

Supervisory Insights

Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market

Introduction

The flow of immigrants from a number of countries continues to shape the economic and demographic makeup of communities across the United States. Recent rapid growth and the overall size of the immigrant population from Latin American countries, in particular, have increased this group's political and economic influence. As a result, the U.S. banking industry is becoming keenly aware of the significant business potential that the Latino market represents.

The most significant recent waves of immigrants to this country, according to the 2000 Census, are from Latin American countries. This group's purchasing power is expected to almost double from \$491 billion in 2000 to \$926 billion by 2007.¹ The international remittance market, particularly in Latin America and the Caribbean, also is expected to grow considerably. Billions of dollars are flowing from the United States to Mexico and other countries, and a significant share of these transactions is taking place outside the formal banking system.

These impressive numbers provide a compelling incentive for U.S. banks to enter this largely untapped market. Studies show that as many as 10 million households in the United States are "unbanked" (without access to mainstream bank products and services) and a significant number of these unbanked households are Latino immigrants. This article focuses on the size and economic potential of the Latino immigrant market, the innovative approaches that some banks are using to capture this new customer base, and key risks and regulatory issues that banks should consider in offering remittance products.

Immigration and Remittance Flows

For the past decade, economic globalization has helped fuel immigration and remittance flows across international borders. More than 13 million people immigrated to the United States during the 1990s. Data from the 2000 Census estimate that more than 31 million immigrants are living in America today, comprising nearly 11 percent of the total population. Latin Americans represent 16 million, or 52 percent, of the total immigrant population. Mexico alone accounts for 9 million, or 30 percent, of this population.²

A major motivation in many Latinos' decision to come to the United States is the opportunity to earn money that can be returned to their homelands.³ Results of the 2003 National Survey of Latinos conducted by the Pew Hispanic Center and

the Kaiser Family Foundation indicate that 42 percent of adult foreign-born Latinos who live in the United States send money to their homelands regularly.⁴

International financial flows have been as dynamic as immigration flows across national borders. According to a study by the World Bank, remittances (the portion of an immigrant's earnings returned to family members in his or her country of origin) through formal channels totaled \$93 billion dollars worldwide in 2003.⁵ According to some analysts, remittances through informal mechanisms (e.g., hand delivery or regular mail) are roughly equal to transfers through formal channels such as wire transfer companies, banks and credit unions.⁶

The flow of labor and the subsequent financial flows from immigrant workers to their families in the home countries are most apparent between Latin America and the United States, with the United States and Mexico being the single largest bilateral remittance market. Research by the Inter-American Development Bank (IADB) has documented that remittance flows to Latin America and the Caribbean will reach nearly \$40 billion by the end of 2004. Approximately \$30 billion of these flows originate in the United States,⁷ and if future growth rates are maintained, the remittance market to Latin America could reach \$300 billion by the end of 2010.⁸ Remittances sent to relatives in the home countries, for the most part, help pay for basic family needs such as food, clothing, and shelter. A recent study by the IADB reports that 10 million immigrants living in the United States send money home on average 12.6 times a year, generally a few hundred dollars at a time.⁹

Of particular interest to bankers, many Latin American remittance senders living in the United States do not have a bank account. For example, 35 percent of Ecuadorians, 64 percent of Salvadorans and 75 percent of Mexican immigrants are unbanked.¹⁰ For many Latin American immigrants, legal status and a lack of traditional identification are the principal reasons for not having an account, causing most remitters to rely on currency exchanges to cash checks and high-cost wire transfer companies to send money to their relatives in Latin America.

Wire transfer companies such as Western Union and Money Gram are among the largest beneficiaries of these financial flows and the lucrative fees associated with remittances. The former has 6,000 offices throughout Mexico, including branches in post offices.¹¹ These two companies controlled 40 percent of remittance transactions from the United States to Mexico several years ago; however, because of increasing competition from other wire transfer companies and, to a lesser extent, competition from banks and credit unions, their market share has dropped to 15 percent.¹² The competition has reduced the cost considerably, from 15 percent of the amount remitted in the late 1990s to an average of 7.32 percent in early 2004.¹³

Although a growing number of community and large banks in the United States are trying to capitalize on the opportunities presented by the emerging remittance

market by linking them to banking services, banks capture less than 3 percent of the market.¹⁴ Of the 100 million separate remittance transactions every year from the United States to Latin America, almost all are outside the formal banking system.¹⁵ This creates an opportunity for banks to develop strategies around remittance services as a vehicle to draw unbanked immigrants into the banking system and offer a broader range of financial services.

Recognizing this opportunity, Citigroup Inc. and Bank of America Corporation have laid the foundation for future market penetration through acquisitions of two large Mexican banks, Banamex and Serfin. Citigroup recently launched a binational credit card to make it easier for migrants to send money across the border. Both the U.S. cardholder and the designated person in Mexico are issued a Banamex USA credit card. The latter can use the card anywhere it is accepted in Mexico, and the U.S. cardholder can pay the entire credit card bill in dollars and adjust the spending limit at any time. The cardholder in Mexico also is allowed to withdraw money from automated teller machines (ATMs). Bank of America announced that the number of bank transfer accounts via the U.S.-Mexico channel soared 1,500 percent in the first half of 2004.¹⁶

Strategies for Facilitating Remittance Transfers

During the past several years, bilateral agreements and U.S. banking laws and regulations have facilitated remittance transfers for immigrants and helped bring the unbanked into the formal banking system. For example, in 2001 the United States and Mexico launched the U.S.-Mexico *Partnership for Prosperity* which fosters economic and labor opportunities in less developed parts of Mexico and expands access to capital in Mexico. The *Partnership* also addresses the high cost of sending money from the United States to Mexico and encourages banking institutions to market accounts that offer remittance features to Mexican workers. In addition, the G-8 countries are promoting programs to alleviate poverty in developing countries, including Latin America.¹⁷ These programs facilitate remittances through the formal banking system and, at the same time, attempt to reduce the cost of these transfers.

In June 2004, in an effort to encourage more banks to enter the remittance market and improve access to the U.S. banking system among recent Latin American immigrants, bank regulatory agencies clarified that financial institutions offering low cost international remittance services would receive credit under the Community Reinvestment Act (CRA).¹⁸ Regulated financial institutions are required under the CRA to serve the convenience and credit needs of their entire communities, including low- and moderate-income areas. Most remittance senders to Latin America are low- to moderate-income immigrant wage earners who operate outside the formal banking system.

In addition, a growing number of U.S. banks accept alternative forms of identification to help taxpaying immigrants open bank accounts and secure other banking services; these include the Individual Taxpayer Identification Number

(ITIN) and foreign government issued identification, such as the Mexican *Matricula Consular* card. The [USA PATRIOT Act](#) allows financial institutions to accept both forms of identification, enabling insured financial institutions to serve unbanked immigrants who live and work in the United States.

The ITIN, created by the U.S. Internal Revenue Service (IRS) for foreign-born individuals who are required to file federal tax returns, is a nine-digit number similar to the social security number (SSN) and is issued to individuals who are not eligible for the SSN. The *Matricula Consular* card is an identification card issued by the Mexican consulate to individuals of Mexican nationality who live in the United States. According to the Mexican government, an estimated 4 million *Matricula* cards have been issued in the United States.¹⁹

As an example of the effectiveness of using this form of identification, Wells Fargo opened more than 400,000 new accounts for Mexican immigrants, using the *Matricula Consular* card between November 2001 and May 2004. In recent months, Wells Fargo has averaged 22,000 new accounts per month, many of which feature the bank's remittance product.²⁰ For example, the bank offers InterCuenta Express, an account-to-account wire transfer service that charges \$8 to transfer up to \$3,000 per day directly into a beneficiary's bank account in Mexico. Transfers can be initiated at the bank's branch or ATM in the United States, and the receiving party can access monies via the bank's sizeable remittance distribution network of more than 4,000 banking offices and 10,700 ATMs in Mexico. According to the Mexican government, 178 banks in the United States accept the *Matricula Consular* card to open bank accounts; 86 of these institutions are in the Midwest.²¹

Provision of Remittance Services: Key Risks and Regulatory Issues

According to a recent study, at least 60 U.S.-based depository institutions offer remittance products.²² The entry of banks into the remittance market has coincided with the growing number of institutions willing to accept foreign government issued identification and ITINs in lieu of SSNs. Remittance products can pose a money laundering risk because they allow for quick, inexpensive transmission of funds across borders and, depending on the method of transaction, provide an uncertain audit trail. Implementation of the following can help mitigate this heightened risk:

- Imposing daily or monthly limits on the amount that can be transferred.
- Limiting the number of debit or stored-value cards issued to a customer.
- Instituting monitoring programs to flag unusual remittance activity.
- Limiting the maximum balance on an account/debit card.
- Controlling the mailing of debit cards or the distribution of funds to recipients.²³

Other controls that will help to minimize the risk of money laundering and terrorist financing are outlined in Section 326 of the [USA PATRIOT Act](#). Section 326 requires that banks adopt a Customer Identification Program (CIP) for all new accounts, whether the customer is a U.S. citizen or foreign national. The CIP must establish procedures for identifying and verifying the identity of customers seeking to open an account.²⁴

The final CIP rule provides that, for non-U.S. citizens, a bank must obtain a taxpayer identification number (such as an ITIN) or a government-issued document (for example, the *Matricula Consular* identity card) that shows proof of nationality or residence and bears a photograph or similar safeguard. The CIP must have procedures in place to establish the identity of the customer within a reasonable period after the account is opened.²⁵ Separately, institutions must check both purchasers and beneficiaries of remittances against the [Office of Foreign Assets Control \(OFAC\)](#) list, which includes known or suspected terrorists, in order to ensure both compliance with OFAC regulations and that funds are not supporting terrorists or other sanctioned groups.²⁶

The Treasury Department and the bank regulatory agencies emphasize that the final CIP rule neither endorses nor prohibits bank acceptance of information from particular types of identification documents issued by foreign governments.²⁷ Essentially, the use of foreign-issued documents is a decision for banks to make and should be based on appropriate risk factors, including the types of accounts maintained by the bank and whether the information presented by the customer is reliable. In its report to Congress, the Treasury Department recognized the need to strike a balance between law enforcement objectives and the ability of financial institutions to serve unbanked immigrants living and working in the United States.²⁸

Targeting the Unbanked Latino Immigrant Population

Several other key barriers contribute to the high number of unbanked immigrants, primarily a limited ability to understand and speak English and cultural distrust of financial institutions. These barriers create real challenges. However, in Chicago and other parts of the Midwest, organizations are bringing unbanked Latino immigrants into the financial mainstream with the right mix of innovative products, financial education programs, effective outreach programs, and a strong commitment from banks to serve this market, all of which are being facilitated by the development and activities of a few organizations, including the New Alliance Task Force (NATF).

New Alliance Task Force

- Comprises representatives from the FDIC, Mexican Consulate, 34 banks, community-based organizations, federal bank regulatory agencies, government agencies, secondary market companies, and private mortgage insurance companies.

- Organized into four working groups that provide updates during the NATF's quarterly meetings.
 - Financial Education—educates immigrants on the benefits and importance of holding accounts, the credit process, and mainstream banking.
 - Bank Products and Services Working Group—encourages banks and thrifts to develop financial service products with remittance features as a strategy to reach the unbanked immigrant community.
 - Mortgage Products—created the New Alliance Model Loan Product for potential homeowners who pay taxes using an ITIN.
 - Social Projects—provides scholarship funds for immigrant students and fosters economic support for *Plazas Comunitarias*, a program that will give Mexican citizens an opportunity to finish their high school education.

The NATF was launched in May 2003 by the Consulate General of Mexico in Chicago and the Chicago Office of the FDIC's Community Affairs Program in support of the U.S.-Mexico *Partnership for Prosperity*. The NATF is a broad-based coalition of 62 members, including the Mexican Consulate, 34 banks, community-based organizations, federal bank regulatory agencies, government agencies, and representatives from the secondary market and private mortgage insurance (PMI) companies. The majority of the participating financial institutions are community banks in Illinois, Indiana and Wisconsin. The coalition's programs and initiatives address the critical need among Mexican immigrants, both established and recently arrived, to successfully develop asset-building strategies to improve their quality of life in the United States. This goal is critical as Latinos continue to have lower homeownership rates and less access to mainstream financial services and credit instruments.

In addition to promoting general educational opportunities for immigrants, NATF members sponsor financial education programs and are developing financial products that include remittance features and mortgage products that help immigrants overcome barriers to homeownership.

The NATF's Financial Education Working Group educates immigrants on the benefits and importance of holding accounts, the credit process, and mainstream banking as an alternative to the "fringe" banking system. Ten thousand immigrants have participated in financial education classes and workshops using the FDIC's [*Money Smart*](#), a Spanish-language adult financial education curriculum, and similar financial education programs in the Chicago area. A number of delivery channels exist, including financial institutions, churches, housing organizations, job training centers, and community colleges. In addition to these programs, the Mexican Consulate of Chicago, in collaboration with local banks, launched a financial education program in Spanish in January 2004. Several institutions donated simulated ATMs to train immigrants on banking technologies.

The NATF Bank Products and Services Working Group encourages banks and thrifts to develop financial service products with remittance features as a strategy

to reach the unbanked immigrant community. In recent years, banks in the Midwest have begun to realize the significant dollar amounts generated by remittance transfers and have taken steps to break down some of the barriers preventing immigrants' access to the banking system. Community banks in Chicago and Milwaukee, for example, have taken the lead in offering international remittance services. Second Federal Savings and First Bank of the Americas were the first community banks in the country to accept the Mexican *Matricula Consular* card and develop remittance products through dual ATM cards. Soon afterward, Mitchell Bank and North Shore Bank in Milwaukee followed suit. These institutions are aware that many immigrants, regardless of their current immigration status, will eventually settle in this country. This offers an opportunity for banks to cross-sell other products and offer a wider range of financial services.

Fifteen of the 34 NATF banks are now offering products with remittance services that allow immigrants to open bank accounts, avoid high-cost wire services, and incur lower remittance costs for sending money back home. Dual ATM cards or stored-value cards offer the lowest transfer cost: 1.5 percent of the amount sent.²⁹ In the past two years, 50,000 new accounts totaling \$100 million (with an average account balance of \$2,000) have been opened at NATF banks in the Midwest. Many of these accounts were opened using the banks' remittance services. Other NATF banks, including South Central Bank and Lakeside Bank, are using the Federal Reserve System's recently unveiled FedAutomated Clearing House International Mexico Service as a cost-effective alternative to expensive wire transfers.³⁰

Conclusion

Recent economic and demographic trends, coupled with increased financial flows across international borders, have significant implications for U.S. banks and thrifts. As more insured financial institutions reach out to the Latino immigrant market, these institutions are expected to experience more rapid deposit and loan growth. In the Midwest, both small and large banks are capitalizing on remittance flows as a short-term strategy to draw immigrants into the formal banking system. Leveraging these relationships will help these institutions offer a broader range of financial services, positively contributing to their bottom line.

Many Latino immigrants will eventually settle in the United States and raise families. Banks in the Midwest are taking steps to capitalize on the growing presence of this immigrant group. The continued success of the New Alliance Task Force demonstrates that unbanked Latin American immigrants can be brought into the financial mainstream. As a result, the FDIC is considering the feasibility of expanding the NATF pilot to other parts of the country where there are significant immigrant populations. These broad-based private-public sector alliances will help immigrants increase savings, build assets, and strengthen their financial security.

Michael A. Frias

Community Affairs Officer, Chicago Region

Bibliography

Bair, Sheila. *Improving Access to the U.S. Banking System Among Recent Latin American Immigrants*. Amherst, MA: University of Massachusetts. Center for Public Policy and Administration. The Inter-American Development Bank and the Multilateral Investment Fund.

Capps, Randy, Jeffrey S. Passel, Daniel Perez-Lopez and Michael Fix, *The New Neighbors: A User's Guide to Data on Immigrants in U.S. Communities*, Washington, DC. The Urban Institute for the Annie E. Casey Foundation.

Frumkin, Samuel, 2004. "Remittances: A Gateway to Banking for Unbanked Immigrants," *Insights*, Washington, DC: Office of the Comptroller of the Currency, Treasury Department.

Informal Funds Transfer Systems in the APEC Region: Initial Findings and a Framework for Further Analysis. Asia Pacific Economic Cooperation Alternative Remittance Systems Working Group and core team of the World Bank, Phuket, Thailand, September 2003.

Orozco, Manuel. 2004. Pew Hispanic Center Report, *The Remittance Marketplace: Prices, Policy and Financial Institutions*. Washington, DC: Georgetown University Institute for the Study of International Migration.

Schoenholtz, Andrew and Kristin Stanton, *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*, Washington, DC: Georgetown University Institute for the Study of International Migration and the Fannie Mae Foundation.

Suro, Roberto, Sergio Bendixen, B. Lindsay Lowell and Dulce C. Benavides, 2002. *Billions in Motion: Latino Immigrants, Remittances and Banking*, The Pew Hispanic Center and the Multilateral Investment Fund.

Footnotes

¹ For more information, see Sanchez, Adrian R., Jeffrey A. Ayres, and Stephen L. Kiser. "Banks Are Still Sizing Up Opportunities in the Growing Hispanic Market." [*FDIC Outlook*](#), Winter 2004. This article assesses the strong and growing purchasing power of Hispanics and categorizes this group's financial services needs as their demand for these services evolves. The article also provides insights into how banks can reach out to this group.

² Capps, Randy, Jeffrey S. Passel, Daniel Perez-Lopez and Michael Fix. *The New Neighbors: A User's Guide to Data on Immigrants in the U.S. Communities*. Washington DC: prepared by The Urban Institute, p. 4.

³ Pew Hispanic Center. *The Multilateral Investment Fund, Billions in Motion: Latino Immigrants, Remittances and Banking*, p. 6.

⁴ Suro, Roberto. "Sending Home the \$30 Billion Bacon." *Miami Herald*, November 28, 2003, p. 1.

⁵ "Monetary Lifeline: Remittances from Migrant Workers in Rich Countries Are Increasingly Important to Developing Countries." *The Economist*, July 31-Aug 6 issue, 2004.

⁶ *Informal Funds Transfer Systems in the Asia Pacific Economic Cooperation Region: Initial Findings and a Framework for Further Analysis*; prepared by APEC Alternative Remittance Systems Working Group and core team of the World Bank, Phuket, Thailand; September 1-5, 2003, p. 8.

⁷ Remarks by Donald F. Terry, manager, Multilateral Investment Fund before the Multilateral Investment Fund/Inter-American Development Bank Regional Conference on *Sending Money Home: Remittances to Latin America from the United States*, May 17, 2004.

⁸ Remarks by Sheila C. Bair, assistant secretary for financial institutions before the Multilateral Investment Fund/Inter-American Development Bank. Second Regional Conference on Impact of Remittances as a Developmental Tool, 2004.

⁹ *Sending Money Home*. 2004, p. 1.

¹⁰ Orozco, Manuel. 2004. Pew Hispanic Center Report, *The Remittance Marketplace: Prices, Policy and Financial Institutions*. Washington, DC: Georgetown University. Institute for the Study of International Migration, p. 19.

¹¹ "Remittances to Mexico Hit Record \$13.3 Billion," Associated Press, January 30, 2004.

¹² "Hispanic Banking: The Race Is On," from Knowledge@Wharton special to HispanicBusiness.com. August 26, 2004.

¹³ Orozco, 2004, p. 2.

¹⁴ Ibid.

¹⁵ *Sending Money Home*. 2004. p. 1.

¹⁶ "B of A's Mexico Transfer Accounts Proliferating," *Los Angeles Times*, from Reuters. August 18, 2004.

¹⁷ The G-8 countries are Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States.

¹⁸ An interagency letter dated June 3, 2004, states that regulated institutions that offer international remittance services will receive favorable consideration during a CRA evaluation.

¹⁹ Boletin Especial, Lazos. *Preguntas Mas Frecuentes Sobre La Matricula Consular, Instituto De Los Mexicanos En El Exterior*, July 21, 2004.

²⁰ Interview with Daniel Ayala, senior vice president, cross-border payments, Wells Fargo Bank, September 29, 2004.

²¹ Boletin Especial, Lazos. July 21, 2004.

²² Orozco, 2004, p. 4.

²³ See [Comptroller's Handbook](#), "Bank Secrecy Act/Anti-Money Laundering," Office of the Comptroller of the Currency, December 2000. Discussion of these risk mitigation strategies also appears in Frumkin, Samuel, 2004. "Remittances: A Gateway to Banking for Unbanked Immigrants," *Insights*, Washington, DC: Office of the Comptroller of the Currency, p. 6.

²⁴ Customer Identification Programs for Banks, Savings Associations, Credit Unions and Certain Non-Federally Regulated Banks, 31 C.F.R. pt. 103, RIN 1506-AA (2004).

²⁵ Ibid.

²⁶ Frumkin, 2004, 8. See Frequently Asked Questions: [Final CIP Rule](#).

²⁷ 31 C.F.R. pt. 103 (2004).

²⁸ Department of the Treasury, *supra* note 22.

²⁹ Orozco, 2004, p. 22.

³⁰ FedAutomated Clearing House International Mexico Service allows monies to be transferred from depository financial institutions in the United States to a receiver's account in depository financial institutions in Mexico.