

International Linkages: Immigrant Remittances and Financial Adaptation

Moderator - Carlos Sada, Consul General of Mexico in Chicago

Session Six

Financial Access for Immigrants: Learning from Diverse Perspectives

The sixth of the conference sessions explored the impacts of immigrant remittances in the United States and abroad, and the ramifications of this frequently used service as an entree to promote use of traditional bank services among both U.S. immigrants and home country recipients. B. Lindsay Lowell, director of policy studies at the Institute for the Study of International Migration at Georgetown University, discussed remittances and the economic impact on sending and receiving communities. Manuel Orozco, senior researcher at the Institute for the Study of International Migration at Georgetown University, discussed immigrant remittance practices, home country use of remitted funds beyond consumption, and the ramifications to promote traditional account usage. David Grace, senior manager at the World Council of Credit Unions (WOCCU), discussed his organization's efforts to decrease and regulate the cost of remitting funds for credit union members here and to increase credit union membership.

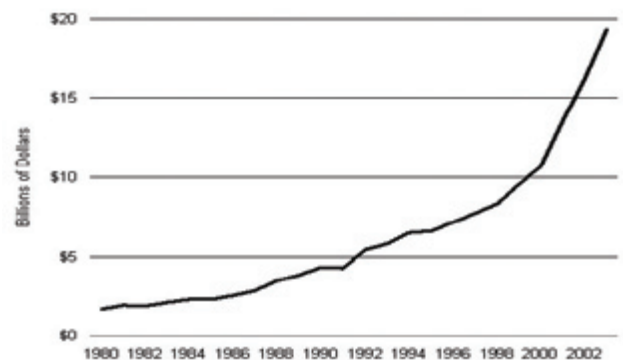
B. LINDSAY LOWELL
Georgetown University

B. Lindsay Lowell is the director of policy studies at the Institute for the Study of International Migration at Georgetown University. Lowell discussed the impacts of financial remittances in the United States and abroad and emerging trends in relation to remittances. He noted that the majority of remittances in the Western Hemisphere flow from the United States to Mexico and Central America, and that the flow of funds had increased at a high rate since 1990, with no interruption in growth during the slowed economy of 2000-2001 (Figure 1).

New actors in the marketplace that remit funds have led to stiff competition and a decrease in the cost to remit. Hometown associations, which are groups of immigrants with a common goal in their shared home community

to build a school or work on other improvements, have positively affected remittance volume. Local governments in Mexico have put matching arrangements in place for local improvement projects, creating incentives for hometown associations to increase their remittance volume.

Figure 1: Mexican and Central American Remittances in Billions of Current Dollars, 1980-2002



Source: Central Banks, cited in M. Orozco

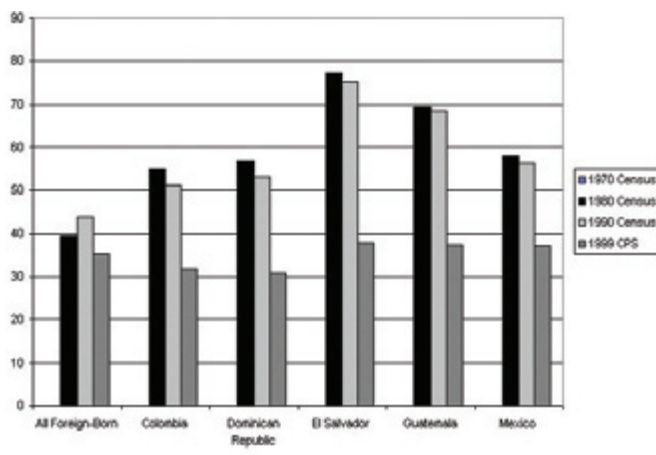
Lowell mentioned that studies prior to the mid 1990s suggested that a significant proportion of remittance dollars in the receiving countries went toward unproductive consumption (consumer goods), and that the flow of dollars could promote inequality within local economies. More recent research indicates a multiplier effect, where a dollar remitted increases gross domestic product in the receiving country by two to three dollars and that the inequality effect varies widely based on the nature of the local economy and its history of immigration.

The impact of remittances on emigrant households (family left behind in the home country) in alleviating liquidity constraints is limited in that a third or less, depending on the particular country of these households, hold bank

accounts. While remittances can offset poverty in the home country, interruptions in (or cessation of) the flow of funds can create additional hardship. Finally, hometown associations tend to be informal, fluid organizations; obtaining their assistance can be difficult.

Citing earlier presentations and other research indicating that longer-tenured immigrants tend to remit less to their home country, Lowell suggested that the growing proportion of immigrants with at least ten years in the United States may give rise to some of the effects he described (Figure 2). The rate of remittance growth may not continue unabated as new immigrants represent a smaller proportion of all immigrants. Lowell stated that remittance senders represent a largely untapped market for financial services, but different immigrant groups exhibit notably different behaviors in relation to remittances and financial services in general. Financial institutions should consider emerging trends as they seek to tap the immigrant market.

Figure 2: Percent of Entrants Within 10 Years of Survey for Select Latin American Countries



MANUEL OROZCO
Georgetown University

Manuel Orozco is a senior researcher at the Institute for the Study of International Migration at Georgetown University. Orozco began by citing an earlier presentation that raised the subject of globalization. "A lot of what we are talking about here has to do with transnational dynamics – how immigration has become a key factor in integrating many developing nations into the global economy," he said. Orozco noted that the reverse is also true; industries in developed countries have changed their business practices in many ways as a result of immigration from the developing world. Certainly the high volume of remittances has impacted financial services, but airlines,

telecommunications, and other industries also provide services resulting directly or indirectly from high levels of immigration (to the United States).

Orozco attributes these changes to household-to-household relationships at the transnational level. A typical immigrant to the United States may have:

- A family relationship in the home country that triggers the remitting of funds;
- Social and community-based relationships that may raise funds for home country community development purposes;
- A relationship with the home country at the consumption level (for home country goods/services); and
- Capital investments in a small business either in the United States, home country, or both.

The remittance market represents a point of entry for financial institutions to the immigrant market for financial services, but there are distinct market preferences between immigrant groups. The better the understanding of these individual preferences, the greater the opportunity for profit on the part of financial institutions.

Orozco noted that remittance volume steadily increased through the 2001 recession, even as immigrant unemployment increased. With regard to the remittance market, Orozco stated that the policy implications are significant on several levels. A large proportion of remittance volume goes to rural areas of Latin America, and in particular Mexico, where there are few if any traditional financial institutions. Among the remitting households in the United States, despite greater access to banks and thrifts, the majority does not have transaction accounts. At least a part of the policy discussion should center on reaching these households with appropriate financial services. Exchange rates, fees, and access to financial institutions in the home country also affect the fiscal impact of remittances. While costs are gradually decreasing, they remain high, Orozco stated.

DAVID GRACE
World Council of Credit Unions

David Grace is a senior manager with the WOCCU. The WOCCU is an international trade association and development organization for the global credit union movement. The organization represents 40,000 credit unions in 80 countries and serves 118 million members. Grace stated that the WOCCU has been working to strengthen credit union programs in developing countries. More recently, the WOCCU has been working with credit unions in the United States. He noted that many immigrants come to the United States having had no

experience with a transaction account or a financial institution, having had a negative experience with a bank, or with a negative cultural orientation toward financial institutions generally. In Mexico, only 15 percent of the economically active population has bank accounts, he stated, and 35 percent or less of all Mexicans own accounts. The ratio in other parts of Central America is lower.

Grace showed the wide variation in account ownership among different (remittance-sending) Latin American immigrant groups. Account ownership ranged from 72 percent for immigrants from Guyana to 25 percent for immigrants from Mexico (Figure 3). He also discussed some of the reasons Latino immigrants do not hold bank accounts. According to the research he cited, nearly 40 percent did not know the benefits, a fourth thought they could not own an account without a drivers license or Social Security number, and almost 10 percent thought the process for obtaining an account too complicated.

Figure 3: Banking the Unbanked in the U.S.

Remittance Senders in U.S. with Bank Accounts

Country	Bank Account
Guyana	72 %
Ecuador	65%
Dominican Republic	62%
Cuba	58%
Nicaragua	51%
Colombia	47%
El Salvador	36%
Guatemala	31%
Honduras	29%
Mexico	25%

Source: Manuel Orozco. Survey of Latino remittance senders carried out in New York, Los Angeles, and Miami, 2003.

The WOCCU had been approached by credit unions in Guatemala and El Salvador in 1996 regarding the high volume of remittances coming into those countries. The organization formed alliances with two wire transfer services; the purpose of forming the alliance, known as IRnet, or International Remittance Network, was to reduce the cost of wiring funds to Central America and the Caribbean. In the United States, the network of credit unions that take part in the alliance includes 225 institutions with 950 locations from which to remit funds. Within Guatemala, Honduras, Mexico, El Salvador, Jamaica, and Nicaragua, there are 540 locations that can receive funds through the network.

Grace also discussed data regarding senders of remittances in the United States, stating that 68 percent of Latino immigrants in the United States are age 18 to 24; 73 percent of this group remit funds home. Credit unions provide financial services to both documented and undocumented immigrants and disclose and guarantee exchange rates, he noted. The IRnet serves as a relationship builder, bringing unbanked immigrants to credit unions where they can receive further information on accounts and services in addition to the remittance service. In that respect, the IRnet helps the WOCCU fulfill its mission to serve the historically underserved with financial services. Other products used by remittance clients include used auto loans, savings accounts, and a small number, as yet, of mortgage loans.

Finally, Grace used Guatemala and Mexico as examples to illustrate the impact of credit unions in home countries. Aside from increasing remittance volume to credit union members in Guatemala, the presence of credit unions in areas that previously did not have financial institutions has led to growth in “banked” residents in these sometimes remote areas. Roughly two-thirds of remittance recipients are nonmembers, and in Guatemala, about 1 percent per month join credit unions. In Mexico, 56 percent of nonmembers in a recent period have joined, and the institutions serving them are developing remittance-linked savings and credit products.