittance Transfer Market”
By Beatriz Ibarra

- I’d like to thank Michael for allowing me to speak here today. It’s an honor for me to be here to share with you the work that we’re doing on remittances.
- For those of you who are unfamiliar with the National Council of La Raza, we are the largest Hispanic constituency-based organization in the U.S.
- We reach more than four million Hispanics through our network of 350-plus Hispanic community-based organizations (CBOs).
- My job at NCLR is to do research and analysis on financial security issues affecting Latino families. More importantly, though, I’m an advocate for my community and I spend a lot of time thinking about how to level the economic playing field.
- I would like to take this opportunity to: (1) provide you with some basic statistics and background information; (2) describe the most critical issues for Latinos with respect to remittances; and (3) give you a sense of the work that NCLR is doing on remittances and the work that still needs to be done.

Basic Statistics and Background:

- For many Latino families, the process of acquiring and cultivating assets continues to be a challenge. The inability of families and workers to purchase and develop assets means that true economic progress will continue to elude them, making them vulnerable to unforeseen financial hardships.
- About six years ago, NCLR developed its Economic Mobility Initiative to go beyond our traditional poverty work. As part of this new initiative, we expanded our agenda to include key asset-building policies, such as pension coverage, retirement security, homeownership, banking, and affordable credit.
- After hearing from our affiliate network in the field, and learning about recent lawsuits involving wire transfer companies, issues surrounding the remittance transfer market also became part of our policy agenda.

- As you may have heard, remittances to Latin America reached a total of \$45 billion in 2004.
- Studies show that lowering the costs associated with remittance transfers by 5% could generate annual savings of \$1 billion for Latino families living in the U.S.
- We believe that this money could be used to help close the growing wealth gap that currently exists between Latinos and other groups in the U.S.
- In 2002, the median net worth of Hispanic households was \$7,932, compared with \$88,651 for White households. In other words, Latino families earn 9 cents for every dollar that White families earn.
- In this same survey, they found that one out of four Latino households did not own any assets other than a vehicle or unsecured liabilities, compared with 1 and 16 White households.
- There is still little data out there on the remittance market. But we do know that almost half of all Latinos in the U.S. remit money to their family and friends abroad (approximately 42%).
- On average, Latinos who remit send \$100-\$300 per person, usually on a monthly basis.
- Given these numbers and facts, it is clear that reforming the way money is remitted would make a significant difference in the lives of many Latinos living in the U.S. Reforms would enable our community to keep more of their hard-earned money for savings or investments and, like I said, even help to close the wealth gap.
- Now let me describe the three most critical issues for Latinos with respect to remittances and why we believe reform is needed.

Issues:

- First, even though there are a number of financial institutions offering remittance products, accessing these products still poses a challenge for many Latinos.
 - Less than 5% of remittance transfers are conducted through a bank or a credit union, despite the fact that these financial institutions often provide greater security and more affordable products than wire transfer companies.

- Financial institutions must do a better job of facilitating Latinos access to their products, not only because it's good for Latinos and other immigrants, but because it's good for business.
- One way to increase access is to ensure that financial institutions accept a wide range of identification documents.
 - All you need to remit money through a wire transfer company is a picture i.d., and only when the sender remits \$1,000 or more.
 - Only 70 banks in the U.S. accept the *matricula consular*. And many banks still do not allow customers to use Individual Taxpayer Identification Numbers (ITINs) to open up interest-bearing accounts.
 - Even when a bank does accept alternative forms of i.d., the information does not always trickle down to the bank managers and staff. Financial institutions must ensure that communication on these policies is clear.
 - These policies should become a part of a financial institutions core business plan, so that all new employees will be trained to follow them. If you experience high turnover rates with branch managers or bank tellers, this will ensure that even new employees know the policies and abide by them.
- Once Latinos and other low-income immigrants have greater access to financial institutions and their products, cross-selling opportunities will present themselves. Financial institutions will be able to provide a wider menu of financial services in addition to wire transfers.
- Second, financial institutions need to do a better job of developing and delivering the right products and marketing these products to the community.
 - Although I am not a product analyst, I can tell you that a good remittance product is simple, affordable, and accessible.
 - Simple in that the product is easy to use and a one-step process. It only takes a few moments to remit money through a wire transfer company. Banks have made the procedure considerably more complex.

- What I really mean by affordable is free.
- Accessing your remittance product is a more complex question. Once you have developed the right product, you need the right delivery system.
- One way to do this is for financial institutions and CBOs to form meaningful partnerships to deliver good remittance products to Latino families. CBOs have already earned the trust of the community and understand its needs.
- At NCLR, we have created a business model called our Economic Mobility Centers (EMCs), designed to provide financial counseling and services to poor families. More specifically, it involves financial partners making investments in community development. The agents then become stakeholders and have the opportunity to create the right products to help low-income families.
- By creating a business model that incorporates CBOs, financial institutions will be able to more effectively deliver their low-cost products to the community.
- Financial institutions must also improve outreach and marketing efforts. For example, institutions must ensure that their staff includes bilingual and bicultural employees to create a connection with this growing market.

Policy Solutions:

- Financial institutions need to play a greater role in reshaping the remittance market.
 - Current legislation in Congress, such as the “International Remittance Consumer Protection Act,” would do much to reform the remittance transfer market and increase competition.
 - Financial institutions must be more engaged in the debate on Capital Hill and work to pass this piece of legislation because reform is clearly in their best interest.
 - Additionally, financial institutions should be working at the federal level to protect alternative forms of i.d., such as the *matricula consular* and ITINs. As I mentioned earlier, these important identity documents will ensure that all immigrants can more easily access their products.

- NCLR's research shows that Hispanics in the U.S. need and demand custom-tailored, product-centered, one-on-one financial counseling.
 - We are currently working to develop legislation that would create a government-supported financial counseling infrastructure at the community level.
 - Resources are needed to support financial counseling to provide advice and information to poor families about basic services to poor families, such as banking, saving, and retirement security.
 - Creating an infrastructure similar to the housing counseling program that the Department of Housing and Urban Development oversees, would be the most meaningful method for improving the ability of low-income families to accumulate assets and wealth.
 - Banks can definitely play a role here to support financial counseling efforts and we hope that they will work to form partnerships with community-based organizations to help further develop this plan.

NCLR's work in the field:

- In the field, we are launching three pilot projects this summer called Economic Mobility Centers (or EMCs) in Phoenix, Denver and Kansas City.
- As I mentioned earlier, the EMCs will involve providing financial counseling and services to poor families. Counselors will be trained to understand issues surrounding budgeting, saving, and homeownership and good remittance sending practices.
- Basically, an individual will be able to go to a community-based organization and meet with a counselor for a one-on-one consultation.
- The financial counselor will have access to the clients' entire financial file and will be able to insert this information into a database. We feel that technology tools are essential for counseling and tracking the progress of families, which is why we have developed software to fill this need.
- These community groups serve a key intermediary role and compete against unsavory players that are more successful than mainstream institutions in reaching the community.

- Eventually, with the help of some of our partners, we will be able to incorporate a low- or no-cost remittance tool, so that Latinos will have more options as consumers.

In closing:

With the wealth gap between Latinos and other groups widening every year, policies that create opportunities to save money are timely and would make a significant difference in the lives of many Latinos.

- Financial institutions must do a better job of facilitating access to their remittance products and develop a model for effectively delivering these products to the community. As I described, one way to do this is to form meaningful partnerships with CBOs.
- Lastly, we all must work harder to reshape the remittance transfer market. This would include passing legislation that would create a more equal playing field.

Thank you.