NCLR
NATIONAL COUNCIL OF LA RAZA

An Eye on Remittances: The Need for High Industry Standards, Strong Consumer Protections, and Effective Consumer Outreach

Submitted to:

U.S. House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology

Submitted by:

Beatriz Ibarra, Assets Policy Analyst

National Council of La Raza
Raul Yzaguirre Building
1126 16th Street, NW
Washington, DC 20036

May 17, 2007

I. INTRODUCTION

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to provide expert testimony on the importance of remittances for Latinos. Over the last few years, I have had the opportunity to examine the remittance market in the context of broader challenges that Latinos experience in the financial services market. This body of work is reflected in several major publications including *Reforming the Remittance Transfer Market*; *Financial Counseling: A Meaningful Strategy for Building Wealth in the Latino Community*; *Latino Credit Card Use: Debt Trap or Ticket to Prosperity?*; and *Closing the Wealth Gap: Eliminating Structural Barriers to Building Assets in the Latino Community.*[1]

The National Council of La Raza's[2] (NCLR) mission is to improve opportunities for Hispanic[3] Americans living in the U.S. Part of this mission includes realizing public policy and programmatic initiatives that improve the opportunities and the ability of Hispanic families to build wealth and move permanently into the ranks of the American middle class. The most recent household wealth survey shows that the median net worth of Hispanic households is $7,932, compared to $88,651 for White non-Hispanic households.[4] Individuals need a strong relationship with a financial institution if they are to build wealth. Yet, approximately 32% of Latinos lack a basic checking or savings account.[5] Latinos are also more likely to have no or very low credit scores.[6] As a result, many Latinos rely on payday lenders, check cashers, wire transfer companies, and pawn brokers to meet their financial service needs and often pay more than necessary to conduct basic financial transactions.

Remittance products may serve as a gateway to banking Latino individuals and families. Remitters who become accountholders have access to a wider menu of financial products and services that help facilitate saving and asset development. Still, many Latino families continue to face barriers in accessing basic banking services. For example, many mainstream financial

---

[1] These publications are available at www.nclr.org.

[2] The National Council of La Raza (NCLR) – the largest national Hispanic civil rights and advocacy organization in the United States – works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations (CBOs), NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas – assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families. Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC. NCLR serves all Hispanic subgroups in all regions of the country and has operations in Atlanta, Chicago, Los Angeles, New York, Phoenix, Sacramento, San Antonio, and San Juan, Puerto Rico.

[3] The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

[4] Kochhar, Rakesh, *The Wealth of Hispanic Households: 1996 to 2002.* Washington, DC: Pew Hispanic Center, 2004.

[5] *Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets*, The Center for Financial Services Innovation, April 2005.

[6] See Stegman, Michael, et al., "Automated Underwriting: Getting to 'Yes' for More Low-Income Applicants," Presented before the 2001 Conference on Housing Opportunity, Research Institute for Housing America, Center for Community Capitalism, University of North Carolina-Chapel Hill, April 2001. Report shows that 22% of Hispanic borrowers had no credit score compared to 4% of Whites and 3% of African Americans.

institutions maintain identification requirements that effectively bar many Latinos from opening a basic checking or savings account. Moreover, many banks and credit unions do not offer a remittance product. Banks and credit unions have captured only a 3% share of the remittance market.

Although familiarity, convenience, and simplicity has driven remitters to rely on money transfer organizations (MTOs) to meet their needs, several issues exist that have made the market less efficient and, therefore, less beneficial for consumers. This statement will briefly outline key issues in the remittance transfer market and provide policy recommendations to improve efficiency and fairness in the market.

II. BACKGROUND

Global remittances reached $232 billion in 2005.[7] An estimated $50 billion was remitted from the U.S. to Latin America alone. Approximately 73% of Latinos send money to their family and community abroad, typically between $250 and $300 per month.[8] On the receiving end, family and friends use remittances to pay for their everyday basic needs such as food, housing, and utilities. Remittances are also used by recipients to pay for education, health care, and to start a small business.

The fees associated with sending remittances have dropped in recent years due to increased competition in the market. The average cost to remit $200 to Mexico was $12 in 2005, compared to $30 in the mid-1990s, leading to billions in savings for remitters.[9] Still, reductions in the costs to send remittances have been uneven. There are more than 100 MTOs facilitating remittances to Mexico, the largest remittance channel from the U.S. to Latin America. In geographical areas where remittances are less substantial, and where technological infrastructure is limited, the cost to send remittances has not dropped at a comparable rate. Moreover, migrants tend to work in the lowest-paying jobs. Even the cheapest remittance service provider may charge fees that are burdensome for these workers.

In addition to a flat fee charged to the remittance sender, and any taxes, fees may be charged to family and/or friends on the receiving end. The total price of the remittance transfer also depends on the exchange rate that is applied to the transaction. Remittance transfer providers charge a margin above the wholesale exchange rate to cover any losses, known as the exchange rate spread. Moreover, remittance service providers post different exchange rates, which tend to fluctuate on a daily, even hourly, basis. This makes it difficult for MTOs to post a remittance price and for consumers to know the true cost of remitting money at the point of purchase.

Remittance service providers are regulated at the state and federal level. The current regulatory framework at the federal level is not intended to protect consumers, but to address day-to-day operations and national security concerns, such as money laundering and suspicious activity. Financial institutions are required to comply with a multitude of state and federal regulations

[7] *Making the Most of Remittances*, Second Report of the Inter-American Dialogue Task Force on Remittances, May 2007.
[8] *Ibid.*
[9] *Ibid.*

from various governmental agencies to ensure compliance with the Bank Secrecy Act, Anti-Money Laundering regulations, and the U.S. PATRIOT Act.

Although the current regulatory framework is essential for national security purposes, it is vague and confusing. Many mainstream financial institutions are reluctant to offer or heavily market remittance products and services to the community. This is especially true for smaller financial institutions that fear that welcoming a large immigrant clientele will expose their institutions to investigation by federal officials. As a result, an opportunity to connect remitters to mainstream financial institutions and asset-building products and services is missed.

III. ISSUES

The flow of remittances from the U.S. is substantial and growing. More Latinos in the U.S. remit money than maintain basic checking and savings accounts with mainstream financial institutions. In light of this, there is an enormous opportunity for lawmakers and industry leaders to develop the U.S. remittance market in a way that more effectively integrates Latinos into the financial mainstream. Positive and effective market reforms that increase efficiency and establish consumer protections would make a significant difference in the economic lives of many individuals and families living in the U.S. and abroad. Key consumer issues, such as the lack of clear industry standards, strong consumer protections, and limited outreach efforts, are outlined below.

Lack of clear industry standards. The lack of clear industry standards limits the ability of remitters to make informed choices when selecting a remittance service provider. For example, a growing number of MTOs provide itemized receipts to remitters following completion of the transaction. However, the information on these receipts varies widely from one company to the next, which may lead remitters to having difficulty comparing transaction costs. Additionally, the information on many receipts is incomplete. According to one focus group study, remitters are also concerned about the reliability of pick-up locations and want a guaranteed time of delivery.[10] Information addressing these concerns is often not disclosed.

In addition to the lack of uniform disclosures, there are no industry-wide accepted standards regarding the type of pre-transaction information that should be available to remitters. Since current disclosures come in the form of post-transaction receipts, key transaction cost information is provided only after a remitter has committed to using a remittance service provider and completed the transaction. Additionally, remittance service providers are not required to provide disclosures in languages and formats that all remitters can understand. According to the World Bank, language barriers may limit access to a wider range of remittance service providers.[11] Moreover, the lack of bilingual transaction information is contrary to the need for greater transparency in the market.

---

[10] Improving Pricing Transparency in International Remittance Markets: Focus Group Testing of a Pricing Transparency Strategy, Appleseed, January 2007.

[11] *General Principles for International Remittance Services*, Consultative Report, Committee on Payment and Settlement Systems, World Bank, March 2006.

Lack of industry oversight and strong consumer protections. There is currently no federal government entity that exists to oversee the remittance market. Remittance service providers are regulated by a patchwork of state and federal regulations that have many gaps which leave consumers exposed.

In addition to having access to clear and detailed cost information, remitters should have the ability to protect their rights as consumers in every state. This would include rights against those who have defrauded them, the right to a refund, and a process for resolving disputes with remittance service providers. Currently, there is no centralized system for receiving and addressing consumer complaints from remitters concerning their wire transfers. If the remittance service provider cannot resolve the dispute, an independent third party should exist to ensure that disputes are fairly resolved. A national campaign targeted at remitters would also be needed to announce the creation of consumer complaint hotline and center to address complaints.

Disempowered consumer base. In any market, consumers need access to good information, reasonable levels of awareness, and the support of strong institutions in order to ensure that good industry practices drive out bad ones. A few community activists have begun to organize remitters. For example, we have seen the emergence of "million dollar clubs" in California and New York, where remitters pool their collective buying power to advocate for change. Hometown associations have also formed to help channel remittance flows to important community development projects abroad. These efforts are innovate and invaluable, and yet they have not been brought to scale. Most efforts to empower remitters have consisted of distributing informational brochures and organizing education classes. There is no national community outreach effort to raise awareness about the industry, encourage best remittance-sending practices, or connect remitters to mainstream financial institutions. Moreover, low-income remitters have little or no access to financial counselors to receive one-on-one, unbiased advice and information about their remittance-sending behavior.

IV. RECOMMENDATIONS

Positive and effective reforms would enable remitters to make more informed choices and save more of their hard-earned money for savings and investing at home and abroad. An ideal remittance market would have established high industry standards and strong consumer protections. At the same time, remitters would be empowered to make wise consumer choices.

Set High Industry Standards

- **Create a blue ribbon commission or task force to set clear industry standards.** More specifically, the purpose of the task force would be to 1) examine the potential for a new regulatory framework for remittances; 2) identify innovative methods for strengthening the payment infrastructure to increase efficiency of remittance transfers; and 3) set high standards for market practice. Commission participants would include an even distribution of and be limited to relevant nonprofit and civil rights organizations, consumer advocates, state and federal regulators, MTOs, banks, and credit unions. The commission would be coordinated and led by the Federal Reserve and hold a meeting at least every three months for one year. The commission should begin meeting no later than 60 days following enactment of any remittances legislation. Finally, the commission would draft and submit a report to Congress within a reasonable time following its final meeting date.

- **Create a uniform disclosure.** A uniform disclosure is needed to enable remitters to compare between one remittance service provider and the next. An ideal disclosure would include 1) total amount that the sender will tender; 2) total amount in disbursing currency that the recipient will receive; 3) itemized fees paid by the remittance sender and receiver; 4) the date of delivery; 5) locations where the recipient may access the remittance; 6) a notice of the remitter's rights as a consumer; and 7) contact information of an agent collecting and reporting on consumer complaints.

- **Require remittance service providers to post important transaction information in their place of business.** A transparent remittance market would enable consumers to know and understand important pricing information prior to committing to using any particular remittance service provider. This would require all remittance service providers to post, in a clear and conspicuous place, the fees charged, daily exchange rate, available pick-up time, and pick-up fees. To be effective, the remittance service provider would post this information for sending various amounts, such as $100, $200, and $300.

- **Require that disclosures be in languages and formats that are accessible and easy to understand.** Language access rules need not be overly rigid. Reasonable criteria that trigger language-accessible activities can be established.

Enact Strong Consumer Protections

- **Establish a government entity to provide oversight of the remittance market and enforce relevant laws.** In addition to a commission to set high industry standards, a new federal entity is also needed for consumer protection purposes. The new government entity would be responsible for licensing and registering remittance service providers, drafting rules to govern their behavior, and providing necessary oversight of the industry. This new entity should also have the authority to implement compliance reviews; conduct spot checks; perform audits; and check for rate manipulation, hidden fees, and compliance with pertinent regulations. In addition, the agency could administer a consumer complaint hotline and assist in settling consumer disputes.

- **Establish a process for the resolution of transactional errors.** Remitters should have the ability to protect their rights as consumers. This would include rights against those who have defrauded them and a process for resolving disputes with remittance service providers. The new federal government entity described above would have the authority to establish a consumer complaint hotline for remitters and a process for addressing their grievances.

Empower Consumers

- **Create an effective financial education campaign.** Congress should authorize $10 million for a language-appropriate financial education campaign targeted to remitters with the purpose of promoting a consumer complaint center and hotline. The campaign would also be a good opportunity to educate remitters of their rights as consumers and connect them to mainstream financial institutions. Responsibility for coordinating and executing the campaign should go beyond the Financial Literacy and Education Commission and include nongovernmental organizations, national nonprofit organizations, community-based organizations, hometown associations, and embassies and consulates. The campaign should also be monitored by an advisory board made up of representatives of the commission noted above.

- **Create a network of community-based financial counselors.** Financial counseling is critical for ensuring proper asset development in the Latino community, and yet Latino individuals and families remain disconnected and underserved by the financial planning market. Congress should authorize a financial counseling grant program to enable low- and moderate-income individuals and families to seek unbiased, customized financial advice and information about their finances. Community-based financial counselors would be trained and certified to consult clients on issues surrounding banking, budgeting, credit, debt, taxes, vehicle purchase, and remittances.[12]

V. CONCLUSION

To date, much has been done to improve, standardize, and open up the remittance transfer market. However, reforms are needed to enact strong consumer protections to facilitate the flow of remittances and create greater fairness in the market. Reforms are also an important part of a larger effort to improve the economic well-being of Latinos in the U.S.

We applaud Chairman Gutierrez (D-IL) and Ranking Member Paul (R-TX) for their efforts and look forward to working with you on these and other related matters in the future. The work of this Committee has helped to shed light on the industry and encourage good business practices.

[12] For more information, please see: *Financial Counseling: A Meaningful Strategy for Building Wealth in the Latino Community*, National Council of La Raza, 2005.