The Remittance Marketplace: Prices, Policy and Financial Institutions

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Executive Summary

Over the past several months a growing number of countries, including the United States, have committed themselves to facilitating remittance transfers by immigrants who send money back to their home countries. Leaders of the major industrialized democracies and Russia at the annual summit of the Group of Eight (G8) countries that begins June 8, 2004 are expected to call for efforts to reduce the costs of transfers and to promote a greater role by banks and other financial institutions in an industry currently dominated by wire transfer firms. In January, leaders of the Western Hemisphere meeting at the Special Summit of the Americas in January called for the costs of remittances to be cut in half by 2008.

To better understand the challenges involved in meeting these goals, the Pew Hispanic Center commissioned Manuel Orozco, a senior researcher at Georgetown University's Institute for the Study of International Migration to conduct a detailed assessment of the marketplace for remittance transfer services between the United States and Latin America. The study reached two major conclusions relevant to the new initiatives:

- Although the cost of sending remittances is now much lower than in the late 1990s, the rate of decline has slowed markedly in the past three years. Prices have dropped only slowly despite rapidly growing volume and increased competition in the marketplace. This suggests that further price reductions might be difficult to achieve under current market conditions.
- A substantial number of banks and credit unions in the United States have launched major initiatives in remittance services over the past three years. So far, however, they have captured only a small fraction of the market which continues to be dominated by wire transfer firms. In the U.S.-Mexico channel, which has been the target of most of the effort, American financial institutions account for no more than 3 percent of the remittance traffic. Currently, with the exception of debit card withdrawals, the cost of sending the average remittance from the United States to Mexico is about the same whether it is sent via a bank or a wire transfer firm.

The study's findings are based on the most extensive examination of the U.S. remittance transfer industry every conducted. No government agencies or industry associations systematically collect data on the costs of transfer services, market shares or the types of products on the market. As a result, data had to be developed for this study by soliciting information from a wide array of individual companies.

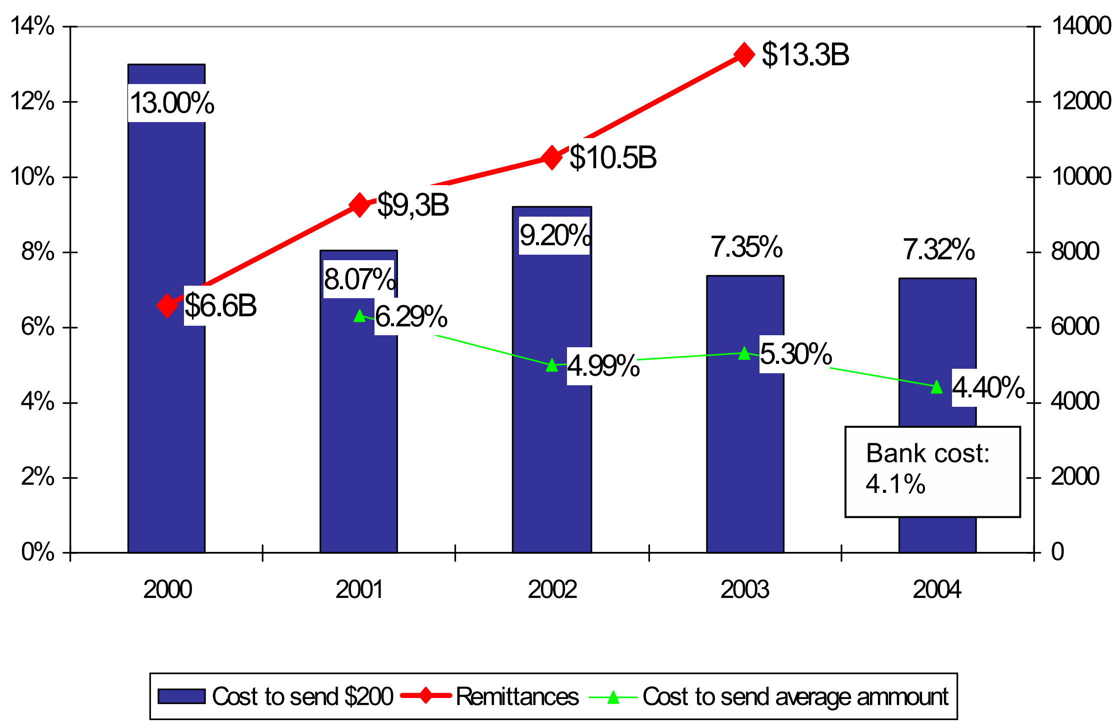
Cost information was gathered from 84 companies offering remittance transfer services, representing the most active firms in the market as well as some recent entrants. In addition, 60 financial institutions provided pricing and product information on remittance transfer services, and executives at 22 of those institutions—14 banks and 8 credit unions—were interviewed in depth about efforts to offer a broader array of financial services, such as savings and checking accounts, to remittance senders.

Some of the major findings of the study include:

- In the late 1990s dispatching a $200 remittance to Mexico could cost as much as $30 or 15 percent of the amount sent. By early 2004 the cost had been cut in half to 7.32. However, most of the reduction took place at the beginning of this time span. By 2001 the cost stood at 8.07 percent and the declines have been relatively minor since then. Meanwhile, the amount of money sent to Mexico has increased dramatically from $9.2 billion in 2001 to $13.2 billion in 2003, a growth of 43 percent.
- With increased competition new products have come on the market that offer lower prices for senders who transmit larger amounts. The cost of sending the amount of an average remittance to Mexico, now about $400, has come down somewhat more quickly in recent years, from 6.29 percent of the amount sent in 2001 to 4.4 percent in 2004.
- Using this measure of costs—the price of the average amount sent—banks and credit unions do not offer a significant advantage to the consumer in the U.S.-Mexico remittance market. The cost of sending an average remittance by bank is 4.1 percent which is only slightly below the 4.4 percent average for the entire marketplace.
- Despite substantial marketing campaigns and very large investments over the past three years, U.S. banks have only captured a small fraction of the remittance transfer market. The four largest banks in this field—Citibank, Wells Fargo, Harris Bank and Bank of America—conduct less than 100,000 remittance transactions a month. The vast majority go to Mexico. In 2003 an estimated 40 million remittance transactions carried money from the United States to Mexico which means the banks have captured about 3 percent of that market.

- Marketing campaigns designed to encourage Latino immigrants to open accounts with banks and credit unions, often with remittance services as an enticement, have had somewhat more success. About 400,000 new accounts have been opened as a result of these efforts. That is about 5 percent of the estimated eight million Hispanic immigrants who currently do not have bank accounts.

Figure 3: Remittances to Mexico: Volume and Costs



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