Wiring Change: New Protections for Remittances Can Help Families

What is a remittance?

A remittance is a sum of money wired from one individual to another across international borders. In 2004, the flow of remittances from the United States to Latin America reached a total of $45 billion.[i] In 2009, immigrants from Mexico sent approximately $22.87 billion home, and spent an estimated $1.5 billion in fees and other costs getting it there.[ii] The Latino community is deeply affected by the trends of this industry; unfortunately, money transfers are only loosely regulated and present challenges and few alternatives to customers. The encouraging news is that policymakers have taken on remittances as a small but key element of banking reform.

What is the problem?

- **No Disclosure.** The remittance market is opaque. When a customer transfers money, he does not know how much in fees he will be charged or how much his family will ultimately receive on the other end. Many are unaware that they are being charged an exchange rate fee, a transmission fee, and a commission. Fees vary greatly not just between companies but between transactions from customer to customer, ranging anywhere from $4 to $22 for the same service. Due to this lack of transparency, families cannot shop for the best deal; there is no way to make an apples-to-apples comparison of services.

- **No Oversight.** There is a conspicuous absence of effective state and federal regulations that directly address the burgeoning remittance industry. There are no means for recourse if there are errors in the money transfer process, such as lost funds or unjust fees. Thus far, regulators seem to have taken a Wild West approach to money transfers, allowing providers to charge fees at will.

Will the "Restoring American Financial Stability Act of 2010" fix the problem?

Senator Chris Dodd's (D–CT) bill, "Restoring American Financial Stability Act of 2010" (S. 3217), includes new protections that would give consumers a foot forward in the market. S. 3217 includes two provisions that are critical to modernizing the money transfer system that has operated in the shadows for decades.

- **Disclosure.** The bill would mandate disclosure of fees, exchange rates, and commission. It would also require a storefront display of currency received abroad for three countries to which the provider sends most money transfers. A customer would receive a receipt indicating the amount to be received in foreign currency in exchange for the U.S. dollars paid. Each of these indicators would allow consumers to make true apples-to-apples comparisons. In addition, it would create healthy competition between providers.

- **Oversight.** The bill's remittance section would provide vital consumer protections through increased regulation that would ensure that the remittance process is fair and transparent. It would streamline standards, making the market more efficient. The bill would also set up an error resolution process and require responses from remittance providers when there has been a complaint.

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[i] Manuel Orozco, *The Remittance Marketplace: Prices, Policy, and Financial Institutions* (Washington, DC: Pew Hispanic Center, 2004).
[ii] Dilip Ratha, Sanket Mohapatra, and Ani Silwal, "Migration and Remittance Trends 2009," *Migration and Development Brief 11*, Nov 3, 2009 http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief11.pdf (accessed May 5, 2010); The World Bank, *Remittances Prices Worldwide: Making Markets More Transparent* (Washington, DC: The World Bank, 2010), http://remittanceprices.worldbank.org/RemittanceCosts/?from=197#13 (accessed May 5, 2010).