BANKING ON REMITTANCES TO MEXICO: BUSINESS OPPORTUNITIES AND CHALLENGES

By

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A THESIS PRESENTED TO THE GRADUATE SCHOOL
OF THE UNIVERSITY OF FLORIDA IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS

UNIVERSITY OF FLORIDA

2007

ACKNOWLEDGMENTS

I am extremely grateful to my advisor and thesis chair, Dr. Terry McCoy for his help throughout my entire graduate career. Thank you, Dr. Charles Wood and Dr. Carmen Diana Deere, for serving as committee members and offering invaluable advice and editorial suggestions. I appreciate the financial support offered by the Center for Latin American Studies at the University of Florida and the Tinker Foundation that provided me with the opportunity to conduct this research in Mexico City. I am grateful to all of the participants in my study who offered their time and expertise, which provided insight into this emerging field of research.

My family and friends have been influential in the writing process. Thanks to Maria Bardi, Cassandra Howard and Alana Rodriguez for taking the time to read and edit this project. Finally, I am extremely grateful to my mother for her countless support and editorial suggestions. Without the support from my family and friends this would not have been possible.

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of the University of Florida in Partial Fulfillment of the
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December 2007

Chair: Terry McCoy
Major: Latin American Studies

The volume of remittances sent from the United States has increased exponentially in recent years and has attracted the attention of the banking industry. Of over $60 billion in remittances sent from the U.S. to Latin America, Mexico received over $23 billion in 2006. Therefore, Mexico is an appropriate country of analysis because it receives the largest volume of remittances of all Latin American countries. This reality provides a business opportunity to bank the unbanked by supplying remittance services.

This thesis explores the demographic characteristics of the sending and recipient communities, identifies factors unique to the Mexican remittance senders and recipients, and provides an analysis of current banking opportunities from the perspective of leading industry experts within Mexico. Through interviews with financial leaders, it became apparent that there exists a determination to increase the banked Mexican population residing in both Mexico and the U.S. The analysis reveals the complexities of the business of remittance transfers and their growing importance to the Mexican economy and the welfare of its population. However, this thesis is confined to the study of the role of remittance recipients, senders, and the banking institutions involved. Nonbank money transfer firms (MTFs), and government organizations are also major participants in the remittance industry.

The banking industry in the U.S. has identified the need to offer attractive products to remittance senders, which include remittance services and access to related financial products. These new customers will often be able to save money by the reduction of the commission and exchange rate fees and transfer money safely. Importantly, this thesis describes multiple challenges to achieve these goals, such as lack of education about financial institutions, unclear legal status requirements, and a pervasive fear of banks. Nevertheless, this research indicated that there are many ways that banks can target these concerns. For example, banks could benefit from having bilingual staff who are knowledgeable about the necessary requirements to enable their customers to become financially literate and allow them to participate in the greater society. In sum, by understanding the demographic characteristics of the sending and recipient populations, the banking industry can make use of this information and can more effectively target and market their services.

CHAPTER 1
INTRODUCTION

In recent years, migration from Latin America to the United States has increased, resulting in a substantial amount of money sent to home countries as remittances. Remittances, or "migradollars", refer to the money that migrant workers send to their families in their home country. According to a report by the Multilateral Investment Fund (MIF), a division of the Inter-American Development Bank (IDB), 2006 was the fourth consecutive year in which total remittances were greater than combined Foreign Direct Investment (FDI) and Official Development Assistance (ODA) to the region (IDB 2007 and IDB-MIF 2006a, 11-12). Remittances to Latin America reached a staggering $62.3 billion in 2006, which represents a 14% increase in one year, and is expected to reach $100 billion a year by 2010. This establishes Latin America as the largest remittance recipient market in the world. Moreover, Mexico is the chief recipient of remittances in Latin America, receiving an estimated $23 billion in 2006 (IDB 2007). The current estimates track approximately 25 million Latin American and Caribbean adults residing outside of their country of origin. In addition, roughly 65% of this population remits money regularly, which results in 200 million separate transactions a year. Concomitantly, the costs to send money have fallen in the past five years due to greater competition in the money transfer remittance market (IDB-MIF 2006a, 11-12).

The role of remittances has been studied and analyzed from many perspectives, particularly with regard to their complex function in economic development. In addition, scholars have examined the effect of money transfers on poverty levels as well as their effects on gender roles in households. There is an emerging body of research focusing on the financial institutions serving remittance senders and recipients.

Financial institutions recognize remittances as a potential business opportunity. For example, banks can take advantage of the large portion of unbanked Latin Americans and target this population. This compelling business opportunity can benefit both the financial institutions as well as the customers by formalizing their financial status and offering prospective consumers an array of additional products and services at lower costs than competing money transfer firms (MTFs). Providing such services to the remittance senders expands access to other banking services.

The focus of this thesis is on the expanding practice of financial institutions as they provide remittance services for immigrant populations. Information is unavailable regarding the number of bank accounts opened in Mexico as a result of an increase in remittances. Most studies focus on the remittance senders who reside in the U.S. However, banks in Mexico have been ineffective in targeting remittance recipients. There is an emerging field of research that focuses on U.S. banks' entrance into the business of remittances. Despite the fact that the remittance industry has grown exponentially in Mexico, there is little or no research related to the way that banks do or do not attempt to market their services to the remittance recipients. This seems logical because remittance transactions take place through U.S. banks and offer lower fees than other money transfer firms (MTFs), and yet they are not the most predominant source of transfer payments among remitters. Therefore, banks are competing with nonbank money transfers firms (MTFs) in the remittance market in Mexico and have slowly increased competition in the remittance market to Mexico.

In this study I suggest that with the growth of remittances, banks will attempt to draw in and "bank" immigrant populations. The thesis presents a case study of the remittance practices of Mexicans currently residing in the United States. Bank of America serves as a leading venue

of study because of its remittance product Safesend, which offers its customers in the U.S. the opportunity to send remittances without a fee to their family members in Mexico. The guiding assumption is that as remittances increase, financial institutions will develop and implement strategies to profit from this flow of money and banks will capitalize upon the remittance market by banking the unbanked. However, research does not support the assumption that immigrants are being drawn into financial institutions. This thesis seeks to understand why only a small percentage of remittances sent through the financial system currently utilize banking services or even seek entry by establishing bank accounts. It appears that banks can profit by drawing in remittance senders and offering these customers additional financial products, but there are obstructions that inhibit utilization that have not been identified previously. The target market is explicitly identified by the Federal Reserve who define the "unbanked" as:

> Individuals who do not have a transaction account with a traditional financial institution, like a commercial bank, thrift institution, credit union, or securities operation. Transaction accounts form a comprehensive category comprising checking, savings, and money market deposit accounts, as well as money market mutual funds and call accounts at brokerage firms (Samuels 2003; 4).

Although banks are beginning to offer remittance products that can provide financial equity, this thesis addresses factors that deter Mexican remittance senders from entrance into Mainstream Financial Institutions (MFIs).

Chapter One focuses on money sent from the U.S. to Mexico which has continued to increase in unison with greater migration in recent years. There has been recent research and scholarship originating in the U.S. regarding the role of remittances as a result of their growth in volume and economic importance. The introductory chapter details the increase in contemporary migration from Mexico to the U.S. in order to understand the increase in remittances from the U.S. to Mexico.

Overview of Migration from Mexico to the U.S.

The historical, social and economic relationships between the U.S. and Mexico have resulted in important events that lead to migration and remittance transfers. According to the 2005 American Community Survey of the U.S. Census, there are approximately 26 million people who identify themselves as being of Mexican origin, representing 64% of the Hispanic population (http://factfinder.census.gov). The U.S. Census Bureau's American Community Survey reports that there were 9.9 million foreign-born Mexicans residing within the United States in 2002. Although these data provide a general picture about the magnitude of the amount of people who are either born in Mexico or identify themselves as having Mexican origin, it does not accurately portray the numbers because it is does not take into account the substantial undocumented population. Therefore, it is well-known that there is a significantly larger population of Mexicans residing in the U.S. than the Census data suggest. In 2004, it is estimated that undocumented migrants reached 10.3 million, or 29% of the foreign-born population. In addition, the majority of undocumented migrants are Mexican (57% in 2004) (Van Hook 2005). The undocumented population is a very difficult one to target because they do not have access to the legal rights that legal residents and citizens are provided under the protection of the law and therefore experience fear of deportation if they attempt to access mainstream financial institutions. Consequently, it is extremely difficult for financial institutions to target the undocumented Mexican migrant population.

Historically, Mexican migration has accelerated and surged although the country is not experiencing any economic crises. Therefore, although there are cycles in the sending of money, it remains a consistent exchange regardless of external economic and political conditions. Studies by the Multinational Investment Fund (MIF), the Pew Hispanic Center (PHC) and the Multinational Investment Fund (MIF) (a part of the Inter-American Development Bank) applied

several approaches to explore the relationship between remittances and migration. According to the data compiled, there is a comprehensible link between remittances and migration in Mexico; for instance, there is more of a commitment to send money among recent migrants. In Suro's (2003) study of Mexican remittance recipients, 51% of respondents with family members away for less than 5 years reported that family members had a prior commitment to send money home. In contrast, only about one-fifth of the relatives away for more than 10 years promised to send money home prior to their migration representing a substantially smaller number. It is clear that remittance transfers are linked to families that engage in strong transnational behaviors as compared with those families that do not make viable commitments (Suro 2003, 17).

U.S. Immigration Policy

Contemporary immigration policies are essential considerations in the analysis of the recent immigration debates and the contemporary increase in attention to this population. The Bracero Program began in 1942 and allowed Mexican guest workers, primarily in the agricultural field, to work in the U.S. With the end of the Bracero Program in 1964, U.S. policy towards Mexico underwent significant transformations while Mexico's political economy also radically changed. The Hart Cellar Act in 1965 abolished the discriminatory immigration structure and replaced it with a new formula in which 120,000 visas were allocated to immigrants in the Western Hemisphere according to a preference system. However, the number of family reunification visas was unlimited, which quickly led to chain migration. The classification preferred those with relatives who were U.S. citizens and residents as well as those persons with skills or abilities needed in the U.S. This was the first act that set quantitative restrictions on immigrant groups in the Western Hemisphere. Prior to this act, Mexicans were permitted to enter the U.S. as long as they met certain limitations regarding their health, wealth and political affiliation. Therefore, beginning with the Hart Cellar Act and sequential

modifications that followed, the possibilities for Mexicans to legally immigrate grew rife with limitations (Cerrutti and Massey 2004, 17-19).

Two important and influential immigration laws that had profound effects on Mexican immigration were the Immigration Reform and Control Act (IRCA) and the 1990 Immigration Act. The 1986 IRCA contained four provisions: more resources for the Border Patrol; in essence, employer sanctions for hiring unauthorized workers; amnesty to long-term undocumented residents in the U.S., and undocumented agricultural workers were allowed to apply to legal their status. This law provided more funding for the Department of Homeland Security (previously known as Immigration and Naturalization Services) which allocated more resources for the protection of the border by increasing the number of national guards patrolling the U.S-Mexico border. Moreover, under the 1990 Immigration Act, legal immigration exceeded the hypothetical maximum and averaged roughly one million immigrants a year in the early 1990s (Cerrutti and Massey 2004, 19-21).

Historically, Mexican immigration patterns have been cyclical. Mexican workers entered the U.S. for a few months or a year for temporary work and then returned to Mexico. In addition, it is well known that the likelihood of return migration falls as migrants spend longer time periods in the U.S. In recent years, the growth of transnational practices creates more social ties that may affect the time migrants spend in each country. This highlights the growing importance of social networks because they can enforce and aid in the migration process. The increase in a migrant's social capital can contribute to changing migration patterns. For example, a migrant with social networks in the U.S. can have more success migrating because of the human set of connections they establish. However, according to surveys conducted through the Mexican Migration Project, Reyes (2004) states that only communities in the Western part of

Mexico experienced different migration patterns after the passage of IRCA. Therefore, the increase in social capital has mostly contributed to changes in migration patterns for select Mexican communities (Reyes 2004, 299-319).

Additionally, under IRCA over 2 million Mexican immigrants' statuses were legalized, which might have resulted in greater migration. In fact, findings point out the dramatic increase in the probability of return migration after IRCA and a sharp decline in the probability of return in the 1990s. Therefore, the increase in authorized immigration facilitated more movement between the U.S. and Mexico, which resulted in a pattern of short-term trips after the passage of IRCA. According to analysis of MMP data, immediately after the passage of IRCA, only about one-third of male migrants stayed in the U.S. for longer than 3 years. Undocumented migration continued despite the 1986 legislation, and the size of migrant cohorts once again rose in the 1990s. Those who migrated had more incentives to stay in the U.S. for a longer period of time in order to avoid the rising costs and risks of border crossing that accompanied the greater militarization of the border after 1993. The change in the migrants' behavior could be part of the explanation for the unexpectedly large number of authorized immigrants reported in the 2000 U.S. census (Reyes 2004, 299-319).

Trends in Mexican Migration

As a result of the inherent difficulties in collecting migration data, there are limited sources that accurately report demographic data; however existing studies can provide general trends. The decennial census, inter-censual surveys, registration systems, and singular surveys are used to study immigration; however these sources of data, again, do not include, reveal, or describe the undocumented population. Therefore, the Mexican Migration Project (MMP) is extremely relevant because it has managed to collect rich data and deep description that reveal trends and valuable information about this growing and diverse population. The MMP is a

multidisciplinary investigation conducted by researchers in both Mexico and the U.S. through the Office of Population Research at Princeton University and the *Departamento de Investigacion sobre Movimientos Sociales* at the University of Guadalajara. When seasonal migrants return home each winter, the MMP randomly samples households in communities throughout Mexico. They gather social, demographic and economic information regarding the household members, and then interviewers collect basic information on each person's first and last trip to the U.S. They also collect a year-by-year history of U.S. migration from household heads and administer a detailed series of questions about the last trip northward, focusing on employment, earnings, and use of U.S. social services. Once administration of the surveys is completed in Mexico, interviewers travel to destination areas in the U.S. to administer the same questionnaires to migrants from the same communities sampled in Mexico who have settled north of the border and have no longer returned to Mexico. These surveys are combined with those conducted in Mexico to generate a representative bi-national sample. The data gathered is contained in the Mexican Migration Database. Therefore, the MMP takes into account differences in sending regions, size, and socioeconomic statuses before selecting various communities to be surveyed (Durand and Massey 2004, 2-3).

MMP data reveal that most Mexican immigrants do not migrate in order to take advantage of U.S. social services, which does not correspond with the perception that all Mexican immigrants come seeking permanent residence in the U.S. in order to enjoy the benefits of living in the U.S. Rather, migration occurs because of the need to enhance a person's standard of living. In fact, most households turn to immigration as an adaptive strategy to seek employment, which may indicate a failure within Mexico's labor market. In addition, the decision to migrate is carefully constructed through a process of discernment. Mexico's statistics

at the macroeconomic level reveal that it is not a poor country. According to the World Bank, Mexico's income per capita for 2006 is $7,310 (www.worldbank.org), one of the highest in the developing world. In addition, international migration occurs in part because people do not believe that they are benefiting from their economy, and migrate to offset market failures. The major market failure points to the fact that the migrant-sending countries do not provide appropriate levels of employment with sufficient wages. The majority of migrants plan to return to Mexico; therefore many seek temporary jobs to supplement household income or to accrue savings. Lastly, the fact that many parents leave their families behind indicates their desire to return to their home country (Durand and Massey 2004, 6).

While legal migration is more closely correlated with U.S. foreign policy, undocumented migration is more related more so to changes in Mexico's economy. For example, there were booms in migration from Mexico during the Import-Substitution-Industrialization period from 1965-1980, a fall during Mexico's oil boom in 1980-1982 and a rise again during the economic crisis of 1983-1991 (Cerrutti and Massey 2004, 28). Migration will continue as long as there are incentives. The current wage gap between Mexico and the U.S. is 8 to 1. Coupled with the U.S. demand for low-skilled labor, these incentives will continue to draw migrants to the U.S. (Zarate-Hoyos 2005, 185). Therefore, transnational cooperation and networking are important tools for migrants, their households and communities. Steady migration to the U.S. has resulted in a substantial flow of money sent to Mexico and currently garners much public attention and subsequent scrutiny.

Approach and Contributions of this Study

This research takes a much needed next step in contributing to the literature regarding remittances from the U.S. to Latin America by approaching the topic from the financial services perspective. Furthermore, this research was conducted through a social science lens,

incorporating an interdisciplinary focus. Financial institutions and governments are becoming more aware and interested in tracking the sending of money because of the growing volume and possible business opportunities. This research provides data-driven knowledge that has public policy implications relating to international finance, specifically financial institutions working in both the U.S. and in Latin America. It highlights the opportunities and challenges that banks face in this critical international arena of the remittance market. The goal of this thesis is to present factors that prevent remitters from entering mainstream financial institutions, even though many banks are engaged in the remittance market.

Research Design and Data Collection

The literature reveals that Mexico is indeed the leader in Latin America and in fact one of the largest recipients in the world of remittances and is therefore an appropriate focus for scholarly study. During the summer of 2006 I had the opportunity to interview international financial leaders and experts in the remittance field in Mexico City. I was able to explore and better understand the issue of remittances from Mexico's unique point of view after conducting interviews with experts in the field. Therefore, this research provides a unique and innovative point of analysis focused on remittances. Increasing research regarding the topic has largely been conducted from within the United States and there is scant focus on the receiving side, that is, Mexico's banking division.

Chapter 2 highlights the increase in both remittances and presents a demographic overview of the remittance senders and receivers. Chapter 3 draws upon data conducted through interviews with government and financial officials, scholars and other experts regarding remittances and the banking sector in Mexico City, and explores how Bank of America's initiative to offer remittance services without the imposition of service fees has affected banks operating in Mexico. Finally, this study explores the ways in which Mexicans assess the

increase in competition and entrance of banks into the remittance business, as well as investigates the variables associated with the range of money transfer mechanisms. Chapter 4 presents an analysis that illustrates the complexities and challenges that banks face in attempting to bank the unbanked Mexican immigrant population.

CHAPTER 2
REMITTANCES: THE CASE OF MEXICO

The field of economic development is debating whether remittances are helpful or harmful to the local remittance recipient communities. Research supports both sides of the argument. Although there is an immense body of literature related to the role of remittances in terms of economic development, this paper does not enter this debate; but rather focuses on the mechanisms available to send remittances and the structural variables that either enhance or obstruct the process. This specific topic is particularly relevant because of the increase in competition among international money transmitter firms and current efforts to decrease the fees involved. In addition, money transfer costs in general have been reduced by more than 50 percent, excluding the foreign exchange spreads (8). This chapter draws from the available literature on Mexican migration and remittances sent from the U.S. to Mexico. It presents the magnitude of the remittance flows as well as describes both the sending and recipient communities. It is important to understand these communities in order to recognize the financial needs of these populations. This knowledge is essential in order to provide accurate financial products as well as develop effective marketing campaigns.

Major Remittance Players

The average size of a remittance transfer is small, but the cumulative sums of remittances have attracted a great deal of attention by government agencies, international organizations and other financial institutions across the Western Hemisphere. The Pew Hispanic Center (PHC) and the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) are influential in generating original research regarding remittance sending and receiving populations in the U.S. and Latin America (Suro 2003, 21). Orozco, a prominent researcher in the field, states that studies have focused on three aspects of remittances: the (in) capacity of

remittances to generate savings and investment, the factors that influence the flow, and the effects of remittances on the recipient economies. There are a plethora of organizations and institutions involved with remittances. Competing or differing objectives contribute to the complexity regarding the role of remittances in both the U.S. and Mexico (Orozco 2002, 42-46).

A variety of participants include governments, Hometown Associations and international groups. For instance, Hometown Associations (HTAs) are formed among remittance senders in the U.S. to coordinate financial support for their relatives in specific communities (Orozco 2002, 46-48). HTAs play important roles in defending and supporting their members in labor and civil matters. In addition, they sponsor a variety of social and religious functions. In reality, HTAs do not accurately represent the demographic population of the Mexican migrant population in the U.S. In fact, the majority of HTAs represent the rural populations while a growing percentage migrates from urban areas. Also, some local governments establish matching programs in which migrant participation although high initially, has dropped significantly (Zarate-Hoyos 2005, 182-185).

The Mexican migrant population has been successful in the creation of numerous emigrant clubs in the U.S. that continuously send remittances. However, the growth of these clubs has been irregular. In general, associations that are more cohesive in the sending and recipient communities are more likely to send money regularly. In addition, local governments want to attract HTAs in their local communities because they think that this will draw in more remittances and they can then allocate the funds towards investment in the local community. For example, governments have an interest in reducing the cost of remittance transfers as well as creating an attractive economic environment for various kinds of migrant funds (Orozco 2002, 55-59). In fact, some Mexican state governments have promoted state development through

matching programs (for example, the 3-for-1 Program) established with the goal of allocating the funds towards community development (Zarate-Hoyos 2005, 173). Remitters send money to their families for personal purposes as well as allocating it for other community purposes. Nonbank financial institutions (NBFI) have the largest market share and are highly involved in the sending of money (Orozco 2002, 50-51).

Magnitude of Flows

Remittances have been growing worldwide and Mexico has received more than half of all remittances sent to the region. Although *Banco de México*'s estimates are useful to examine the patterns in the remittance flows, it is important to recognize that it is not a precise measurement of remittances. Prior to 1989 *Banco de México* had very incomplete information regarding remittances because they only accounted for "family remittances" consisting of survey data collected by the postal and telegraph services conducted by the Transportation and Communications Ministry. *Banco de México* defines "family remittances" as a monetary transfer abroad to a Mexican resident relative. However, this definition does not include remittances from "commuter" migrants (Zarate-Hoyos 2005, 162).

By 1993 the Central Bank recognized that there was a large flow of money that was entering the country and was not recorded because it entered through electronic transfers, or banking and other financial institutions, pocket transfers and in-kind transfers. The Central Bank recorded electronic transfers of remittances into the balance of payments and it estimated the pocket and in-kind remittances (Meyer 1998, 5). In 2005 they represented approximately 3% of GDP, or $23 billion dollars. The average transfer was $351 and the cost per transfer was an average of 6% of the value of the transfer. Moreover, Orlando Loera, Country Manager of Bank of America in Mexico, explains that the large increase in family remittances, or *remesas familiares*, is most likely due to two phenomena. First, the data were not correctly captured prior

to five years ago. The data show a sharp increase; however, Loera argues that there was probably not as dramatically sharp an increase as the graphs illustrate, but there are now better channels that document the flows and the patterns thereof. Second, there is an increase in Mexicans working in the U.S. that results in more remittances (Loera, Orlando. 2006. Country Manager, Bank of America. Author interview. Mexico City, August 10). Overall, remittances primarily come from the U.S. and a smaller portion from Canada and Europe. According to Bendixen and Associates' survey an astonishing 97% of remittances are sent from the U.S. *Banco de México* is interested in recording remittance flows because they are recorded as part of the balance of payments (Cervantes Gonzales, Jesus A. 2006. Director of Economic Measurement, *Directo a México*, Central Bank of Mexico. Author interview. Mexico City, August 8).

In addition, although the recorded amounts of remittance flows are estimates, they are useful to observe general patterns. According to the Central Bank of Mexico, remittances are steadily increasing. For example, remittances grew from approximately US$ 4.2 billion in 1996 to roughly US$ 23 billion in 2006 as evident in Figure 2-1. Notably, the average size of a remittance transfer is small, but there is consistency in the range of transfer sizes. In actuality, since 1996, the size of money transfers has been between $282.46 and $364.96 (www.banxico.org.mx).

Demographic Overview of Sending and Recipient Populations

In an effort to study the remittance recipients in Mexico, commissioned by the Inter-American Development Bank, Bendixen and Associates conducted a study in 2007. This 2007 poll follows up their 2003 survey, which illustrates a great increase in the flows of remittances to Mexico. The poll also demonstrates the amount and frequency of these financial flows as well as other habits of the remittance recipients. According to one important finding in Orozco's survey

(2005), 44% of Latino immigrants in the U.S. lack bank accounts while 68% of African-Americans and 93 % of non-Hispanic whites have accounts (74-197).

The main factor that influences whether a migrant is banked is their income level. The following section outlines the factors that contribute to the income level of remittance senders and recipients in order to analyze the complexities and structural issues that affect the difficulty to bank this population. Income is a function of various factors; I will address level of education, legal status, relationship with sending community, and the person's last job in Mexico and their first job in the U.S. as well as other important demographic factors. According to Suro's survey, about 33% of remittance recipients reported having bank accounts, which is higher than the approximately 22% of the general population in Mexico that has a bank account (Suro 2003; 18-34). Moreover, a demographic overview is important in order to thoroughly understand the needs of the targeted population.

In general, remittance senders have modest education, low income and are not familiar with the banking systems in the U.S. and in Mexico. In addition, Figure 2-2 shows that a significant portion (46%) of remittance senders has a high school degree or did not complete high school. Correspondingly, remittance recipients have modest education, 22% have attained an elementary education or less, and 22% have a high school diploma as evidenced in Figure 2-3. Overall, remittance receivers do not differ according to income and education levels compared to the overall population in Mexico (Suro 2003, 9-13).

Migration occurs in an effort to receive a better paying job and to acquire improved living standards. According to Bendixen and Associates (2007) it took 40% of the respondents less than two weeks to obtain employment upon their first arrival in the U.S. while it took less than three months for over half of this population. Generally, it does not take very long for

migrants to find employment. In addition, there is a great disparity between wages in Mexico and the U.S. In fact, 57% did not have a job in Mexico before migrating to the U.S. and according to Figure 2-4, 20% made less than $100 a month. Conversely, 38% made between $500 and $1,000 a month in wages at their first job in the U.S. as evident in Figure 2-5. Therefore, there is a huge gap between the migrants' income opportunities in the two countries.

An important barrier to banking migrants is their legal status. Not surprisingly, undocumented migrants tend to be wary of entering mainstream financial institutions due to fear of deportation. According to Bendixen and Associates (2004) the majority of remittance senders are legal residents or citizens, 24% and 39% respectively. The undocumented represent 32% and 5% did not answer the survey. In addition, 47% of the undocumented population reported having a *matrícula consular*, a Mexican identification card. Therefore, although there is a large undocumented population, about half of them have *matrícula consular* identification cards that are accepted at many financial institutions.

The percentage of Mexican households receiving remittances in the low-density (rural) areas is higher than in the urban areas. In fact, migrant sending states receive a substantially higher amount of income as remittances than they receive in federal funds. Remittances can amount to 14 times the level of federal social spending, as in the case of Guanajuato. However, more recently there is increasing migration from urban areas (56%) compared to 42% from rural areas. Not surprising, the main motive in labor migration is unemployment; 28% of migrants do not have a job in Mexico before leaving the country (Zarate-Hoyos 2005, 167-170). Historically, five states in Mexico's central highlands- Guanajuato, Jalisco, Michoacán, San Luis Potosi and Zacatecas- have been the primary destination of remittances. These regions receive a disproportionate number of remittances; about 44% while only 32% of the population lives in

these states (Suro 2003, 9-13). However, in recent years the state of Mexico and Mexico City together receive the larger amount of remittances (Mendoza Hernandez, Alberto. 2006. Chief of Electronic Trade, *Directo a México,* Central Bank of Mexico. Author interview. Mexico City, August 11). The data collected through the MMP supports Suro's (2003) conclusions. However, Durand and Massey add that smaller and less populous states in the West, such as Aguascalientes, Colima and Nayarit also export many migrants to the U.S. Historical data support the claim that at least half of all migrants to the U.S. have come from one of these eight states mentioned (9). This debunks the perception that the majority of Mexican immigrants come from the border states when in reality only a fraction originate from border states such as Baja California, Sonora, Chihuahua, Coahuila, Tamaulipas or Nuevo Leon. The border states have grown in population since WW II, but have not been large participants in the international migratory flow (Durand and Massey 1996, 9).

According to the Bendixen and Associates' (2007) study, 73% of the respondents interviewed out of the approximately 17 million Latin American and Caribbean-born adults remit regularly. In addition, over half of those living in the U.S. have been residents for more than 10 years. Brothers/Sisters and sons/daughters are the most popular senders, 34% and 20% respectively. In addition, most people communicate with their relatives at least once a week (44%) or once a month (30%). A surprisingly large majority (61%) sends money once a month, with only 5% sending once a year. In addition, 56% of the senders have been sending remittances for more than five years while only 8% have been sending for less than one year.

This communication correlates with the frequency of sending money. If people maintain contact with each other, they are more likely to receive money from their relatives. In Mexico, about half of remittance senders who had lived in the U.S. for five years or less made a

commitment prior to migrating to send money. In addition, transnational links are stronger with those who remit. For example, those who receive money are three times more likely to have phone conversations with family members at least once a week, compared to those who do not receive money. Interestingly, Mexicans remittances recipients were more likely to want to migrate (26%) compared to those who are not (17%). According to the data collected by Zarate-Hoyos (2005), about one-third have at least one other relative living with them and 44% of the heads of remittance receiving households without migrants are over 64 years old. Also, reported in this survey, the number of households receiving remittances increased between 1989 and 1994 as well as between 1994 to 1996.

In general, a migrant's decision on their method of transmitting money has a huge impact on the transfer mechanisms as well as the economic development of their home country. Figure 2-6 shows that the overwhelming majority (78%) of remittances are sent by international money transfer companies while only 7% are sent through U.S. banks.

How are Remittances Spent?

Remittances have an effect at the macro and household levels. For example, statistical analysis finds that each $1 sent to Mexico increases the GDP by $2.90 and produces an increase in economic output of $3.29. However, remittances are frequently spent on consumer goods, particularly imports, which would decrease the multiplier effect of the money on GDP. This could also lead to an increase in import demand and inflation rather than greater demand for domestic products (Meyers 1998, 7-9).

The majority of the migradollars are spent on consumption in Mexico. Nonetheless, according to Figure 2-7, remittances for consumption decreased from the 2003 to 2006 survey from a high of 78% to 57%. Correspondingly, remittances for more productive purposes increased, including savings and education. Generally, migrants are more likely to use the

remittances on housing if they are well educated. Spending habits are volatile and dependent on human capital, property ownership, trip characteristics, and community circumstances (Durand et al. 1996, 259). According to Amuedo-Dorantes, Bansak and Pozo (2005), remitters send money for various reasons whether they are repatriating funds or savings. Repatriated funds represent the money remitted regularly, while savings refers to the funds sent home at the end of the migration spell. While the main reasons cited for remitting money were health expenses (46.18%) and food and maintenance (29.79%), on the other hand, the main reasons for remitting savings are health expenses (22.53%), food and maintenance (21.85%), and construction or repair of home (15.86%) (49). While the main reasons migrants send both repatriated funds and savings home are for health and food/maintenance, a smaller amount of savings is sent home for consumption. While a significant 15.86% of savings is sent for construction or home repair, savings can contribute to greater investment.

Most research has concluded that remittances are sent home for consumption and remittances have not resulted in productive investments. However, in order to more accurately understand the effects of remittances on the economy as a whole, it is also important to analyze their possible indirect effects (Zarate-Hoyos 2005, 160). Moreover, there are case studies of Mexicans who directly invest their remittances, which stimulate business development. Those that "productively" used their remittances were more educated, had bank accounts and came from countries with a long tradition of savings (Meyers 1998, 11-12). Durand et al. state that emigration does not actually create low rates of investment, but the lack of investment stems from underlying structural conditions (Durand et al. 1996, 250). One can argue that remittances deepen Mexico's (or other developing countries) dependency and therefore hinders development. However, even though remittances are largely spent on consumption, it can lead to goods

produced in Mexico theoretically leading to more production, higher employment, and increased national income (Durand et al. 1996, 425).

Conclusion

Mexico has been a major supplier of migrant labor to the U.S. Numerous governments, financial institutions, international development organizations, and scholars recognize that immigrant remittances now constitute an extremely important source of income for many developing countries. The decision to migrate is an individual decision; however it is approached through a family decision-making process. These families are in search of improved wellbeing and cross not only a national border, but also global markets, capital and labor borders (Suro 2003, 4). In fact, the flow of remittances is less volatile than other capital flows. Capital flows usually follow the macroeconomic cycle, while remittances can also experience counter-cyclical patterns. The development roles of remittances are also very controversial. While these remittances provide a crucial flow of income to developing countries, one major criticism is that they may create a "culture of dependence" on remittance flows (Solimano 2003, 10-16).

It is important to analyze the sending and recipient remittance populations in order to better understand these markets. If banks want to market products and services to these communities, it is helpful to understand where they live, where they come from, their educational and economic background as well as the relationship between senders and recipients. This chapter demonstrates that, both senders and recipients have lower incomes, modest levels of education, and tend to be younger. With the rise in migration from Mexico, remittances have increased exponentially from the U.S. to Mexico. Both the flow of people and streams of remittances tend to follow patterns, but neither indicates an inclination to slow down in the near future. Banks need to identify demographic characteristics of the remittance senders and

recipients so that they can accurately assess the opportunities and understand the structural challenges that financial institutions face when trying to incorporate these populations.

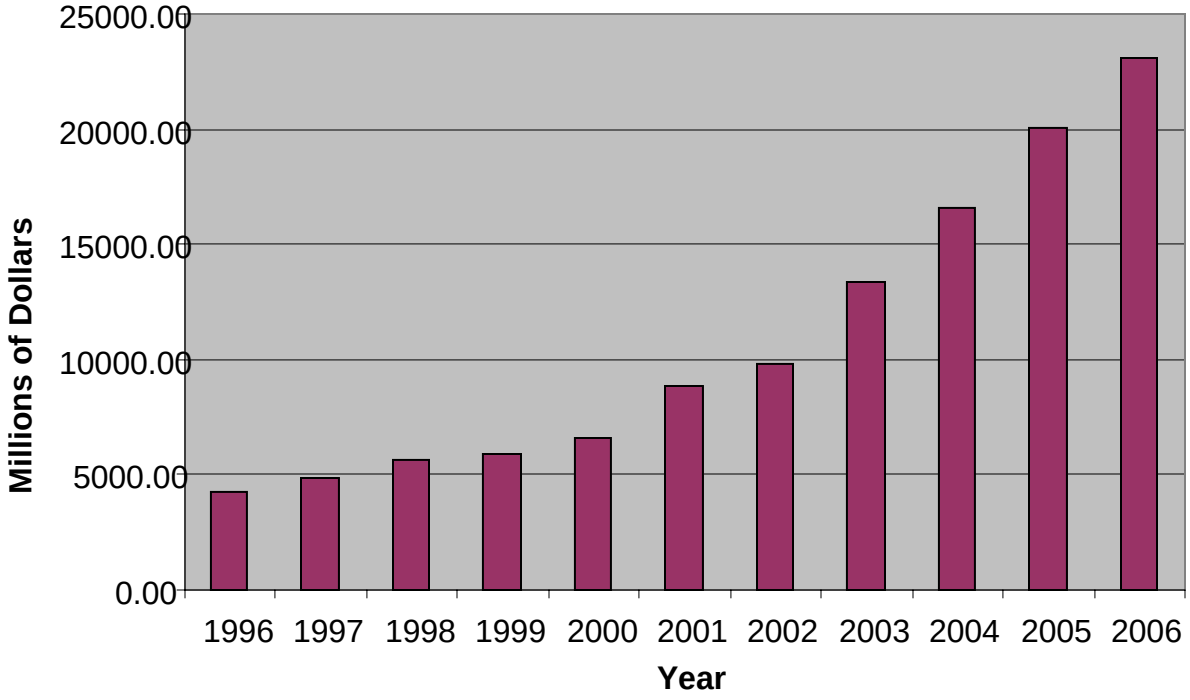

Figure 2-1 Total annual remittances from the U.S. to Mexico. Source: *Banco de México* www.banxico.org.mx

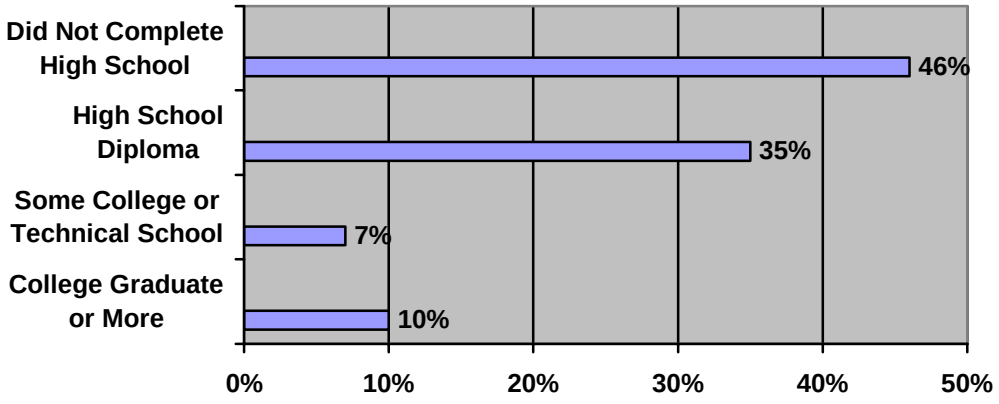

Figure 2-2 Education of remittance senders. Source: Bendixen and Associates 2004

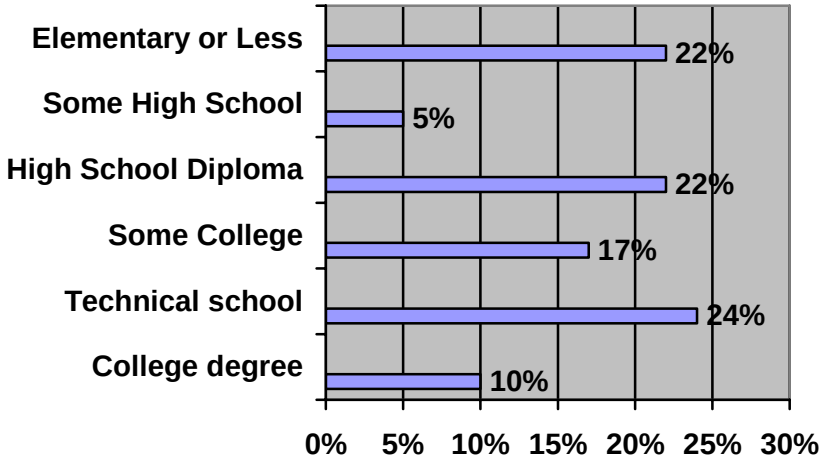

Figure 2-3 Education of remittance recipients. Source: Bendixen and Associates 2007

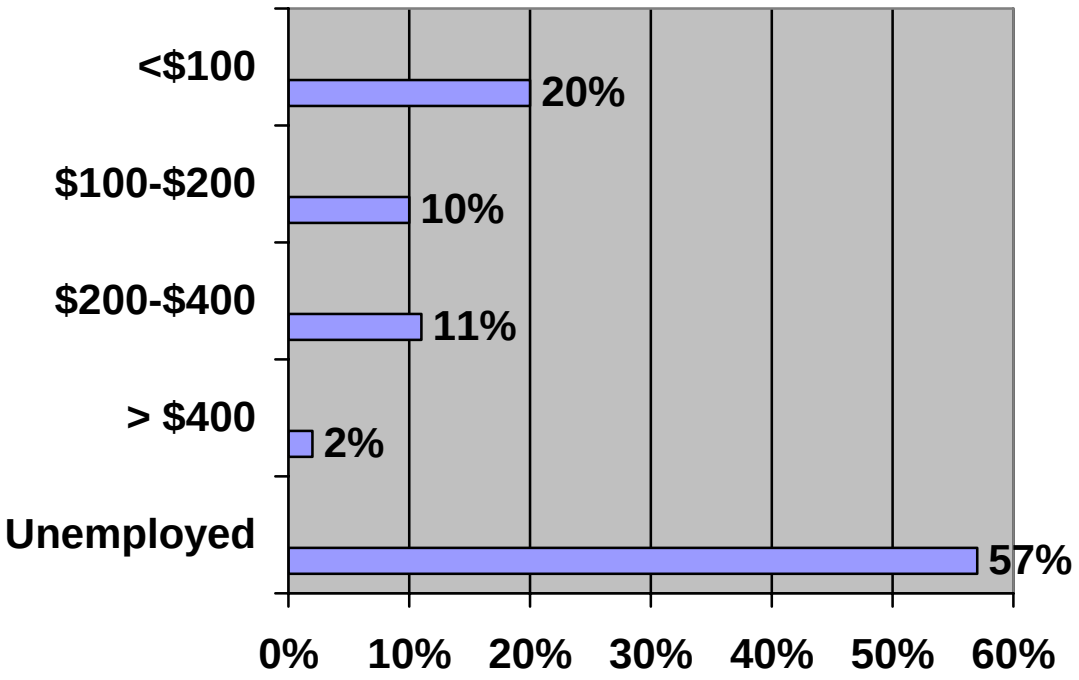

Figure 2-4 Monthly income in $ for last job in Mexico. Source: Bendixen and Associates 2007

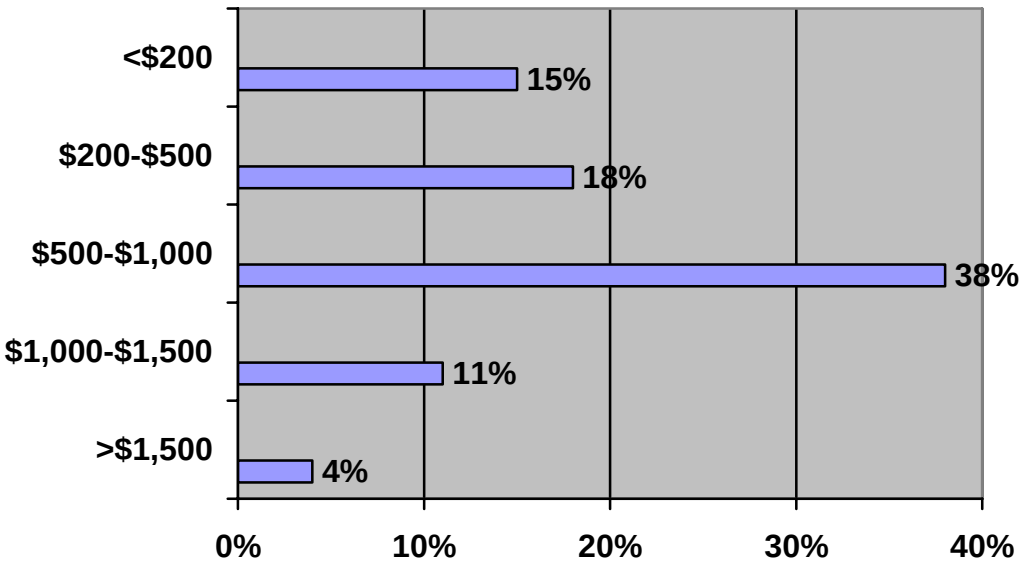

Figure 2-5 Monthly income for first job in U.S. Source: Bendixen and Associates 2007

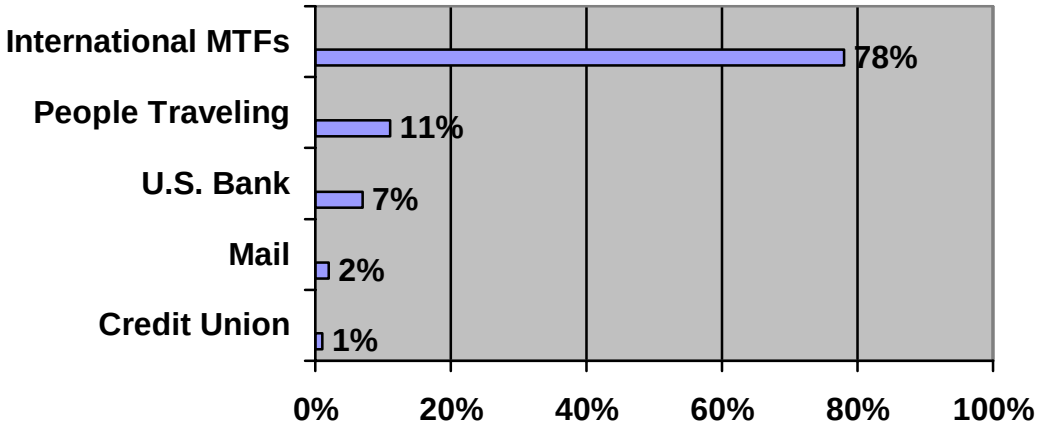

Figure 2-6 Method of sending money home. Source: Bendixen and Associates 2004

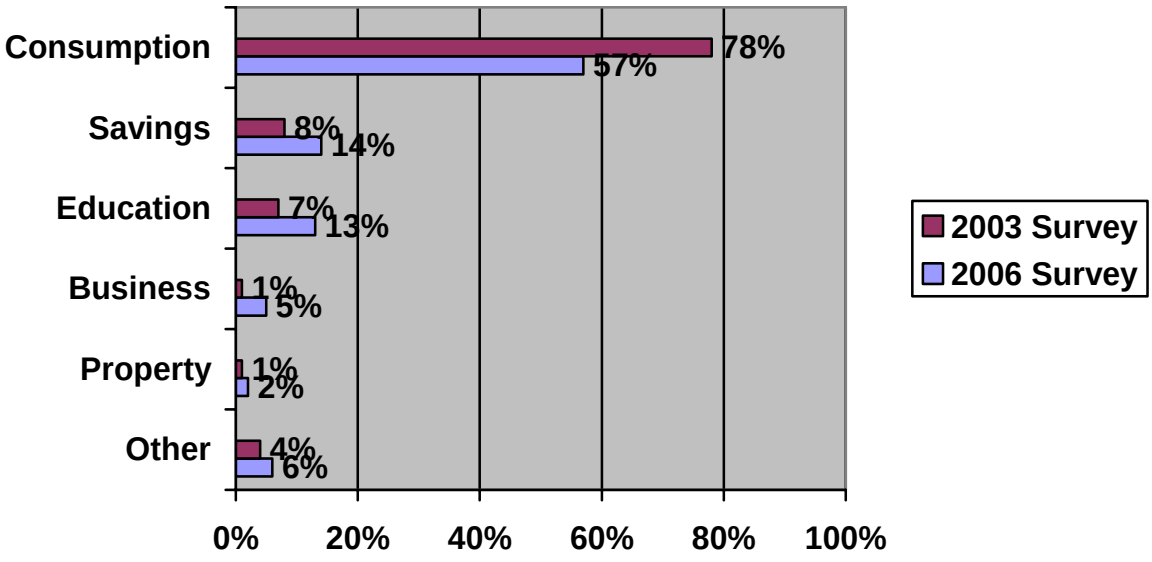

Figure 2-7 Spending of remittances. Source: Bendixen and Associates 2007

CHAPTER 3
ROLE OF FINANCIAL INSTITUTIONS IN THE MEXICAN REMITTANCE MARKET

The overall purpose of this chapter is to describe the changing roles of formal financial institutions in the Mexican remittance market. This chapter analyzes the role of financial institutions in the Mexican remittance market based on information generated by interviews with banks and government officials in Mexico City. First, it presents the importance of nonbank money transfer firms (MTFs) as they have the largest share in the market because of their convenience and ubiquity. Then, it assesses the role of governmental institutions involved in remittances in banking. This section reports the results of interviews conducted with high-ranking representatives employed by *Banco de México*, PROFECO and CONDUSEF. Finally, this chapter evaluates Bank of America's Safesend remittance product through interviews conducted with a representatives at Bank of America in Mexico, as well as their partners' representatives from Banorte, Banco Santander and Bansefi. In addition, interviews with representatives at HSBC and Banamex describe their remittance products that compete with Safesend.

There are differing mechanisms utilized to send remittances ranging from account-to-account, account-to-cash and cash-to-cash. The method by which the recipient prefers the money usually influences the method of transference that the sender selects. Orozco (2005) describes the three kinds of transfers (wire, money order and hand delivered) as well as the four types of institutions that are involved: nationwide companies, regional or country oriented businesses, financial banking or credit union institutions, and unlicensed entrepreneurs (173). Remitters pay two fees for services associated with the product. First, there is a fee to send the money and the other is the exchange rate commission that varies from one venue to another. Companies

determine their own exchange rate based on the daily inter-bank rate, and often add to this rate in order to profit from the difference between the two.

Banks are attempting to capture the market because they recognize the financial advantages that can be accessed by tapping into an emerging market and have an opportunity to make a substantial profit. Financial institutions hope to draw remittance senders into a long-term relationship with the bank in order to offer other financial products. However, as Hilgert et al. (2005) demonstrate, most immigrants with bank accounts do not use banks to send remittances home. In September 2005 Bank of America introduced a remittance service for their customers that eliminated the commission fees to send money to Mexico, called Safesend. This service involves a partnership with Banco Santander, Banorte, L@ Red de la Gente (through Bansefi) and Telecomm –Telégrafos in Mexico. This is the first time a bank eliminated fees to send money abroad. A customer must open up an account in the U.S. with Bank of America and they can then send money electronically to their family members in Mexico who can pick up their money as cash in pesos using the inter-bank exchange rate at any of Bank of America's Mexican partners. Bank of America calculated an 80% growth in its retail market driven by "ethnic" customers (1-6).

Nonbank Money Transfer Firms in the Mexican Remittance Industry

The majority of remittances to Latin America and the Caribbean (54%) take place through a bank or another type of financial institution. Given that non-bank money transfer firms (MTFs) often work in conjunction with banks, many banks act as distributors by being a licensed agent. In fact, the remittance operations are sometimes located separately from other financial services. On the other hand, according to this survey, remittances are more likely to be channeled into cooperatives, credit unions, popular banks, and microfinance institutions. Although there does not appear to be significant data to compare, there is much room for

improvement in financial sectors to provide credit to millions of Latin American families. In sum, only a small percentage of remittances sent through the financial system currently enter bank accounts (IDB 2006b, 8).

The most popular form of remitting is through money-transfer firms (MTFs), such as Western Union and MoneyGram. I adopt Amuedo-Dorantes and Pozo's (2005) definition of MTFs to refer to institutions including Western Union and MoneyGram because they do not provide the financial services that banks offer. Moreover, MTFs do not play a formal role in financial intermediation between savings and investors (557). These MTFs are more expensive than banks, but since many remitters are undocumented in the U.S. they are wary of traditional banks and sometimes unaware of any alternative ways to send money. However, banks and other institutions have recently started to accept the *matrícula consular*, identity cards issued by Mexican Consulates in the U.S. as sufficient identification for customers to use when accessing services. The acceptance of the *matrícula* has reduced the barriers to banking for remittance senders (Suro et al. 2002, 5-15).

Nonbank money transfer institutions disproportionately dominate the remittance market, with an overwhelming majority of Latin American remittances sent through companies such as Western Union and MoneyGram (Federal Reserve Bank of Atlanta 2004). The number of companies operating in Mexico has increased from approximately 25 in 2001 to 56 in 2005. According to a survey by Orozco administered by Protectora Holdings Inc. during the period of April 2004 and May 2005, the report stated 78.2% very satisfied with the current MTFs and 21.8% are not satisfied (Orozco 2006, 4). Therefore, there has been an opening to competition due to the dissatisfaction with the traditional MTFs. The couriers, banks and credit unions that dominate the Mexican market include: Dinero Seguro "Bancomer", Western Union, Money

Gram, Wells Fargo, Orlandi Valuta, Raza Express, RIA Envía (Orozco 2000, 3). Costs differ among companies and Western Union continues to be among the most expensive (Orozco 2003, 5).

MTFs are very popular because of their convenient locations and ease of access. For example, Western Union is known for its worldwide reach, has more than 1,700 locations in Mexico, and its simple procedure to send money. However, the transaction fees can exceed 10% of the value of the transfer. In addition, recipients collect in local currency usually at unfavorable exchange rates (Orozco 2000a, 4). MTFs have gained the trust and loyalty of the Hispanic community in the U.S. They have convenient locations, flexible hours and a comfortable environment for Hispanic immigrants. MTFs have become a one-stop shop for senders to take care of their needs, even when incurring higher prices. For example, migrants can remit money at many convenience shops, gas stations and restaurants while they normally visit these stores. However, in an attempt to compete with these companies, banks have recently tried to enter this market by offering remittance services (Federal Reserve Bank of Atlanta 2004). In fact, according to Bendixen and Associates (2007), after remittance companies, banks are the largest payer of remittances as evident in Figure 3-1. Less than 5% of remittance transfers are conducted by account-to-account transactions, so it is clear that banks are not incorporating people into bank accounts. Although financial institutions can provide more services than MTFs and can draw immigrants into the mainstream financial marketplace, this is not taking place (Ibarra 2005, 4).

Government Institutions

The Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston have researched the costs of transmitting money. According to the First Vice-President and Chief Operating Officer of the Federal Reserve Bank of Atlanta with the fall in the cost of cross-border

money transfers, there is growing importance of remittances and a greater role of the Fed and other organizations. The Federal Reserve Bank has a vested interest through the Partnership for Prosperity, which works with the *Banco de México* (its counterpart) to promote transparent and more efficient interbank payment systems (Barron 2004).

The Partnership for Prosperity began in October 2003 in which the U.S. and Mexican governments created *Directo a México*, "Straight to Mexico", in which both central banks work together to find mechanisms to reduce costs for account-to-account transfers and increase participation in the banking system. *Banco de Mexico*'s *Directo a México* is a process to transfer money from a U.S. bank that sends the money through the Federal Reserve Bank of the U.S. to *Banco de México,* which delivers the funds to the receiving commercial banks in Mexico. In order to use this program the sender and recipient must have bank accounts. However, if an individual does not have an account, partner banks in this program can help someone open up a bank account. The recipients must get the CLABE, *Clave Bancaria Estandarizada,* or the debit card from the sender. The CLABE is printed on the account statement that the family receives from their bank in Mexico and this is an 18 digit set of numbers assigned to every bank account in Mexico. Then the recipient can take out money using the debit card at ATM machines in Mexico. It is recommended that the sender and recipient use ATMs that are divisions of the same banks or partner banks so that there is a low (if any) commission (*Banco de México* Brochure).

One of the main functions of *Directo a México* is to send pension funds to those who worked in the U.S. to recipients in Mexico so that they do not have to waste time cashing a check. Although this program has not been as successful as they would have liked, there are more than 26,000 pension payments sent each month through *Directo a México*. On the

remittance side, there are an estimated 80 banks in the U.S. that work with *Directo a México* to send remittances. This interconnection promotes banking on both sides of the border and there have been more than 700,000 transfers since then, which is a small number compared to other money transfer institutions (Mendoza interview 2006). The banks in the U.S. normally charge their clients from $2-$5 each time money is sent. The important factor here is the type of exchange rate that is applied. They use a reference spot rate that the banks publish each day minus a small commission rate that is .21% of the amount sent which makes them extremely competitive in the remittance transfer business because of their low commission rate (Mendoza interview 2006).

According to Jesus Cervantes, Director of Economic Measurement at the Central Bank of Mexico, at the beginning of this program, more Mexicans opened up banks accounts, but the increased participation has not resulted in an increased occurrence of banking the unbanked because the rate of opening up new accounts has slowed. With time, he believes that more people will enter the banking system. In addition, he argues that it is difficult to tell whether the Mexican consumer wants access to more financial services because the majority of the population is unbanked. According to statistics, the majority of remittances are spent on consumption, so opening up an account solely to receive money to then spend is not where the business is, the business for the banks is to offer additional services and the ability to use the savings that are deposited (Cervantes interview 2006).

Mendoza, Chief of Electronic Trade at the Central Bank of Mexico, believes that we are in a time of expanding banking services. Some Mexican commercial banks are lowering their costs of products if debit cards are used instead of relying on cash. This product would not be a checking account, but serves as an important way to reduce the costs and draws in more of the

population to banks. On *Banco de México's* website there is a list of various products and the costs of financial services. There is also a small calculator that illustrates which bank works best according to a person's income. This is an automatic electronic method to can see the commercial banks involved (Mendoza interview 2006).

PROFECO and CONDUSEF

PROFECO (*Procuraduría Federal del Consumidor,* or "Federal Consumer Protection Agency"), and CONDUSEF (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros,* or "National Commission for the Protection and Defense of Financial Services Users") are consumer protection agencies. Their primary role is to publish information about fees and the main features of the different remittances services. PROFECO gathers price and exchange rate information from banks and money transfer companies, and distributes the information publicly through its program "Who is Who in Sending Money." CONDUSEF launched an online Automatic Calculator of Remittances. This project seeks to benefit Mexicans living in the U.S. in making their decisions on how to transfer money. Therefore, these two organizations are involved in increasing transparency as well as public awareness regarding the growing competition in the remittance market resulting in lower fees. (http://www.profeco.gob.mx/index1.htm).

In February 2005 an online credit card calculator captured the attention of the public because it compared the various cards and resulted in the construction of a calculator for the costs of remittance transfers. It was difficult for CONDUSEF to create the calculator because there were many complexities in order to provide transparent information about the various costs and U.S. banks involved. Their website also has a map of Mexico, showing locations where people can receive money. Each business on the map is responsible for providing and updating

that information (Carrera Santa Cruz, Marco. 2006. Director of Market Studies, CONDUSEF. Author interview. Mexico City, August 8).

Bank of America transfers are the least expensive, but because CONDUSEF consolidates the fees on their website, Bank of America does not participate. Bank of America wants to separate the commission and exchange rate fees in order to present themselves as the most competitive member (Carrera interview 2006). The Country Manager of Bank of America in Mexico, Orlando Loera, adds that Bank of America has objected to CONDUSEF's presentation of costs because it does not separate the costs. Therefore, if CONDUSEF changes the fee structures it will be evident that Bank of America is the least expensive and most competitive by far (Loera interview 2006).

Banks in the Remittance Industry

There are a multitude of actors in the money transfer process including: the money transfer company, the agent that the company contracted to sell the remittance transfers, the agent that provides the distribution on the receiving side, and the financial institution used by the money transfer company to make transactions. In fact, in many cases commercial banks are key players in this market because they cover a large geographic area and meet the regulatory requirements. Banks have multiple roles in remittance transfers because they act as functioning agents of intermediaries through either indirect or direct functions (Orozco 2004, 169).

A bank can be an intermediary or a disperser of the remittance. For example, if a person pays $300 in a pharmacy to send to a family member, the bank can be the disperser of the remittance. Moreover, many banks have agreements with MTFs, such as Western Union or MoneyGram, under which the banks disburse the money to the recipients. In recent years, banks have become more interested in the large remittance market, and the increased competition that has lowered costs (Cervantes interview 2006).

Banks are motivated to offer remittance transfers because of two central factors: the opportunity to earn revenue from selling remittance services, and the opportunity to attract new customers for its other services. Banks are, or can become, competitive in this industry because they can offer more than just remittance services. Although the majority of remittances are cash-to-cash, banks can offer other options, such as transfers from deposit accounts as well as interest on savings accounts (Orozco 2004, 185-187). On the U.S. side, new players include commercial and community banks as well as credit unions. Some banks offer low-cost money transfer services while encouraging immigrants to open accounts with their banks (Orozco 2004, 175). The following section analyzes Bank of America and their Mexican partners in the Safesend remittance service.

Bank of America and Safesend

Bank of America's Safesend product works with Banco Santander, Banorte and Bansefi. Orlando Loera, clarifies that the problem with remittances has always been the two different types of costs related to the transfer. One is the currency cost, which is the gap in the way that the peso is quoted in the market and the actual exchange rate that companies use, which can be very wide gap. The Central Bank quotes a rate daily at noon and each bank chooses its own range, as a matter of convenience. For example, *Banco de Mexico* published the *tipo de cambio para obligaciones,* or the interbank rate, on August 2, 2006 at 10.9537. Furthermore, no one will buy or sell at this rate because there is no profit in it and adding 20, 30 or 40 basis points on remittances is signifies a great deal of additional fees. The second cost is the commission and it can be very high (Loera interview 2006).

Loera stated that Bank of America's mission is simple, it is to "be the best bank and to be the bank of choice for our clients and to have as many clients as possible." Bank of America took notice of the large pool of "unbanked" Hispanics in the U.S. As a result, Bank of America

offers remittance services for free to their customers, not out of generosity but because its goal is to increase the number of clients. Moreover, Loera adds that at Bank of America it is not costly to open a checking account from which the client is able to transfer money without a commission at the interbank rate. Bank of America can earn or lose money on any given day because the peso rate changes daily. They receive the fees in the morning and use the prior day's noon rate so they are susceptible to this exchange rate risk. Hence, if CONDUSEF changes its structure, it will demonstrate that Bank of America is the most competitive because there is no commission and they use the rate established by the Central Bank (Loera interview 2006).

In May 2005, Bank of America was running approximately 10-12,000 transactions on a daily basis. However, Loera adds that they have increased the number of clients, but he is not sure if Bank of America has met its goals. The clients that use this service are repeat customers, on a monthly or a bi-weekly basis. Bank of America continues to be very optimistic about this remittance product (Loera interview 2006).

As almost half of remittances from the U.S. go to Mexico, Bank of America's is highly motivated to target the Mexican population. Loera states that he does not know if Bank of America will establish operations in other countries because it was difficult to find local partners in the country who are willing to accept Bank of America's systems. It was not an easy product to develop, but Loera argues that perhaps with time it will become more simplified to send money to other countries. In addition, he adds that the company entitled *Telecom telegrafos* (a partner in Safesend) receives their fee daily and they distribute the money to their clients, in the designated bank and branch that the remittance sender selects. The bank accepts a *matricula consular*, a Mexican identification card distributed at Mexican consulates in the U.S., as proof of identity when opening up a checking account in the U.S. and then the customer is able to send

payments to people at approximately 4,500 different locations in the country. The recipient receives the money the same day or the following day depending on where they live and access to a distribution point. The customer then receives cash after showing identification (Loera interview 2006). Bank of America is using bilingual marketing as well as providing materials in Spanish about financial literacy in an attempt to capture the "unbanked" Hispanic market. It appears that Bank of America has been most successful with its marketing strategies, as they have reported opening more than 5,000 SafeSend accounts per month and expect the number to continue to increase throughout the next couple of years (Orozco 2005, 74-197). In addition, as its name suggests, using a bank is a safe way to send money from the U.S. to Mexico. Therefore, this product can be marketed as a safe, reliable and cheaper transfer mechanism.

Bank of America's goal is to have more clients by encouraging immigrants to enter the banking system. For example, by having a checking account, they are then more likely to apply for credit cards, car loans, home loans, which would build their capacity for investing. Bank of America also contends that it is important to increase the number of clients for its partners Banco Santander, Banorte, and Bansefi. Therefore, the remittance is disbursed through any of the locations of their partners in Mexico.

The two problems that present barriers are the following: the services are not corresponding to the demand and the recipient does not think that there is value in opening up an account. In many countries, including Mexico, the majority of transactions are in cash, which differs from practices in the U.S. where credit cards and checks are regularly utilized for a large percentage of payments. In Mexico, people do not recognize the necessity in having a bank account because they have limited disposable income. With Safesend, the payments are now made in cash. Bank of America is one of the few banking institutions that are trying to bank the

large and growing important Hispanic population. They are striving to draw in Mexicans through this banking strategy. With traditional players, as in the case of Western Union the cost is $14 when compared to in the region of $7 for a checking account. Then, if it costs $7 a month to maintain a checking account, the holder can send money as often as they like while solely incurring the cost to maintain a checking account. Therefore, with Bank of America, once a customer opens a checking account they are able to send money without paying a fee. However, this has not led to an increase in account openings, and people continue to use traditional MTFs even though it is substantially more expensive in many cases. However, these MTFs are closer to communities where remittance senders reside, employees speak Spanish, and many people feel more comfortable in these nonbank institutions. According to Castillo, Leading Bank Executive at Banco Santander, of all the banks that have entered the market, Bank of America is the only one to have experienced moderate success. Wells Fargos has a product entitled *Intercuenta* with Bancomer, but it is account-to-account (Castillo, Jaime. 2006. Leading Bank Executive, Banco Santander. Author interview. Mexico City, August 15).

Safesend partner: Banco Santander

Bank of America's Safesend partners are interested in increasing their clientele and managing the hefty funds that enter the country. Given that the average size of a remittance is in the order of $300, monetary shipment is not very large, but banks in Mexico remain interested in capturing these funds. The elimination of fees has not influenced banks in Mexico because the competition takes place in the U.S. However, Loera contends that Bank of America's Safesend is creating competition with Western Union (Loera interview 2006). Banco Santander has not experienced a large influx of new customers entering the banking system. In general, people go to banks in order to pick up the remittance money, and at the end of the day, their economic

needs do not justify entering the banking system. Therefore, the grand objective is to bank people, but it has not happened as of yet (Castillo interview 2006).

Santander has general campaigns, not necessarily related to remittances, designed to recruit new clients to open bank accounts. Customers who only use the bank to cash their paychecks are targeted by Santander to open bank accounts. Previously unbanked, these marketing efforts have met with limited success. Despite marketing efforts, customers who only use the bank to cash their paycheck have not taken advantage of other financial services, so they are considered banked in that they have a bankcard, but are not fully integrated in the banking system. Opening up accounts to receive their pay through a bank account begins the "banking" process and the remittance challenge is comparable to the payroll process. Recipients may perceive remittances as a stable source of income, but there is no certainty that there will be recurrent payments. The pattern of remittances cannot be predicted, and therefore cannot serve as a reliable source to determine a person's credit risk for a loan. It is also possible that a person will use one bank today and a different one tomorrow, so it's difficult to develop a "banking " relationship, as far as credit goes (Castillo interview 2006).

Safesend began with the use of a card, but now Safesend 3.0 is in its third version. The first version, Safesend 1.0, was severely limited because it was only an ATM card, a Visa or a MasterCard has more versatility. Bank of America required the recipient's information, such as name and address; however, in many cases the remittance sender did not have the complete information. The cards also have a BIN (Bank Identification Number), which signifies when a customer draws out money from the card. It is an international transfer and Visa (or whatever company is doing the transaction) receives a large commission, in addition to the commission charged in the U.S. Therefore, every time a recipient utilized a cashier in Mexico it would cost

5% of the amount withdrawn, so this version proved too costly. Safesend 2.0 was a version that sought to lower costs and costs dropped because the BIN numbers identified the cards as a Santander card, even if the card read Bank of America. In addition, if consumers used an ATM at Banamex the card indicated it was from Santander, so there was a national cost, rather than an additional 3% international cost. Although the costs decreased, complications remained. Therefore, the third version, Safesend 3.0, was modified on both sides of the equation. On the U.S. side there was no charge if the customer had a checking account, and on the Mexican side there was no fee for service as well, and the funds could be received as a cash transaction. The recipient then was able to access the money in cash at any of Banorte, Bansefi and Santander locations. Moreover, the only requirement was for the sender to maintain a checking account in the U.S. Bank of America has a limit on the volume of money that can be sent, which may pose a limitation. Bank of America's goal is to increase the banking immigrant population, especially Mexican-Americans. There is competition on the U.S. side because the remittance senders choose the payment method and banks in Mexico are limited solely to the disbursement end of the remittance transaction. Bank of America's Safesend has a greater advantage than other banks (Castillo interview 2006).

Safesend partner: Banorte

Banorte has an agreement with MTFs for the payment of remittances. Transfers can be made either as deposits to an account or accessed in cash. If the payment is deposited into an account in Mexico, the recipient can consult the balance and access the funds through ATMs, or withdraw through bank windows. Transfer costs vary according to the market; however, the fee that most MTFs charge is between $10 and $20. Garza, Leading Bank Executive at Banorte, argues that banks are able to compete with nonbank money transfer funds. However, although banks in the U.S. view remittances as a business, he argues that a few banks have truly dedicated

themselves to developing specific products for this market. Banorte has a very good business relationship with Bank of America as a partner in Safesend. Banorte works with a large branch network and has developed a product entitled "*Tarjeta Enlace Express*" in order to pay the remittances. Nevertheless, Bank of America has created interest among other banks in the U.S. In addition, MTFs are confronting more competition, and it would be in their best interest to increase their knowledge and awareness about all facets of the market. With greater competition, Mexican consumers benefit the most with initiation and offering of additional financial/banking options (Garza Treviño, Roberto Javier. 2006. Leading Bank Executive, Banorte. Author email interview. Mexico City, September 6).

Furthermore, although the profile of the demands of the market does not accurately reflect a demand for more financial services, Garza contends that Mexicans definitely desire access to greater financial services. For example, in general, there exists a growing interest in securing mortgages. However, before a customer can secure a mortgage, he or she must have a bank account. Garza also argues that consumers participate more in banking services because of the increase in competition from banks and banks are more interested in consumers who receive remittances. Aside from serving as a remittance distributor through Safesend, at the end of 2004, Banorte launched the "*Tarjeta Enlace Express*", which is an account designated by a debit card that serves as a remittance product. Banorte, as well as other banks, have experienced a significant increase in clients through their easy access and lack of fee (Garza interview 2006).

Safesend partner: Bansefi

Bansefi is a partner in the Safesend product, but it differs from Banco Santander and Banorte because it is a government-owned development bank that promotes low cost banking services, and opens accounts for remittance beneficiaries. Antonio Carrasco Ruiz, Director of L@ Red de la Gente, the section that works with remittances, explains that Bansefi promotes financial

products among the lower-income population in Mexico. There are numerous participants in the remittance industry in the U.S. including MTFs, banks, debit card wholesalers, and trade unions and community banks are now entering this market. They each have their own supply and distribution networks; the dilemma lies in the need and strategic planning vital to connecting these often intricate networks. The major role of Bansefi is to serve as a development and savings bank. Bansefi interacts with several remittance networks in the U.S. including Bank of America, MTFs, credit card wholesalers, and community banks. Those networks serve as the point of origin, or the "first-mile", and the distribution points in Mexico are considered liquidation points, or the "last-mile". Bansefi serves as a comprehensive liquidation network, or last-mile (Carrasco Ruiz, Antonio. 2006. Director of L@ Red de la Gente, Bansefi. Author interview. Mexico City, August 11).

Of the population that Bansefi serves, 20% do not have a relationship with a bank, and Bansefi is the fourth largest financer in the country with the most coverage in terms of scope and economies of scale. Consequently, this development bank maintains a large network that targets low-income populations. The largest network after Bansefi is Bancomer, a corporation that operates 505 branches. Bansefi is a disperser of remittances for Bank of America's Safesend. Bank of America has a substantial network of 5,000 branches in the U.S. and serves as the first-mile contact and through Safesend pays Bansefi a commission. The sending costs including both the exchange rate spread and the commissions charged are determined within the U.S. which is the point of origin for the transference. Bansefi, akin to a last-miler, does not charge the recipients any fee; unlike the first-milers who set and charge the fees. Generally, the remittance market is controlled by MTFs who also control the exchange rate. Antonio Carrasco Ruiz argues

that the major competition among the MTFs in the U.S. is causing fees to decrease among the MTFs because of greater competition (2006).

In addition, Carrasco states that *Directo a México* is a helpful concept as there are almost negligible costs to send money. The criteria that it must be sent from account-to-account serves as a potential obstacle because of the cultural barriers that inhibit Mexican bank utilization. MTFs have been successful because a majority of Mexicans living in the U.S. do not have bank accounts. Carrasco points out that this is because of the Mexicans' lack of confidence in banking institutions that results in culturally embedded behaviors. Moreover, MTFs can send cash-to-account, but in the end Bansefi and Safesend partners are seeking and moving towards account-to-account transfers. In the case of Safesend, if a customer has a bank account with Bank of America, there is no commission to remit funds. In addition, a customer in the U.S. can send money through their account and arrive as cash in Mexico. According to Carrasco, the banks have a great opportunity to influence Mexicans to open bank accounts. In addition, police want people to open up accounts as well so that money is not kept underneath mattresses which makes them vulnerable to crime and exploitation. With regards to bank accounts in Mexico, Carrasco believes that L@ Red de la Gente has a considerable advantage over other institutions because of Bansefi's substantial presence in Mexico (2006).

There has been an increase in sending remittances through L@ Red de la Gente, which was initiated in June of 2005 and has resulted in 90,000 remittance payments through August 2006. In addition, Bansefi is marketing L@ Red de la Gente as a brand. For example, Bansefi held promotional events in Chicago during Mexican independence celebrations and *Cinco de Mayo* in California for publicity and marketing purposes. Bansefi is making efforts to promote account-to-account transfers, but for the most part the practice remains as an on-site cash

payment system. The advantages maintained by L@ Red de la Gente include their proximity to the majority of the population and the fact that their employees are also their clients (Carrasco 2006).

Other Banks in The Remittance Industry

Banamex

According to the Director of Banamex, Luis Villalpando Alfaro, remittances have been treated as unimportant "small change" monetary exchanges until recently. Notably, banks have become increasingly observant and cognizant of the rise in volume that resulted in a sum topping more than $23 billion in 2006 and had the effect of limited additional business of banking this population of Mexicans who receive money. Despite the massive sums overall, structural problems have come to the forefront for Mexican bankers. One of the problems is that the bank cannot determine who opens up accounts, so it is not completely clear if remittance recipients are entering the banking sector. Additionally, the reality is that the banks need to make themselves useful to this population. This points to the marketing methods that inspire trust and regional availability using the language of origin. The flow of more than $20 billion dollars is a huge amount of money bound for Mexico and provides both opportunities and challenges. It is also necessary to thoroughly examine how this money is used, and what proportion is set aside for savings and financing. In addition, banks are confronted with the task of determining what kinds of products that banks can and will offer these potential clients (Villalpando, Luis E. 2006. Director, Banamex. Author interview, Mexico City, August 9).

Analysis of the methods that are currently used in remittance transfers serves as a basis for developing a new framework. Banamex offers two different ways to remit funds. One method is an alliance with Orlandi Valuta, a subsidiary of Western Union, and these payments are cash-to-cash. The second service is *Global Transfers* available for Citibank (it is important

to note that Banamex is owned by Citigroup) clients anywhere in the world. Given that the goal is to increase clients at Citibank, these transfers are account-to-account. Payments can be made as either account-to-account transfers, with a $5 fee and $8 for account-to-cash transfers. *Banamex Aquí* is not a remittance product, but a chain of third parties that offer banking services, in addition to paying remittances. *Banamex Aquí* has been in operation for about six or seven years. A large percentage of these clients deposit checks, make cash deposits or take money from the debit card to receive remittances. The most common transaction is the payment of remittances, and 80% of the operations for *Banamex Aquí* can conducted through windows at branches. *Banamex Aquí* offers flexibility because it works with pharmacies, mom and pop stores, supermarkets, restaurants, gas stations, etc. These small businesses are located in places where banks are not present, and offer more flexible hours than banks. These businesses also must have cash on hand (Villalpando interview 2006).

The Director of the Remittance division of Banamex, Regina Sanchez Mejorada, indicates that it is difficult for Banamex to truly evaluate whether people are in fact acquiring bank accounts as a result of remittance products. According to industry studies, approximately between 5-8% of the money that enters as a remittance goes into savings, but there is no way to accurately measure this because when a customer opens up an account, they ask for the origins of the funds, but they don't ask how the money is going to be spent. Sanchez does not think that they are competing with MTFs as Banamex works with third carriers, and the competition takes place in the U.S. where people remit funds. Mexicans may not be aware of the cost of the transfer because the charges are made at the sending location and basically all a remittance recipient in Mexico can do is request that the sender in the U.S. direct the funds to a specified

location (Sanchez Mejorada, Regina. 2006. Director of Remittance Section, Banamex. Author interview. Mexico City, August 9).

According to Villalpando, MTFs have lowered their costs but he does not think that they will get any lower. He argues that, realistically, there is not much movement in the market. In addition, Sanchez adds that cash-to-cash is very expensive. Banking businesses in the U.S. also pay to publicize the products. They also maintain compliance with anti-money laundering and other laws. Banks in Mexico do not have the same legal requirements as the banks in the U.S., and have much more limited marketing budgets. In addition, it is difficult to invite more people to enter banks because of a mistrust of the banking system due to Mexico's history of financial crises. Also, the risky immigration process triggers fear among many in the U.S. Fear of the Border Patrol and immigration raids provides a tremendous obstacle to banking Mexicans living in the U.S. (Sanchez and Villalpando interview 2006).

An important distinction in sending money is whether it arrives as cash or through an account. Sanchez estimates that 97% continue to arrive as cash, and therefore she does not foresee Bank of America's Safesend service as affecting other banks. For example, Bank of America's elimination of fees had a dramatic impact initially, but has not caused competition with *Global Transfers*. One major issue is that remittances, although they can be sent repeatedly, by nature are irregular. Accordingly, if remittance flows are associated with U.S. economic cycles they might be sent every 3 or 4 months or every 6 months so it would be difficult and risky to offer additional banking services if a person is reliant on these uneven funds. For example, if someone receives funds irregularly they might not be able to service a loan. In addition, if the money has a high interest rate, and they are unable to pay, this has real

consequences that impact quality of life. Therefore, the bank needs to have a more accurate assessment regarding how to attend to this market (Sanchez interview 2006).

Sanchez maintains that presently there is greater interest in opening savings accounts and entering the mortgage market. Although Mexico has high interest rates compared to the U.S., Europe and other developed countries, its mortgage interest rates have been declining and the government has developed a publicity campaign in order to promote construction of houses. In addition, it is now easier to acquire loans compared to earlier. One inherent problem with offering mortgages to remittance recipients is that repayment is not assured if it is dependent on the flow of remittances. In addition, according to Villalpando, people are opening savings accounts. However, the majority of the activity continues to be cash-to-cash with only about 3% sent from account-to-account in the remittance money transfer market (Sanchez and Villalpando 2006).

HSBC

According to Roberto Vela Guevara, the Leader of International Project Products, HSBC attempts to offer a service that was not as expensive as the services offered by traditional players so that HSBC could compete in the remittance transfer market. HSBC offers three different ways to send remittances. First, the most traditional transfer can be made through a nonbank money transfer firm, such as Western Union, in which the payment is made and the recipient can pick up the money at any Western Union office in Mexico. HSBC does not compete with MTFs because they have payment agreements with 40 nonbank money transfer firms, both large and small companies that are key players in this market. In addition, these businesses are attracted to HSBC because they are interested in using their branches. Presently, they have 1,300 branches; some are strategically located in remittance-receiving zones. The second form applies to the practice in which a business in the U.S. sends a payment directly to HSBC as the remittance

payer. The third form of remittance transfers is through the use of a debit card entitled "*La Efectiva*". Vela estimates that HSBC now has 20% of market participation in a short period, but in Mexico, it is very difficult to bring banks into this market. The population that receives remittances is used to making cash payments in stores, corner shops, in other commercial establishments (Vela Guevara, Roberto. 2006. Leader of International Project Products, HSBC. Author interview. Mexico City, August 7).

HSBC's objective is to bank the "unbanked" sector by having them open up accounts in the U.S. and make payments through accounts at HSBC. As it is difficult to use cards with a population that only uses cash, HSBC is working on a different program to encourage remittance recipients, who are mainly women, to open up accounts in Mexico. According to Vela, 88% of remittance recipients are women and receive money from their husband or children. HSBC designed this payment mechanism in order to help reduce the lines at branches, because they are now saturated in many zones that export migrants, including the enclaves of Michoacán, Guanajuato, Oaxaca, Puebla (Vela interview 2006).

"*La Efectiva*" ("The Cash") functions like a debit card and is a word play because it makes cash feminine and the campaign uses a heroine, similar to the American super hero "Wonderwoman". This product uses popular language to convince people that they can receive remittances through HSBC using this specific product. The first time the customer opens an account at the bank, the consumer communicates the need to send money and is issued a card that works immediately. In order to promote this product, HSBC gave little gifts to those who opened up accounts, such as a hat or a bag. This card functions as a debit card; therefore, it can be used in a store where Visa is accepted. HSBC has promoted campaigns to encourage people to enter this program and its goal is to increase new accounts, because branches get overwhelmed

with making cash remittance payments. For example, many people send money during the weekend, which results in crowds of people who come to HSBC branches on Mondays to receive money. In many branches there are different lines for those with accounts and those who are just picking up money, and often the account-holder line can be significantly shorter. This is a benefit of opening up an account with HSBC and having a remittance product (Vela interview 2006).

For the recipient, the only cost is the sending bank's commission. This program is considered successful in terms of the increase in the number of accounts opening, and a good percentage of the cards are still being used. This indicates that people did not open up accounts only to receive a little gift from HSBC and use the account once. There has been a small percentage that has done this, but not a significant amount, or at least not the majority of the targeted population who were made these marketing offers. "*La Efectiva*" is a very unique instrument that is not comparable to any other product and there have been positive results and little by little people are moving away from cash only, slowly towards the use of cards. HSBC has made efforts to try to convince people that they will benefit from leaving their money at the bank and they are trying to promote savings accounts as well as investment, but the majority uses the debit card (Vela interview 2006).

In an effort to broaden their scope, HSBC is opening new branches in key zones; for example, on Sunday solely to make remittances payments in order to reduce the flow of remittance recipients on weekdays. Roberto Vela Guevara does not believe that they have faced significant competition from Bank of America. It is very difficult to bank people in Mexico as well as in the U.S. In many cases there is the undocumented population which is reluctant to enter a bank, and is afraid to enter established businesses, they have more confidence in smaller

supermarkets, and for example, businesses that sell goods that remind them of Mexico (Vela interview 2006).

Vela believes that Mexicans are beginning to notice that there is more than just receiving remittances and they can use other financial services. Perhaps there will be a growth in the demand for credit cards in addition to the remittance debit cards. Presently, HSBC is offering credit on the basis of income according to remittances or offer life insurance, but this is a very slow process. Vela argues that the business of remittances transfers is open to whoever wants to participate. He is acutely aware that remittances have increased heavily and over $20 billion dollars is a significant flow of capital, and views the role of banks as one that can reduce exploitation and increase equity. He also contends that previous market conditions were insufficient and people received terrible and expensive service but now banks are entering this business and reducing the costs. He predicts that with such large volumes of money entering Mexico, greater transparency, better exchange rates and greater competition, are factors that can and will continue to contribute to better market conditions (Vela interview 2006).

Conclusion

There are various mechanisms to send money abroad and banks have a complicated and limited role in this market. Bank of America's elimination of fees to send money and the use of the interbank exchange rate makes them the least costly in the industry. However, it is unclear whether Bank of America has achieved its goals of drawing in remittance senders' participation in banks, and offering more financial services to this population. However, clearly Bank of America has created competition in the U.S. in an effort to capture the unbanked Hispanic, particularly Mexicans, market. Bank of America's Safesend has an agreement with Mexican partners Banco Santander, Banorte and Bansefi. According to Santander, they have not experienced a large volume of people using banks, but it will take time and that is the long-term

goal. Banorte also works with Bank of America to pay remittances, but they also offer their own account-to-account service with a small fee. Safesend is now on its third version in which payment is made in cash and this is key to drawing in clients. Bansefi serves as the "last-milers" in the payment of remittances. The main advantages of using Bansefi's L@ Red de la Gente are their large access and scope and the fact that it has less requirements than banks.

Other banks are also involved in the remittance industry in Mexico. First, *Banco de Mexico's Directo de Mexico* is a money transfer program that has not progressed a great deal. These are solely account-to-account transfers. This program is also useful in making pension payments and there is a small fee and commission. This arrangement with the central banks of the U.S. and Mexico prove the government's commitment to reducing transfer fees across the border and to increase transparency. Moreover, Banamex and HSBC are also important commercial banks in Mexico. On the one hand, Banamex has two different programs to send money. One is through an alliance with Western Union and the other is an account-to-account service. HSBC has three different ways to make remittance payments, and they can either be account-to-account, account-to-cash, or cash-to-cash. Therefore, the way the payment is made is a crucial determinant of the success of the product. Although there has been increasing participation of banks in the remittance transfer market, this has not resulted in the entrance of remittance senders and recipients into banks. The next chapter will explore the opportunities and challenges that banks face to draw this population into the formal financial system.

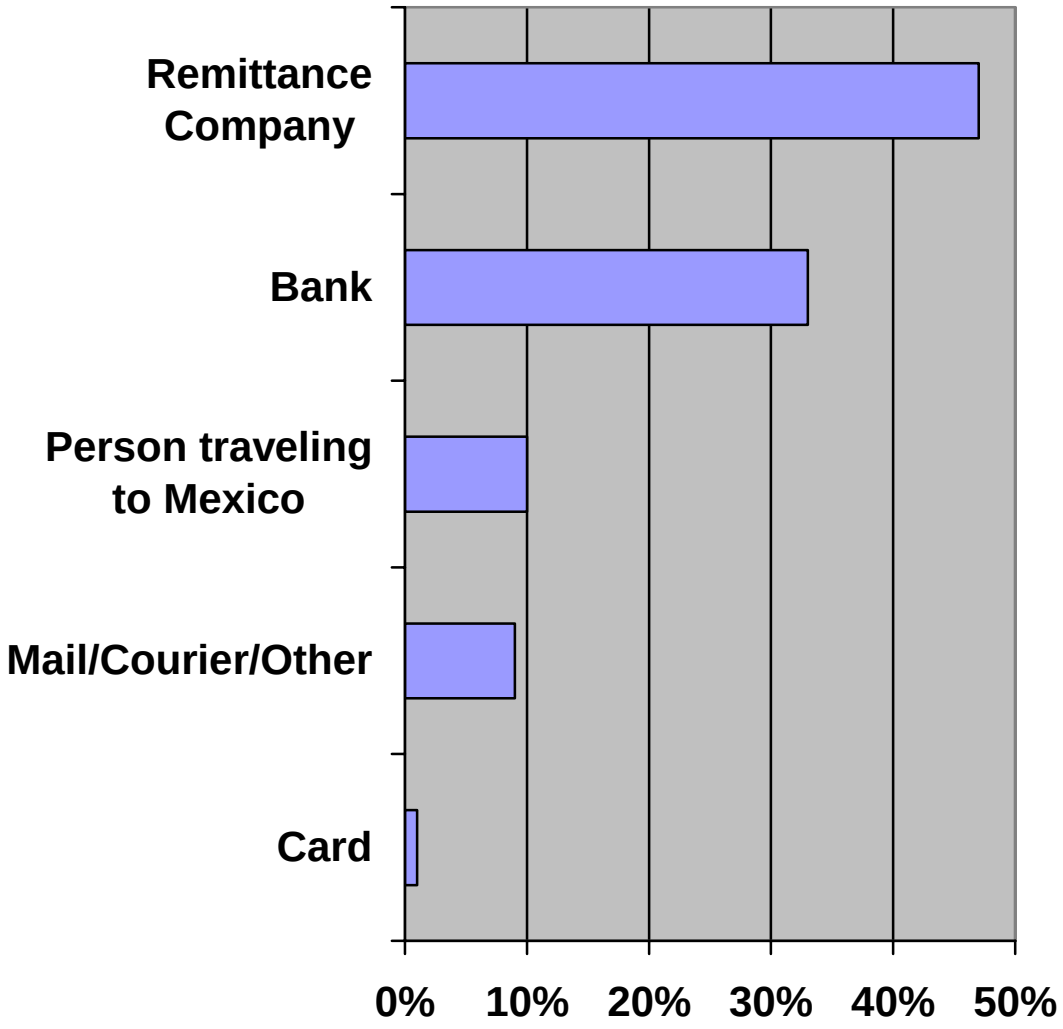

Figure 3-1 Payer of remittance. Source: Bendixen and Associates 2007

CHAPTER 4
OPPORTUNITIES AND CHALLENGES OF BANKING THE UNBANKED

Business Opportunities for Banks

Although beneficial business opportunities exist if banks are able to offer additional financial services to remittance senders, the banks are faced with obstacles in attracting remittance senders. In addition, while most remittance recipients collect money as cash, there are challenges to marketing the use of card-based transfers. While the *Public Opinion Research Study of Latin American Remittance Senders in the United States 2006* found that there has been an increase in immigrant bank participation, there is a large immigrant population that remains unbanked. The previous chapters provided an overview of the flow of remittances to Mexico, including a demographic profile of the sending population in the U.S. as well as descriptions of the multiple financial institutions involved. This chapter explores the differences between the banked and unbanked Mexican migrants in the U.S. who send money to Mexico. There are structural barriers that banks face in attempting to bank the immigrant populations, especially Mexican migrants. Such challenges include legal and regulatory obstacles, cultural differences, lack of financial education and the lack of appropriate products. They suggests a division between supply and demand of remittance products which reveals that banks do not thoroughly recognize or understand the needs and demands of this population (IDB 2006b, 8).

Although there is an increase in research regarding migrants' legal status, banking patterns and the amount they remit for Mexican immigrants (Amuedo-Dorantes and Bansak 2004, 6), Orozco (2003) argues that many Latino remitters remain outside of the formal financial systems because they lack "economic identity" (1). Therefore, by entering the formal sector, they can create an "economic identity" which enables previously unbanked people to become literate about bank services and request additional financial products.

This chapter focuses on the business opportunities that will benefit banks in drawing in remittance senders who will open bank accounts. First, this chapter describes the demographic factors of Mexican migrants who have bank accounts in order to understand the demographics that banks should target. Next, the demand and supply for card-based remittances is described. Last, this chapter summarizes the opportunities and challenges that banks face in banking Mexican migrants.

Who are the Banked Mexican Migrants?

One major advantage of using a bank, or another formal financial institution, to send money abroad is that mainstream financial institutions generally offer lower costs when compared with most MTFs. Another advantage is that these institutions also offer other products such as interest-bearing checking accounts, free and secure check-cashing services, credit and debit cards, loans, business credit and insurance products that all contribute to the establishment of credit history (Inter-American Dialogue Task Force on Remittance 2007, 9).

Data reveal that immigrants in the U.S. are less likely to have a bank account when compared to the native-born population. Although the numerical findings of each study differ, they all agree that Latin American immigrants are extremely underbanked when compared to other immigrant groups as well as compared to the native-born population. For example, results from the 2001 Survey of Consumer Finances (SCF) reveal key information about the unbanked population in the U.S. Overall, about 9% of U.S. households are unbanked, while 30% of Hispanics, 19% of blacks, 14% of Asians, and 5% of whites are unbanked. Furthermore, of the unbanked Hispanic households in the SCF, 28% reported that they previously had a checking account in the U.S. (Hilgert et al. 2005, 2-3). So, this 28% of the unbanked Latino population had previously been engaged in a banking relationship. On the other hand, according to a study conducted by Bendixen and Associates, 44% of Latino immigrants lack bank accounts. In

addition, another study found that 54% of Latinos do not have a relationship with a bank. Therefore, these studies clearly demonstrate the existence of a significant pool of potential Latino customers that provides a basis for banker motivation (Orozco 2003, 7-9). With regards to the Mexican population, according to data collected from the Mexican Migration Project, a survey that provides detailed information on Mexican immigrants, 75% of respondents were unbanked in the U.S. Additionally, a large proportion (65%) of households in Mexico is unbanked, which explains the lack of banking relationship in the U.S. (Hilgert et al. 2005, 2- 3). Therefore, while immigrants have a lower level of banking compared to the native population, Mexicans appear to have a lower level of banking relationship than the average immigrant.

Consistent with this research, Amuedo-Dorantes and Bansak's (2004) analysis of MMP data reveal that only 9% of the sample of Mexican migrant households had a bank account during their most recent trip to the U.S. (9-10). However, according to another study by Amuedo-Dorantes et al. (2005), the use of banking services by migrants has increased within the past 5 decades. For example, the banking population of Mexican migrants increased from 1% in the 1950s to 10% in the 1980s and 23% in the 1990s (53). Therefore, although some argue that there has been an increase in bank usage among Mexican migrants, this has failed to result in bank use for remittance transfers and it also highlights the existence of the population that remains underbanked. Overall findings are similar and consistent: the Mexican migrant population is extremely underbanked compared to the native-born population. Moreover, the Latino population represents the largest marginalized group that remains outside of the formal financial sector.

One barrier to banking Mexican migrants is fear of entering a mainstream financial institution if a migrant is undocumented. In general, the difference between the monthly amount

of remittances sent by banked and unbanked Mexican migrant population in the U.S. is not statistically significant. However, Amuedo-Dorantes, Bansak and Pozo (2005) found that the lumped sum (money sent home at the end of migration spell) transferred home by banked migrants is $4,951 higher than the unbanked migrants. Additionally, the banked are also less likely to remit, perhaps reflecting a longer stay in the U.S., greater assimilation or the severance of ties with the homeland. The banked population is also more likely to be young, documented, and fluent in English and have lived in the U.S. for a longer time period. Banked immigrants are more likely to have professional or technical jobs or be employed in occupations within the manufacturing and service industries, while the unbanked have a larger presence in agriculture. Banked individuals earn about $700 a month more than the unbanked, which is similar to other studies suggesting that lower-income people do not perceive a need to enter banks (55-56).

Legal status is important in the comparison between the banked and unbanked populations. For instance, banked undocumented immigrants are not only twice as likely to save and take back home some of their savings to their community of origin, but they also repatriate an average of $6273 per year more than their unbanked undocumented equivalent. In addition, banked and legal immigrants send about $2182 per year more than their unbanked legal counterparts. One possible explanation is that the undocumented migrants with access to banks do not send remittances because they bring it back as a lump sum when they return (Amuedo-Dorantes and Bansak 2004, 26).

Card-Based Remittances for Latin American Remitters in the U.S.

Orozco et al. (2007) analyze the results of a nationwide study of Latin American migrant remittance senders in order to assess the supply and demand for card-based transfers by migrants. While a few companies have begun to offer card-based remittances, more have begun to offer other types of models such as cash-to-cash, dual cards and recipient-only cards.

Challenges to a card based transfer include regulatory and operational issues. In addition, the card needs to be delivered in a timely fashion, and the receiver needs to have access to payment networks and be able to use the card. Card characteristics such as fee structures, reloadability, and the dual-user feature all persuade a customer on deciding which card to use (1-2).

Excluding phone and transit cards, less than 60% of migrants use cards of any type. Although this suggests that a large percentage of this population uses some sort of card, there has not been an increase in demand for remittance card products by migrants. On average, their survey found that fewer than 7% of remitters (to Latin America) used a remittance card to send money. In particular, only 2% of Mexican remitters use remittance transfer cards. Age, gender, income and education are determinants of the level of card use and those with bank accounts are more likely to use a card product, even though whether one has a bank account is not a significant factor in card use. According to a statistical analysis, remitters who use card-based transfers tend to be males who have:

- Citizenship
- Moderate levels of income
- Lower levels of education
- The ability to send more money and more frequently
- A bank account

In sum, Orozco et al. argue that there is a significant gap between demand and supply of card-based remittances. They suggest that banks need to market their products more carefully by developing the marketing, distribution, consumer education, and pricing models to allow card-based transfers to compete in this market (Orozco et al. 2007, 1-16).

The card-to-cash model of card transfers is the preferred method because it is familiar, convenient and does not require much consumer education. Companies using this option are more likely to form a distribution network with banks and other entities in the recipient country.

The second model available is the dual-card model in which two cards with access to the same account are issued. A variation in this model is the use of a sub-account, in which the primary cardholder can transfer specified amounts of money to the sub-account that is accessible to the recipient cardholder. The third type of model is the recipient-only card in which the sender purchases a prepaid debit card in the U.S. to be sent directly to the recipient or issued in the recipient's country. The sender is able to reload money to this account. An important distinction is whether the second card used by the recipient is free or not. In some cases, the sender incurs all costs, although the recipient pays an ATM fee to withdraw the fund, while in other cases the recipient pays fees to have a second card or account. However, if the recipient incurs international ATM fees and/or transfer fees to withdraw funds, the total cost to transfer funds may not be lower if the recipient pays a full set of fees for a separate card or account (Orozco and Tescher 2007, 9-12).

Prepaid cards are an option to serve unbanked consumers; especially the large unbanked migrant population. One challenge faced by this industry is that consumers in the remittance industry have lower education and lower income levels and overwhelmingly prefer cash-to-cash transactions, both domestically and internationally, so this population is not familiar with using cards. In essence, the use of cards remains outside of normative cultural practices. Given this reality, the variety of transactional methods can further serve to alienate the unbanked. The transactions vary according to the card-based remittance company. For example, some require that the sender have a credit or debit card, with which they can then purchase and reload a prepaid card for use by the recipient (Orozco and Tescher 2007, 8-9).

The branding of a card with a Visa, MasterCard, American Express or Discover logo enables consumers to have access to the financial mainstream. According to Orozco and

Tescher's (2007) study, the majority of cards offered by the companies interviewed are branded cards. In addition, if larger prepaid card companies offer branded cards it will improve consumer's acceptance and card usability. The issuer can load funds through their reloading network, which is available online, through the phone and at retail locations and allows for reloading through cash payment or funds transfer using a bank account, credit card, debit card or in some cases a PayPal account. Often reloading is only possible through the Internet using an existing credit or debit card, which creates a challenge to serving underbanked consumers who may not have Internet access (Orozco and Tescher 2007, 10).

Card-Based Remittance Products for Mexican Migrants in the U.S.

The primary challenge facing card-based companies is acquiring new customers. However, the card-based companies reported that repeat usage by existing customers is high and customers are loyal for the most part, establishing long-term relationships with service providers. In addition, remitters tend to send similar amounts of money compared to other remittance vehicles, between $200 and $400. Interviews conducted by Orozco and Tescher revealed the companies' lack of financial resources to develop marketing programs for various programs. Some companies focus their marketing on a specific remittance market so that they can choose one business model. This could result in the development of a card-to-cash model or partnering with a local bank. Marketing efforts for the card-based remittance products have focused on the U.S.-based sender because this individual is considered the decision-maker as well as the contact person for the receiver, therefore, they believe that there is an educational component that must be implemented so that consumers are provided the opportunity to learn how to apply and use the card (Orozco and Tescher 2007, 12-13).

The main determinants of access to banks include income, age, education and citizenship (Orozco and Tescher 2007, 16). According to Orozco and Tescher (2007) among Mexican remittance senders who have a bank account in the U.S.:

- 79% had a high school education or higher
- 14% had income greater than $30,000
- 41% were older than 35
- 36% send more than $300 per month
- 31% had U.S. citizenship

The majority of Mexican immigrants do not have accounts in the U.S., which is inclusive of an approximate estimate of 2/3 of this population, with nearly a third of this specific population reporting that they do not have an account due to their legal status (Orozco and Tescher 2007, 17).

The survey conducted by Orozco and Tescher (2007) does not explicitly define the various types of cards, but rather measured the usage according to the respondent's understanding of the product. In the case of Mexico, the companies that issue the remittance transfer cards are Dolex (70%), Western Union (20%) and Cashpin (10%). They also discovered that having a bank account increases the use of any type of card product, even non-financial cards such as a retailer discount card, regardless of demographic variables of both income and education. In addition, having a bank account in the U.S. can be the result of multiple factors, such as having an Identification card, or employment that has a payroll or benefit card. The results prove that, besides age and owning a bank account, all other variables are statistically significant. Therefore, according to this study, males, less educated and naturalized and with lower income are more likely to take advantage of card products (Orozco and Tescher 2007, 18-21).

In sum according to Amuedo-Dorantes and Bansak (2004), without the use of a bank, Mexican families may spend $1 billion a year to send money home. Therefore, lowering transaction costs and increasing improved access to banking services, have potential for increasing the amount remitted by Mexicans. In addition, bank accounts provide a place for a safe transfer of funds to their families back home, and it can also reduce the cost of the transfer and open up the possibility of sending a larger sum of money to their families. It is imperative for banks to learn about immigrants' banking use in order to provide appropriate and useful products for this market. Banks raise immigrants' ability to save and increase the likelihood that immigrants' savings are channeled into productive investments. Also, banks can offer credit products, such as credit cards, mortgages and other loans, increasing credit options (1-5). Therefore, there are various challenges and opportunities that banks face in order to not only bank Mexican migrants, but also provide a card-based remittance product. The next section discusses the various business possibilities and challenges that banks face in offering remittance and other financial services to this population.

Opportunities and Challenges Banks Face in Turning Remitters into Customers

Samuels (2004) of the Federal Reserve Bank of Boston addresses the challenges that banks face to incorporate the remitters into the formal financial sector. They must identify a customer base that demands their services, hire bilingual staff, and work in outreach and financial education with these specific groups through neighborhood organizations and local branches. Lastly, they must either develop a partnership with a financial institution in the receiving country or work with an existing remittance network.

Frumkin (2004) describes various mechanisms to connect banks to remittances and explains why mainstream financial institutions seek this business. First, the bank representatives he interviewed explained that their goal was to develop long-term relationships with immigrants.

Due to their specialized retail payment infrastructure, banks charge less for remittance services and they believe they can introduce immigrants to the U.S. banking sector (3). However, there are numerous barriers for bank entry into this market which include:

- Loyalty to current provider
- Convenience and ubiquity of money transmitters
- Limited access to banks in Mexico
- Unfamiliarity with bank products and customer services
- Those who do not speak English may be more reluctant to use banks
- The minimum requirements and fees are also an obstacle since they actually increase costs (Frumkin 2004; 12-13)

Also, many people who send remittances are not aware of the full costs of sending money home and tend to rely on sources through word-of-mouth (Suro et al. 2002, 2-4).

A specific challenge in this market is promoting the use of a card-based remittance product. It is difficult to promote the use of card-based remittances because of the complications of issuing a card to a recipient outside of the U.S.; for example, cards need to be delivered in a reliable manner. In addition, users in many receiving countries are not familiar with card-based programs or cannot take advantage of this model because their banking networks do not accept cards (Orozco and Tescher 2007, 2). The most often cited challenge to the development of card-based transactions in the recipient countries is the need to create stronger consumer demand for this product. There are also operational challenges that hinder the success of card-based models, such as the creation of reloading and distribution networks as well as the development of appropriate technology with suitable management style and financial investment. In order to have a stable environment for innovation, these regulatory concerns need to be addressed and resolved (Orozco and Tescher 2007, 13).

Companies that have the card-based remittance feature view this as a way to persuade consumers to become longer-term clients as well as generate new consumers who are particularly interested in this feature. The fundamental opportunity identified by the studies was the banks' potential for competition and ability to sell additional products to the significant underbanked market. As consumer demand grows because of greater familiarity with the cards, this industry will have the ability to mature and card-based companies will be able to offer additional features, such as bill payment, overdraft protection, travel services, telecommunications, catalog sales, loyalty and reward programs (Orozco and Tescher 2007, 14).

One obstacle faced in increasing the use of cards is the fact that in some regions, cash is more practical because ATMs or point of sale (POS) terminals are not ubiquitous and are expensive to use. Furthermore, since it is difficult to achieve vertical integration in the prepaid card remittance industry, remittance companies can develop partnerships, whether it is a cash or card-based model. The Financial Crimes Enforcement Network (FinCEN) avowed that it would issue new regulations to explain the roles and obligations of prepaid card issuers. Within the context of a particular region, there are fixed costs in terms of investment in distribution, technology and regulatory measures that demand influence across a wider customer base (Orozco and Tescher 2007, 14-15).

Participants in Hilgert et al.'s (2005) study reported using alternative financial services (AFS) such as check cashers and postal money orders. Some stated that they were more comfortable paying their bills in person, or paying all of their bills in one location such as a check casher, which cost between $1 and $1.25 per bill. They prefer using AFS due to convenience, location, hours of operation, and the friendliness of the staff. In addition, wire transfers through Money Transfer Firms (MTFs) are attractive to Mexican immigrants as a

means of remittance transfer because they do not require a bank account. These transfers are also considered easier and safer by immigrants even though these providers also require identification. Even though MTFs most likely will continue to have a dominant role in the Mexican remittance industry, there are new products as well as greater delivery channel options. Two new products are the card-based delivery system and cross-border ACH (automated clearinghouse) which are bank-based and have the opportunity of assisting banks in entering this industry as well as helping them develop a relationship with the Mexican immigrant community (Hilgert et al. 2005, 16-24).

The cultural dynamic that blocks Mexican immigrants and their families from entering banks must be addressed on both micro and macro levels before Mexicans will change their financial patterns and behaviors and value and trust banks as a normative place to conduct remittance business. In addition, financial institutions must be aware that preferences and infrastructure are important in both the U.S. and Mexico, which is essential for U.S. banks when choosing their Mexican partners. The main concerns of consumers include:

- Total cost
- Exchange rate
- Security in the transaction
- Rapidity of service
- Consumer service
- Reputation of the provider

The partner in Mexico is also important because along with the U.S. bank they are involved in the determination of the exchange rate (Hilgert et al. 2005, 17-19).

A majority of participants in their study were not aware that banks offer remittance services. Therefore, banks have to inform and educate their current and prospective clients about their remittance services and their costs and benefits. Of the few people who indicated they use a bank for remittance services, only Bank of America was singled out as a provider. Their

research also showed that the inclusion of remittance products and services by financial institutions could serve as a motivational factor leading to increased account opening both in the U.S. and by their families in Mexico. In their focus group, safety and trust were two important topics. Other studies suggest the variable of mistrust of banks as a hindrance to entering the banking sector. Conversely, the perception among the participants' in Hilgert et al.'s study is that banks are not mistrusted, on both the sending and receiving ends, and would be a safer approach to transfer funds (Hilgert et al. 2005, 19-20).

Orozco argues that operation costs, geographic coverage and exchange rates charged are significant factors that determine the total transaction fee. In a joint study conducted by Bendixen & Associates and the Multilateral Investment Fund, it was found that surprisingly only 33% of remitters were aware that their family was receiving less than the total amount of money sent, costs incurred that were partially explained by the exchange rate spread. Interestingly, Mexican immigrants as a whole tend to be more aware of exchange rates compared to other Latin American immigrant groups (Hilgert et al. 2005, 21-22).

In addition, inefficiencies in the remittance market exist as a result of misinformation or a lack of information available for the remitters. Until recently, banks have solely focused on providing check cashing and remittance wire services for Mexican immigrants because of structural, business and cultural factors. One of the structural factors is the fact that banks had complicated requirements to open an account which served as an obstacle for Mexican immigrants. In addition, there are compliance regulations that have resulted in a sluggish response from banks in serving the needs of Mexican immigrants as bank customers. Moreover, the bank's unfamiliarity with the needs of this sector tends to create a disconnect between Mexican immigrants and banks. Banks tend to assess whether they can serve the immigrants'

banking needs while still making a profit. Furthermore, in order to reach out to the Latino community in general, banks need to employ workers fluent in Spanish. As a whole, the banking industry has endeavored to meet some of the needs of this market by increasing their number of branches as well as increasing their hours in order to more adequately access this population (Hilgert et al. 2005, 22-23).

Hilgert et al. suggest that financial institutions offer "remittance accounts" in which customers would be able to transfer funds from their checking account into this remittance account. Therefore, once the customer raises the amount of money they would like to send, they would be able to send the money abroad, and instead of paying interest, the financial institution would then offer a low or no fee to transfer this money. What is more, several participants in their focus group reported that banks contacted them for direct referrals from their family members and social networks. This provides evidence that banks are attempting to adapt a word-of-mouth marketing strategy in order to promote their services. Banks can also provide incentives to customers who take advantage of their remittance services by, for instance, providing customers with a free transfer after a certain number of transactions. Focus group participants also expressed irritation in trying to receive accurate information regarding financial transactions. However, there is indication that some banks are demonstrating leadership in educating and reaching out to communities by working with community-based organizations, creating innovative partnerships with schools and school branches, as well as attending community meetings in order to connect with immigrant audiences (Hilgert et al. 2005, 29- 31).

In terms of the future of innovative banking strategies, an initial and important consideration for banks is whether or not they have a banking model that targets immigrants. If so, they need to create and implement methods that shape knowledge, awareness and skills in

utilizing both remittance services as well as mainstream banking services. Activating this approach frames remittance services as a route to forming an initial relationship with the immigrant community. According to their focus group participants, a large percentage reported significant levels of distrust in U.S. banks. This distrust could, according to the focus group participants, extend to banks in Mexico that partner with U.S. banks, so in effect, the measure of distrust is transferred from the U.S. bank to the Mexican-partner bank. In addition, the focus group's identified the most important condition for banking as having a Spanish-speaking workforce staff. Unpredictably, quality service was as equally important to them as the cost for the services. Therefore, banks need to compete not only on price but also on the quality of their service in strategic initiatives developed to attract this market (Hilgert et al. 2005, 32-33).

Challenges to Banking Mexicans in Mexico

Interviews with banking leaders in Mexico shed more light on what representatives of government agencies or banks believe are the current and future obstacles to banking citizens in Mexico. For example, according to Jesús Cervantes, Director of Economic Measurement at *Banco de México*, the majority of remittance recipients in Mexico are familiar with banks because banks serve as a popular point of disbursement for remittances. However, Cervantes is concerned that Mexicans with moderate incomes are surprisingly fearful about entering banks and feel uncomfortable utilizing banks, but he indicates that banks have a large potential in the remittance industry and in increasing the market of banking the remittance receivers (Cervantes interview 2007). In addition, Marco Carrera, Director of Market Studies at CONDUSEF, states that many Mexicans fear trusting their money to the banks partly due to the peso crisis in 1995. The financial losses incurred by residents, such as foreclosures and tremendous losses in capital led some people to blame the banks, which increased distrust. In addition, he reasons that

Mexicans do not view banking as a necessity or an advantage to their economic wellbeing (Carrera interview 2006).

Antonio Carrasco, Director of L@ Red de la Gente at Bansefi, has observed an increase in the banked population within Mexico, but he contends that the problem is the lack of correct supply by the banking industry, rather than a lack of demand for these services. He declares that every potential customer exhibits a demand for these services, but banks do not reach out or develop intentional marketing of these services to the majority of people. Potential customers, he acknowledges, are in need of awareness and education to understand and appreciate the relevance of banking services. Earning trust is a requisite for a change in individual behavior towards confidence in bank utilization. Carrasco (2006) notes that banking policy also needs to reflect a semblance of reciprocity in trust for the people they serve. In direct contradiction from the perspective of Carrasco, Jaime Castillo, Leading Bank Executive at Santander, does not believe that Mexicans are requesting more services. According to Castillo, the major reason that a large percentage of people are not banked is that the unspoken belief of the Mexican citizenship is that they need a significant sum of money, which is out of their reach, in order to be eligible to open accounts. This belief is based on fear and lack of accurate knowledge about bank fees, but the knowledge that banks charge fees is also a significant obstacle. Also, bank accounts are not necessary in the informal economy, because of the reality of the cash-based economy. However, the banking reality is slowly changing with regards to credit and savings, because the government is making revisions regarding credit law (Castillo interview 2006).

Regina Sanchez, Director of Remittance Section at Banamex, feels strongly that banks need to educate Mexican consumers about the products they have available because most people view banks as only a place to come to pick up remittances or pay for water, light, telephone or

other utility bills (Sanchez interview 2006). According to Orlando Loera, Country Manager of Bank of America in Mexico, Mexicans experience apprehension about banks because of Mexico's banking history; banks are perceived as providing services that are limited to cashing paychecks, and they might not be aware that they have the ability to open a bank account with a *matricula consular*. Loera argues that custom and generational differences are the major issues that hinder banking in Mexico, and serve as primary obstacles (Loera interview 2006). Roberto Vela, from HSBC, is in accord with this recognition of cultural differences that affect a person's banking relationship. He agrees with this assessment of the cultural practices, and supports advocates for banking policies that build trust so that Mexicans can utilize banks with confidence. He recognizes the challenge inherent in attempting to change a culture of distrust, but believes that changing it is imperative for pivotal change (Vela interview 2006).

Conclusion

This chapter conveys the findings that although there are business opportunities for banks to offer financial services to remittance senders, there are significant and identifiable obstacles to connect remittance products with banking services. The practice of remittance recipients picking up the money as cash presents difficulties for financial institutions to market card-based transfers. In addition, banking leaders express their opinions regarding the lack of banking in Mexico which can translate as to why migrants fail to enter the formal financial banking system in the U.S. In sum, by lowering transaction costs and increasing improved access to banking services, banks have potential for increasing the number of Mexican customers in the U.S. It is imperative for banks to learn about both the perceptions and the experience that immigrants encounter with regards to their banking use in order to provide appropriate and useful products for this market. Banks raise immigrants' ability to save money and increase the likelihood that immigrants' savings are channeled into productive investments. Bank accounts also allow for a

safe transfer of funds to families in their country of origin, and they can also reduce the cost of the transfer which provides an opportunity to send a larger sum of money to their families. In addition, banks can offer credit products, such as credit cards, mortgages and other loans, increasing credit options (1-5). Therefore, there both complex challenges and opportunities that banks face in order to not only bank Mexican migrants, but also provide a card-based remittance product rather than solely dispersing cash.

CHAPTER 5
CONCLUSION

Major Findings

The significant increase in migration from Mexico to the U.S. has been accompanied by a substantial increase in remittances. The estimated $23 billion sent to Mexico in 2006 has captured the attention of not only MTFs that control this market, but also mainstream financial industries, including the banking industry. This study provides an analysis of the business opportunities and challenges that banks confront in marketing remittance products to Mexican immigrants in the U.S. When considered in conjunction with the available literature, the perspectives of banking leaders in Mexico provide insight into the opportunities and challenge that banks face. This insight is extremely relevant for current and future banking practices because industry studies identify the immigrant population, as well as recipient communities in Mexico, as extremely underbanked. Banks can and do offer competitive fees for money transfers. Orozco's analysis of 30 banks involved in remittance transfers to Mexico, specifically from Chicago and California, demonstrated the use of four different methods to send money through the banks: debit card for the recipient, U.S. banks serving as money transfer agents, banks acting as a traditional wire transfer, and an alliance between banks and MTFs (Orozco 2003, 5-6). These methods portend both opportunity and challenges for the banking industry within and between Mexico.

A major breakthrough in the remittance market industry began with the elimination of remittance fees for Bank of America customers through the use of the Safesend product that was initiated in 2005. As remittances have continued to increase, financial institutions are striving to find ways to profit from this financial surge by banking the unbanked. In spite of the opportunity to bank the unbanked, as of yet banks have not been able to confront the obstacles and

effectively deal with challenges that would ensure the entrance of Mexican remitters into U.S mainstream financial institutions.

Although there has been an increase in remittances, U.S. banks are gradually to enter this market. Studies do not confirm that remitters are entering banks for remittance transfers or demanding additional financial services. Recent studies, this case analysis of Bank of America's Safesend remittance product, and data collected through individual interviews conducted with leading banking executives within Mexico, suggests that that although there are opportunities for banks to bank this population there are significant structural challenges. In accordance with other studies, this analysis fails to affirm the hypothesis that banks can readily move into the remittance market. As this practice represents a relatively new method of conducting financial exchange, major cultural shifts need to take place, accompanied by education of mainstream financial institutions. Substantive change requires time and multiple interventions on several levels, which extends the time that it will take for new customers to enter the banking system. The complexity calls for attention by researchers who can provide a much needed lens on the dynamics of the topic. Given that banks in the U.S. are responsible for setting the fees and marketing remittance products, banks in Mexico have a limited role in remittances, and for the most part, their roles are further limited because they are viewed as simply disbursement locations.

Through extensive interviews with remittance experts in Mexico, it is apparent that although Bank of America's Safesend product is extremely attractive to migrants, there are multiple reasons that point to more complex structural problems that explain why Mexicans' fail to take advantage of the low fees. In order to take advantage of Safesend, the sender must have a bank account, however this highlights the multifaceted challenges to bank this population in the

U.S. and MTFs continue to remain the main transfer mechanism. Fees have been reduced, but the most attractive transfer costs continue to be through banks.

Significance of Study

Remittances have been studied from numerous viewpoints, however, only recently have organizations and governments considered the value of and demonstrated the interest in research from a financial services perspective. In addition, by adapting an interdisciplinary approach, this research incorporates multiple lenses that provide a more comprehensive view of an emerging practice. Financial institutions and governments are becoming more aware and interested in tracking the sending of money because of the growing volume for potential business opportunities. This research highlights the opportunities and challenges that banks face in this critical international arena of the remittance market.

The bank's primary goal is to sell additional products to the underbanked population, particularly those sending remittances. The unbanked senders and recipients of remittances represent an emerging market for banks. Banks can then offer other profitable products such as card-based remittances as well as bill payment, overdraft protection, travel services, telecommunications, catalog sales, loyalty and reward programs. However, there are multiple factors contribute to the low banking usage among Mexican immigrants.

Major challenges that banks face include:

- Financial institutions' hesitancy to bear the financial risk of working with immigrant populations
- Banks' difficulty in promoting the use of card-based remittance as opposed to cash
- Migrants' mistrust of the banking system
- Migrants' limited knowledge of how the bank functions
- Migrants fear that they do not have the proper identification to open accounts

- Many migrants feel more comfortable making in-person transactions
- Migrants prefer locations that are convenient, have flexible hours of operation, and have friendly Spanish-speaking employees
- Not only is the costs of transactions important, but also the reputation of the provider

Therefore, this study identifies the challenges that banks face in an effort to more accurately represent the factors that must be considered in order for banks to build capacity for incorporating this population within the banking system.

The following are approaches that banks can implement in an effort to draw in immigrant populations:

- Employ a workforce that is fluent in Spanish
- Deliver remittance products in a timely manner
- All bank employees should be knowledgeable about the financial institution's documentation rules and know how to recognize a *matricula consular*
- Focus on effective customer service
- Maintain a solid reputation that instills trust and confidence
- Extend hours and open more branches to have greater flexibility and availability

Future Research

Research has yet to analyze whether increasing remittances has resulted in Mexicans living within Mexico opening bank accounts because most studies focus on how to incorporate remittance senders into U.S. banks. The receivers have not been targeted by marketing campaigns by banks in Mexico. Therefore, future research should focus on the extent to which banks in Mexico are attempting to bank the unbanked. Bank of America's remittance product is innovative because it involves a bank in the U.S. that works with Mexican banks to attempt to bank both populations. Due to migration and the strong ties between both countries, banks should communicate with each other on both sides of the border to formalize equitable

remittance exchanges. My original assumption was that with the increase in remittances, remittance recipients would enter the banking system in Mexico; however, the pathway to this practice is beset with complex variables. Conceivably in the near future this hypothesis will be tested more thoroughly, however, as of now, it has not been confirmed. This study provides a call for the study of all remittance sending countries so that those in the business of remittances can learn not only to do the right thing, but to do things right.

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BIOGRAPHICAL SKETCH

Jessica Bachay was born and raised in Miami, Florida and is the oldest of three children. Her interest in Latin America began at an early age through her exposure to diverse Latin American cultures. She received her B.A. degree from Smith College in Northampton, Massachusetts in 2005. She double-majored in economics and Latin American studies, in order to further explore economic principles in the economic development of Latin America. Jessica's interests in Latin America deepened after she had the opportunity to travel extensively to Bolivia, Ecuador, Chile, Costa Rica, Dominican Republic, Mexico, Brazil, and Argentina. She enjoys not only the political and business environment in Latin America, but also loves the languages and diverse cultures of the region.

She continued her education at the University of Florida in Gainesville to receive her Master's in Latin American Studies with an area concentration in Latin American business environment. While attending graduate school she served as a graduate assistant to the Center's program coordinator in her first year and an outreach assistant her second. She is fluent in Spanish and has an intermediate knowledge of Portuguese.

In addition, Jessica's internships included the U.S. Department of Commerce in Mexico City in 2006, Accion USA in 2004 in Miami, and a volunteer position at Salud Integral in 2003 in La Paz, Bolivia. She received the Summer Foreign Language and Area Studies Fellowship (FLAS) to participate in the University of Florida's Business in Brazil study abroad program in Rio de Janeiro during the summer of 2007. These experiences provided real life exposure enhancing her educational background. She is enthusiastically looking forward to starting a career in the field of Latin American business.