

Banking on Remittances: Reaching the Immigrant Market

Immigrants in the United States represent a large and growing market for financial institutions, not only in traditional ports of entry such as Los Angeles, New York, Chicago, and Miami, but also in newly emerging gateway cities across the U.S., including Dalton, Georgia, and Nashville, Tennessee.

Banks can tap into this market segment by offering new financial products that cater specifically to immigrants' needs as well as providing typical banking services.

Many immigrants regularly send money back to their families and communities in their home countries. In 2004, over \$30 billion in remittances was sent from the U.S. to Latin American countries via formal channels such as wire transfer services, banks, and credit unions. Remittance services are an example of an important new product that banks have begun to offer as an avenue for developing relationships with the immigrant market.

Gaining a foothold in this market, however, will require more than just providing remittance services. Recent focus group research exploring Mexican immigrants' remittance practices in the Federal Reserve's Sixth District (comprised of Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee) found that the choice of a remittance service provider is based on complex, multiple factors, including cost, exchange rate, speed of transmission, delivery mechanisms in the immigrant's home country, as well as the receiver's personal preferences.

While immigrants in this study expressed interest in using remittance products at financial institutions, potential obstacles emerged such as language and cultural barriers, identification requirements, and insufficient information or misinformation about financial institutions.

Barriers to Using Banks

To gain a better understanding of Mexican immigrants' perceptions about remittance products and services available at mainstream financial institutions, the Federal Reserve Board sponsored focus groups in three cities across the Sixth District (see Research Design). The focus groups also explored immigrants' general perceptions

and experiences regarding financial institutions. Although many participants viewed U.S. banks as reliable and secure places to keep their funds, many did not have a bank account. The focus groups revealed several factors that impeded immigrants' use of banks.

Language and Cultural Barriers

Spanish-speaking personnel who can explain financial products and services and relate to a client's cultural and personal situation were primary in determining where the Mexican immigrants in the focus group conduct their financial transactions. But in addition to Spanish-speaking staff, participants also wanted good customer service and convenient access to financial services.

Identification Requirements

Many participants expressed concern over identification requirements. Immigrants cited problems related to state driver's license laws, as well as to federal and state laws governing banks' acceptance of the *Matrícula Consular* (an identification document issued by the Mexican government for Mexican nationals) for identification purposes. Even several participants with state licenses reported that they did not plan to open a bank account. Some incorrectly believed that, given their immigration status, they would lose access to funds in their account when the license expired. Others commented that when they tried to open an account using the *Matrícula*, bank employees misinformed them that they were not permitted to use the document, even though the bank's policy recognized the *Matrícula* as an acceptable form of identification.

Insufficient Information or Misinformation

Insufficient information or misinformation about financial products and services were common among the focus group participants. Among those who used banks, several felt they had not been clearly informed about services and fees associated with having a bank account. Most participants confused U.S. credit unions with the Mexican *cajas populares* and *cajas de ahorro* and, because of the reputation of these financial institutions and personal negative experiences, many were skeptical about credit unions.

Sending Money Home

When participants were queried on how they sent money home to their families in Mexico, most reported using wire transfer companies, postal money orders, and informal channels such as courier services. A few said they sent money with friends and family. Several variables influenced how remitters sent money home.

"I have a bank account right now but I don't like to keep a big amount of money in it because the license I have is about to expire, and I am afraid

that I won't have access to my money if I don't have any identification."

Local Mechanisms

Some remittance mechanisms were specific to a particular location. For example, some participants from Dalton, Georgia, used "vans" or courier services that collect the remittance from the sender and deliver it (as well as additional packages such as letters or pictures) directly to the recipient.

Senders and Receivers

Many participants indicated that both the remitter and the recipient decide upon the best remittance mechanism for both parties. Some, however, based their method of remittance entirely on their families in Mexico, who were accustomed to receiving funds in a particular manner and perceived one method to be better than another.

Market Conditions

Whether or not a bank exists in the receiving family's town of residence was another consideration. In fact, about half of the participants in Dalton and Florida City reported that they sent their remittances to rural areas, which are less likely to have banking services to receive the remittance.

Choosing a Remittance Service

Participants consistently agreed on these key characteristics for choosing a remittance provider:

- Reputation of provider;
- Total cost;
- Exchange rate;
- Assurance that the recipient will receive the funds;
- Speed of service (same day or next day availability); and
- Customer service.

Although the availability of Spanish-speaking staff was the most important condition for getting their business, focus group participants stated that service and cost, including front-end fees, exchange rate, and back-end fees were nearly as significant. Many reported that they shopped for the most favorable exchange rate. In addition they said they investigated charges by receiving institutions in Mexico, for example the money service business or bank, and used this information in deciding how to send their money.

Using Banks for Remittances

While few participants were aware of banks offering remittance services, they indicated that the availability of remittance products and services through financial

institutions could motivate them to open an account in the U.S.

Participants were particularly interested in account-to-account remittance products in which money deposited in a U.S. bank account by the remitter could then be transferred to the recipient's bank account in Mexico. The general perception among participants was that using banks — at both ends of the transaction — would be a safer way to send money to their families.

When queried about remittance products with innovative features, some of which to our knowledge have not yet been developed or offered by banks, many participants indicated that they would be interested, for example, in using a remittance product that included a "savings" feature to help accumulate funds to send back home. They also liked the idea of a product that offered the opportunity to pay their family's bills (for utilities, as an example) directly. Other participants approved of a remittance product that charged a flat fee irrespective of the value of the remittance, and a few indicated a strong preference for products with no back-end fees for their family members.

Conclusions

Banks in cities like Los Angeles, Chicago, New York, and Miami have had decades to adjust to immigrant customers, while banks in the new gateway cities have had limited experience working with immigrant communities, especially in providing products and services specifically tailored to this clientele. Banks trying to attract these potential customers will have to be innovative in responding to challenges.

Our focus group findings revealed that banks do have an advantage compared with alternative service providers, however. Despite conventional wisdom, which contends that immigrants distrust U.S. banks because they distrust banks in their home countries, our focus group participants indicated a high level of trust in U.S. banks. Furthermore, they implied that they may trust banks in Mexico that partner with U.S. banks, so that trust is in essence transferred from the U.S. bank to the Mexican-partner bank.

Although banks cannot control the receiving country's financial services infrastructure, which is often a driving force in the choice of remittance provider, they do have options. For example, banks can now use the FedACH system to transfer money to Mexico.

Banks can also reach out to immigrant communities by working with community organizations and mentors to help bridge the language and cultural gaps and ensure access to financial education resources and materials. If possible banks can also partner with appropriate financial institutions in Mexico to offer complementary products

and services for both U.S.-based immigrants and their family members in their home country.

With a little effort, banks have the opportunity to attract the growing, prospering immigrant market. But banks may need to adjust their products, services, policies, and culture to compete with alternative service providers – not just on price, but also on the quality of service and accessibility – if they want to pursue the immigrant market successfully.

This article was written by Marianne A. Hilgert and Jeanne M. Hogarth, Federal Reserve Board, Consumer and Community Affairs, with contributions from Edwin J. Lucio, Federal Reserve Board, Reserve Bank Operations & Payment Systems; Sibyl Howell, Juan Sanchez, and Wayne Smith, Federal Reserve Bank of Atlanta, Supervision & Regulation, Community Affairs; Elizabeth McQuerry, Federal Reserve Bank of Atlanta, Retail Payments Office; Ana Cruz-Taura, Federal Reserve Bank of Atlanta, Miami Branch, Community Affairs; and Jessica LeVeen Farr, Federal Reserve Bank of Atlanta, Nashville Branch, Community Affairs.

The analysis, comments, and conclusions set forth in this presentation represent the work of the authors and do not indicate concurrence of the Federal Reserve Board, the Federal Reserve Banks, or their staff. Mention or display of a trademark, proprietary product, or firm in the text by focus group participants or the authors does not constitute an endorsement or criticism by the Federal Reserve System and does not imply approval to the exclusion of other suitable products or firms.

Note

1 "Banking on Remittances" (2005). www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf; IADB (Inter-American Development Bank) (2004) "Remittances: Key Source of Capital for Latin America and the Caribbean," *Issue Briefs* at www.iadb.org/exr/am/2004/index.cfm?op=press&pg=69; Bendixen & Associates (2004) "Sending Money Home: Remittances to Latin America from the U.S., 2004," available at www.iadb.org/exr/remittances/images/Map2004SurveyAnalysisMay_17.pdf.

Research Design

These findings are based on a qualitative research study "Banking on Immigrants: Increasing Market Efficiencies for Consumers and Financial Institutions" co-authored by employees of the Federal Reserve Board and the Federal Reserve Bank of Atlanta. The study, which was presented at the Federal Reserve's 2005 Community Affairs Research Conference, is available at www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf.

To analyze immigrants' remittance behaviors, the Federal Reserve Board contracted with the Metro Chicago Information Center to conduct focus groups during the month of December 2004. Providing assistance were three community development organizations working with Mexican immigrants and based in the Federal Reserve System's Sixth District. Two focus groups were held in collaboration with each of the following community-based organizations:

- The Georgia Project in Dalton, Georgia;
- Conexión Américas in Nashville, Tennessee; and
- The Everglades Community Association in Florida City, Florida.

We chose to conduct focus groups in these cities based on the recent influx of immigrants within the Sixth District and the corresponding volume of remittances sent by these immigrants. For example, between 1990 and 2000, the foreign-born population in Georgia and Tennessee grew by 233 and 169 percent, respectively (U.S. Census). Moreover, a recent study estimated that immigrants residing in Florida and Georgia, who remitted \$2,450 million and \$947 million respectively in 2003, make these states the fourth and seventh largest sending remittances to Latin America (Bendixen & Associates, 2004). Thus, the Federal Reserve's Sixth District provides an opportunity to develop new learning and information about immigrants' use of banks as well as remittance products.

We focused our research on immigrants from Mexico (both documented and undocumented) who send money back to Mexico at least once per year. We chose this particular group for a number of reasons. First, Mexico is the largest recipient of remittances in Latin America and the Caribbean, receiving \$16.6 billion in 2004, with 95 percent of remittances originating from the U.S. in 2003.¹ Concentrating on this target group also allowed us to analyze the recent growth in financial products and services that target Mexican immigrants in the U.S. as well as their families in Mexico. Finally, the Federal Reserve System's strategic alliance with the Central Bank of Mexico, which provides international ACH services to Mexico, expanded U.S. banks' ability to serve Mexican immigrants by offering an alternative mechanism to send remittances at a low cost.