

Regional transfers to Latin America a \$2.5B market

SEAN SCULLY

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When Citizens Financial Group rolled out its low-cost service to allow its immigrant customers to send money to family back home in China earlier this year, the bank saw a 60 percent jump in money transfers to China.

"Our business just boomed," said Executive Vice Chairman Bob Mahoney. "And more importantly, we added a lot of customers, which was our intention in the first place, because you have to be a Citizens customer in order to take advantage of the service."

Citizens is not alone in noticing that the immigrant market is fast-growing, and that the business of sending money home to one's family in the old country, a practice called "remittance," is an ideal way to lure that business.

"Remittance is a break-even product, but it's a tremendous benefit to the Chinese American, so a lot are moving their checking accounts to us, which is what we were hoping for," Mahoney said.

Many major banks, including most operating in the Delaware Valley, already offer, or are considering, programs to help immigrants send money back home. Unlike Citizens Bank, however, most are focusing largely on the lucrative United States-to-Latin America market, which accounts for as much as a quarter of all the money moved through remittances worldwide every year.

"Basically, what it means is good busi-

ness," said Varsovia Fernandez, president of the Greater Philadelphia Hispanic Chamber of Commerce. "It is very difficult sometimes for the banks to acquire the Latino customers, the immigrant customers, the reason being they come from countries, in Latin America particularly, where the banking systems are dysfunctional and they don't trust the system. Also they come from social levels where they don't have access to banking, and they are unaware of the benefits of banking."

The mid-Atlantic states lead the nation in the amount of money sent by immigrants back to their home countries, primarily in Latin America, according to the Inter-American Development Bank (IADB), an economic development bank created in 1959.

Last year, Pennsylvania's 148,000 Latin-American immigrants sent home about \$517 million, up from just \$180 million two years earlier. Delaware's 30,000 immigrants sent home \$105 million last year.

New Jersey, meanwhile, has long been home to a large immigrant population. The state's 712,000 Latin-American immigrants sent home almost \$1.9 billion in 2006.

While those are large pools of money, they built up in bits — the average payment is less than \$300, according to the IADB's data. The individual payments were so small, and the immigrants' total income so modest, that banks had barely paid any attention to the market until re-

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cently.

"Culturally and historically, they're seen as low-rent customers, even though that's not true," said Gregory Watson, a consultant for the Multilateral Investment Fund of the Inter-American Development Bank. "And it's a volume business. It's not a dollar business. It's a small amount of money, in enormous volume, per transaction, so it was easy for it to slip under the radar."

The World Bank estimates that the annual remittances market is between \$167 and \$230 billion. In most cases, the workers have come to work in major developed nations, such as the United States, the United Kingdom or Germany, and are sending money home to developing nations, particularly India and countries in Africa and the Americas.

"This is a tremendous poverty alleviation program," Watson said. "This is billions of dollars going into the hands of low-income people in the region."

According to the World Bank and researchers examining the practice, almost \$170 billion flows from highly industrialized nations to poor nations, exceeding all the official foreign aid flowing from Western nations and nearly equaling all the private foreign investment in those nations.

Payments from the United States to Central and South America alone account for at least \$50 billion of the worldwide total. Nearly half of that money goes to Mexico.

Most of that money doesn't go through the large established banks, but rather

through large money transfer companies like Englewood, Colo.-based Western Union or small check-cashing services. Those services are often expensive, with fees anywhere from 15 percent to 30 percent, including the costs of converting from one currency to another.

As the big American banks enter the market, they are offering cheaper services, often from 1 percent to 5 percent.

Sometimes the service is for a flat fee. Charlotte, N.C.-based Wachovia Corp., for example, offers customers a pre-paid debit card that can be used at any Visa Plus ATM in the world. Putting money on the card, up to \$1,000, costs \$10.

The average cost of remittances has dropped from about 20 percent to just more than 5 percent in the past seven years, according to the IADB, in large part because of increasing competition by large American banks.

Western Union spokeswoman Kristen Kelly said her company, which is by far the largest remittance service in the world, welcomes the competition, but she admitted that the fees to markets such as Mexico have dropped steadily in recent years.

Major banks hope that by chipping away at Western Union and similar companies, they can save their existing customers money, and lure in a whole new class of customers who have little previous experience with banks.

A cheaper remittance system "would enhance the relationship they have with the bank, the loyalty," said Eduardo Tobon, director of international cash management

for Sovereign Bancorp in Wyomissing.

Sovereign is still considering how to structure a remittance program, but it seems likely to make use of the 4,000 Latin American branches of Banco Santander, the Spanish company that bought part of Sovereign last year.

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Inter-American
Development
Bank

Western Union says, however, that big banks will never pose a critical threat to it in the remittance market, simply because of Western Union's size and reach. It has 300,000 locations worldwide, including remote places where major banks don't reach.

While American banks are eager to reach the growing immigrant market, they are a little wary when talking about the topic for fear of getting drawn into the emotional issue of illegal immigration. While banks require positive identification for customers to open an account, they do not require proof of citizenship. Some immigration hawks have criticized banks that aggressively court the immigrant market, saying they are abetting workers who enter the country illegally.

Bank of America was the target of protests in February, for example, when it an-

nounced it would offer credit cards to customers even if they did not have Social Security numbers.

Banks offering remittance services are quick to point out that these are not lines of credit, and that the services comply with all national and international regulations for transmitting money.

Wachovia spokesman Jim Baum, for example, made clear that his bank wouldn't discuss any broader social implications of the service.

"We don't take a position on immigration," he said.

PNC Bank, meanwhile, refused to comment at all on remittances.

Even Bank of America is careful to draw a distinction between its credit card, a pilot program in Los Angeles, and its nationwide remittance service, known as "Safe Send," which it began in 2005.

"The two are separate," said Diane Wagner, spokeswoman for Bank of America. "We've had our remittance product for some time, and it is successful."

The Safe Send service allows customers with checking accounts to send up to \$3,000 in any 30-day period directly to one of 4,500 locations in Mexico. The service is free and can be accessed in person, online or by phone.

"Traditionally, this is a segment that just does not put its money in the bank; what it got down to was financial education," Wagner said. "We needed to reassure them that their funds were safe in the bank and they had the ability to move it or take it out, or keep it there." ■