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REMITTANCES: ACCESS, TRANSPARENCY, AND MARKET EFFICIENCY—A PROGRESS REPORT

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE, AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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REMITTANCES: ACCESS, TRANSPARENCY, AND MARKET EFFICIENCY—A PROGRESS REPORT

Thursday, May 17, 2007

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Luis V. Gutierrez [chairman of the subcommittee] presiding.

Present: Representatives Gutierrez, Maloney, Clay, Ellison; Paul, Bachmann, and Marchant.

Chairman GUTIERREZ. Good morning. The Subcommittee on Domestic and International Monetary, Policy, Trade, and Technology of the Committee on Financial Services will come to order.

Today's hearing is an informational hearing on the remittances industry entitled, "Remittances: Access, Transparency, and Market Efficiency—a Progress Report." In this hearing, the subcommittee will examine consumer access to the remittance transfer outlets, the costs associated with sending remittances, current levels of transparency regarding fees and exchange rates, and the effect of competition in the marketplace.

The last hearing on transparency and disclosure aspects of remittances in this committee was 4 years ago. I titled this hearing, "A Progress Report," because we are now in a far different, and I would like to say a much-improved, environment in terms of remittance transactions and fees than we were back in 2003.

Today, the subcommittee will review the progress that has been made over the last few years and explore whether these improvements are due primarily to increased competition in the marketplace, pressure from Federal legislators, or a combination of the two. The subcommittee will also be looking at whether the voluntary improvements in the remittance industry are adequate and whether legislation is needed.

Before we hear from our panel, I just want to say that I have reviewed the testimony, and I think the remittance industry and consumer groups are closer than ever before on the issue of transparency and fees. There has been movement on both sides, and I urge those of you at the table today to keep working together. This is a golden opportunity. Do not let it pass us by. Also, I encourage you to work together on the Bank Secrecy Act issue for the money services businesses. If you demonstrate to Congress that the indus-

try and consumers are not working at cross purposes, I think we can reach some resolution on this issue as well.

We are actually pressed for time today because the Judiciary Committee, on which I sit, will be holding a markup starting at 10:30, so I apologize ahead of time, but I have to briefly recess the hearing to go across the hall to vote. In order to get as far along in these proceedings as possible before 10:30, we have agreed to dispense with members' opening statements on both sides and go straight to our witness testimony.

I would like to thank Ranking Member Paul for agreeing to this, and of course, all members may submit written statements for the record.

Speaking first is Ms. Annette LoVoi. Ms. LoVoi serves as field director for Appleseed, a national legal advocacy organization. Second, we have Ms. Beatriz Ibarra, who is an assets policy analyst with the National Council of La Raza. Next, we have David Grace, vice president of the World Council of Credit Unions. Following Mr. Grace will be Mr. Tom Haider. Mr. Haider is vice president and chief compliance officer for MoneyGram International, Inc. Then we will have Mr. Mark Thompson, associate general counsel to Western Union. The last of our panel, but not the least, is Mr. James C. Orr. Mr. Orr serves as the chairman of Microfinance International Corporation.

Welcome to you all, and thank you for being here with us today.

Ms. LoVoi, you may proceed, please.

STATEMENT OF ANNETTE LoVOI, FIELD DIRECTOR, APPLESEED

Ms. LOVOI. Good morning, Mr. Chairman. On behalf of the Appleseed Board of Directors and staff, let me thank you for inviting our testimony this morning.

Appleseed is in its fourth year of a project to bring Latin American immigrants into the mainstream financial and banking system, thereby helping them to build assets and credit and reducing predatory pricing and high-cost schemes that affect their livelihoods.

Appleseed first became involved in this project because immigrants were being assaulted on payday because of the large amounts of cash that they were carrying. Appleseed quickly realized that bank accounts can not only protect money, but can also protect lives.

As we spoke directly to immigrants in our work to create a fair financial playing field for all, we learned that protecting their money and understanding costs are crucial. This led us to examine more closely the area of remittances, and it became clear to us that improving transparency was vital.

Increasing transparency was the subject of a report Appleseed released last month, proposing a fair exchange brand similar to fair trade coffee. Just as consumers may shop for fair trade coffee, knowing that such certification signifies that the producers adhere to certain labor standards, so, too, with the fair exchange remittance brand; consumers will know that they are being told the deal they are getting.

In our view, such industry standards are long overdue. As highlighted in a 2005 Appleseed study, immigrants face daunting and unnecessary challenges every single day when they try to perform what should be the simple task of sending money to relatives. The 2005 Appleseed study found enormous fluctuations and inconsistencies in pricing, within the same company, during a 2-week period, from as little as $1.52 to as much as $13.84. We even found variations on the same day. A consumer could have spent as little as $3.88 or as much as $21.90.

We know that we are gathered today to look at this and to come together around improved pricing mechanisms. We have heard you, and we are ready to work on this issue.

The premise of the Appleseed fair exchange initiative is that offering clear, pretransaction disclosures for remittances will increase the market share for financial institutions, benefiting both consumers and the financial institutions. After all, by highlighting their pricing up front, financial firms would publicly signal their interest in dealing with customers in a fair and forthright manner. This is a solution that Appleseed believes will benefit everyone.

Appleseed worked with the Fair Exchange Group to develop a disclosure template that we believe will be helpful to you in your work. Let me share some of the findings from our focus groups.

All of the participants like the idea of a clear, uniform, pretransaction disclosure. Participants focused on the actual value of the funds received by the family after fees and after exchange rate spreads. Better disclosure will make the process of comparing prices less cumbersome. A group participant explained, "You have to go everywhere to get information now."

We also believe disclosure standards should be developed collaboratively with those of us at the table today and with others who have an interest in this issue, and we stand ready to work with all. This approach would best accommodate the variety of business models and regulatory frameworks in the marketplace today, while also serving the best interests of consumers.

Appleseed has found that State regulation of consumer disclosure produces varying and inconsistent standards, and we applaud your interest in a Federal measure on this subject. Let me share some ideas for legislation.

We support requiring the Secretary of Treasury to conduct a study regarding the use of alternative credit-scoring measures, including data on remittances, and we are involved in pilot work on this subject at present. We support requiring an assessment by the Comptroller General of how the private sector can match remittances to help economic development in Mexico. Consumer disclosures should be posted publicly at agent or branch locations and be available to consumers prior—let me emphasize "prior"—to initiating a remittance transaction, particularly for the three top markets served.

The Federal Reserve Board should be granted rulemaking authority to delineate posting requirements, again, in concert with all of the individuals at the table, with industry and consumer participants so that we can get a system that works for all, and the Appleseed disclosure template is available to help inform this proc-

ess. Disclosure standards should also include provisions for error resolution.

Thank you again for your time, your consideration, and your invitation. I, along with other Appleseed staff, as well as our six centers around the country and in Mexico, stand ready to assist the committee as you move forward toward creating a competitive market that benefits all.

Thank you, Mr. Chairman.

[The prepared statement of Ms. LoVoi can be found on page 46 of the appendix.]

Chairman GUTIERREZ. Thank you very much, and thank you for all of your work.

Ms. Ibarra.

STATEMENT OF BEATRIZ IBARRA, ASSETS POLICY ANALYST, NATIONAL COUNCIL OF LA RAZA

Ms. IBARRA. Chairman Gutierrez and members of the subcommittee, my name is Beatriz Ibarra, and I am the assets policy analyst at the National Council of La Raza. Thank you for inviting us to be here today.

I want to take this time to: one, explain why remittances are so important for Latinos; and, two, provide two recommendations that we feel will create a fair remittance market.

Part of NCLR's mission includes advancing policies that enable Latinos to maintain assets. Our goal is to move the community beyond living paycheck to paycheck. We want Latinos to rise permanently into the ranks of the American middle class.

Latinos are contributing billions of dollars to the U.S. economy, yet we are still struggling to have a piece of the American dream: Latinos retain 9 cents for every dollar that a white family earns; Latinos are more likely to have no or low credit scores; and 32 percent of Latinos are unbanked—they do not have a basic checking or savings account.

Given these humble financial circumstances, it is incredible that more than half of Latinos save between $200 and $300 a month to send to their families and communities abroad. Latinos sent $50 billion to Latin America in 2005. That money was used to pay for household needs such as food and housing and education and health care. This is why, in the case of remittances, every penny counts.

We must enact reforms that help families keep more of their hard-earned money for saving and investing here and abroad. Strong consumer protections are needed to shield remitters from bad actors. There is also an enormous opportunity here for lawmakers and industry leaders to integrate Latinos into the mainstream financial system.

Remitters who are unbanked rely on check cashers, payday lenders, pawnbrokers, and money transfer organizations to meet their financial services needs. Remittances can serve as a gateway to connect remitters to banks and credit unions. As account holders, they would have access to a wider range of financial products and services to build assets, so I would like to take this time to just share two recommendations that we believe would go a long way toward creating a fair remittances market.

First, in a fair remittance market, remitters would have the information that they need to make wise consumer choices. Currently, there are no clear industry-wide standards regarding disclosures. A growing number of companies provide receipts, but information on receipts varies widely from one company to the next. Some receipts do not include information that consumers care about, such as guaranteed time of delivery or a list of pickup locations.

Additionally, there are no standards regarding the type of pretransaction information that should be made available to remitters. In other words, what should a consumer know after they walk through the door but before they commit to using a particular remittance service provider?

We must create a uniform disclosure to enable remitters to compare one service provider to the next, and the disclosure would include important cost information. It also would include a notice of the remitter's rights as a consumer.

The disclosure should also be in languages and formats that are accessible and easy to understand. Language access rules do not need to be overly rigid. Collectively, I believe we can establish a reasonable criteria that trigger language access activities.

We must also require providers to post in a clear and conspicuous place important cost information. This would include fees charged, the exchange rate, pickup fees, and the date and time of delivery. The remittance service provider could post this information for sending various amounts, that is, $100, $200, or $300.

Second, a fair remittance market would include industry oversight and strong consumer protections. There is currently no Federal Government entity that exists to oversee the market. Remittance service providers are regulated by a patchwork of State and Federal regulations that have many gaps and leave consumers exposed.

In regard to consumer protections, remitters should have the ability to protect their rights as consumers in every State. This would include rights against those who have defrauded them, the right to a refund, and the process for resolving disputes with their remittance service provider. We often hear from the community that the money just does not get there.

NCLR recommends establishing a Federal Government entity to provide oversight to the market. This entity would be authorized to license and register remittance service providers, draft rules to govern their behavior, and check for compliance with pertinent regulations. This new entity could also conduct spot checks or perform audits.

Additionally, we must establish a process for the resolution of transactional errors and disputes between remitters and remittance service providers. We recommend that a new Federal entity create and maintain a consumer complaint hotline. Imagine the day when a consumer could call a 1–800 number and file a complaint with an independent third party.

In conclusion, we believe that reforming the market would make a significant difference in the economic lives of Latinos living here and living abroad. We believe this issue surrounding remittances, all of the issues, should be a priority for policymakers. We think

it is critical to establish oversight and enact strong consumer protections to facilitate the staggering amount of money that is flowing.

We applaud you, Chairman Gutierrez and Ranking Member Paul, for your efforts on this issue, and we look forward to working with you in the future. Thank you.

[The prepared statement of Ms. Ibarra can be found on page 39 of the appendix.]

Chairman GUTIERREZ. Thank you very much.

Everybody is, I guess, looking at—the first two witnesses were wrapping up when the light turned red. I do not have to use the gavel. I do not have much of a right hand anyway.

Mr. Grace, please, we look forward to your testimony.

STATEMENT OF DAVID GRACE, VICE PRESIDENT, ASSOCIATION SERVICES, WORLD COUNCIL OF CREDIT UNIONS

Mr. GRACE. Chairman Gutierrez, Ranking Member Paul, and members of the subcommittee, I am David Grace, vice president of the World Council of Credit Unions in Madison, Wisconsin. I also serve on the board of the Latino Community Credit Union, the Nation's fastest growing credit union. I appreciate the opportunity to appear before this subcommittee today on behalf of the Credit Union National Association and the 89 million members that it represents, as well as the World Council of Credit Unions, which is the global trade association and development agency for credit unions globally.

I will begin by thanking Chairman Gutierrez for his unwavering support and understanding of the importance of remittances.

The World Council has been active in remittances for a decade, and during this time, we have always been able to count on your support for understanding and championing this issue. I would like to address three issues this morning: first, the role that U.S. and foreign credit unions play in facilitating access to financial services; second, how remittance costs can further be reduced; and third, the role of multilateral development banks in the United States Agency for International Development in planning and achieving these objectives.

First, approximately 300 credit union locations throughout the United States and 900 credit union locations in Latin America, the Caribbean, and Africa are part of the World Council of Credit Unions international remittance network. This program has facilitated over $1.5 billion in transactions of money being sent from low-income workers here to poor households in developing countries. We believe this is the, if not one of the, largest remittance programs of any microfinance network.

Second, one avenue we see to further reduce the cost of remittances is to ensure that credit unions and regulated microfinance institutions abroad can directly access their national payment systems and credit and debit card networks. This will lower costs and spur innovations.

Third, clear positions and actions from all multilateral development banks, the U.S. Treasury, and USAID, encouraging foreign governments to allow credit unions to, first, offer remittance services and, second, to have open and fair access to payment and card

networks would help significantly in making remittances and financial services more accessible. I will expand on these points a bit.

As member-owned financial cooperatives serving 157 million working individuals globally, credit unions are, by their nature, consumer-oriented. As such, it should not be any surprise that CUNA and the World Council support transparency in remittance transactions. Our most recent research work in Guatemala with USAID indicates that 40 percent of remittance receivers in credit unions in Guatemala would be living on less than $1 per day if it were not for their remittances.

In part, due to enabling legislation championed last year in Congress and supported by Chairman Gutierrez, for the first time, U.S. credit unions are able to compete with corner grocery stores by providing check cashing and remittance services to nonmembers within their fields of membership. We are now seeing increased remittance followings by U.S. credit unions and innovations in the market. A limited number of credit unions in the United States are also providing banking and settlement services for small money transmitters that have had their accounts closed at large commercial banks.

If Congress were to restore the credit unions' ability to actively serve small businesses and add underserved areas to their fields of membership, as is found in the Credit Union Regulatory Improvement Act, H.R. 1537, I believe we would see further innovation and service to immigrant communities.

The majority of the credit union offices in developing countries are located in rural areas. They are organized in cohesive network structures, and they have experience managing liquidity. These characteristics, as well as the sheer number of credit union locations, make these offices excellent places and ideal transmitting points for remittances. However, credit unions must rely on local banks abroad to clear and settle their remittance flows with the money transmitter since they cannot directly access and settle these transactions because of restrictions on the payment system. We believe that reducing these restrictions would lower the cost of remittances and reduce the risks of credit unions having defaults from money transmitters.

In prior testimony to the Senate Banking Committee, CUNA and the World Council encouraged the development of what has become the Federal Reserve's Directo a Mexico program, linking together both U.S. and Mexican automated clearinghouses. The second largest originator of transactions of all financial institutions in the United States through the Directo a Mexico program is the Latino Community Credit Union. Much to our dismay, Mexican credit unions still cannot directly access this payment service. We urge the Federal Reserve to work with its Mexican counterpart to correct this situation.

Lastly, while remittances to Latin America and to the Caribbean have justifiably received significant attention, the other multilateral development banks should be encouraged to study and promote efficient remittance markets, particularly in Africa, which resembles the Latin American remittance market of a decade ago.

In conclusion, credit unions are leading the way in providing affordable remittance and financial services. To boost these efforts, we need Congress to restore credit unions' ability to provide small business loans to new Americans and to allow for greater service to underserved communities.

Thank you for holding this very important hearing, and we welcome the opportunity to continue meeting with the committee in the future.

[The prepared statement of Mr. Grace can be found on page 25 of the appendix.]

Chairman GUTIERREZ. Thank you very much.

Mr. Haider.

STATEMENT OF TOM HAIDER, VICE PRESIDENT, GOVERNMENT AFFAIRS, ASSOCIATE GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER, MONEYGRAM INTERNATIONAL

Mr. HAIDER. Good morning, Mr. Chairman, and members of the committee. My name is Tom Haider, and I am the vice president and chief compliance officer for MoneyGram International. Thank you for providing me the opportunity today on behalf of MoneyGram to speak with the committee about remittances, including the regulation of money transmitters and the ongoing bank discontinuance problem for money services businesses.

MoneyGram is licensed and regulated as a money transmitter by the States. In addition, MoneyGram fully complies with the Bank Secrecy Act, the USA PATRIOT Act, and is registered with the Treasury Department as a money services business.

Chairman Gutierrez, MoneyGram appreciates the leadership that you have brought to the issue of remittances, and we look forward to working with you and this committee on ways to bring greater transparency to remittance transactions. MoneyGram strongly supports legislation that would establish a Federal regulator to license and regulate the money transfer industry.

Today, there is widespread inconsistency in the regulation of the industry. This leads to unnecessary administrative costs, making remittances more expensive for consumers. MoneyGram, however, is opposed to simply adding a layer of Federal regulation on top of existing State regulation.

MoneyGram is proud to have been a leader in bringing lower, more simplified pricing to the remittance industry. For example, when current management took over MoneyGram in 1998, the average foreign exchange rate was nearly 7 percent, but today, the global-blended exchange rate is less than 2 percent and less than 1 percent for many parts of Latin America.

Likewise, during the same time period, the average fee per transaction has dropped from nearly $22 to less than $10 for most transactions to Mexico and Latin America. Thus, in using the MoneyGram service today, consumers can send up to $1,000 to many countries for a flat fee of less than $10 with a foreign exchange rate of less than 2 percent. These reduced fees and exchange rates reflect MoneyGram's commitment to provide consumers with an affordable, reliable, and convenient payment service.

In addition to lower fees and exchange rates, MoneyGram also provides consumers with a detailed receipt that indicates: one, the amount of money the sending consumer has paid; two, the exchange rate that will be applied to the transaction; three, all fees related to the transaction; and, four, and most important to the consumer, the amount of local currency that their recipient will receive.

MoneyGram also maintains a toll-free phone number that consumers can call if they have questions about a transaction, including rates and fees for any transaction they plan to make in the future. Another convenient feature of a MoneyGram transaction is the recipient's ability to receive it in local currency within minutes of its having been sent.

MoneyGram also provides the sender a free calling card they can use to alert their recipient that the transaction is on its way. MoneyGram also offers an extensive network of locations so its transactions can be sent and received, and in Latin America, more than 50 percent of MoneyGram's locations are banks and credit unions. These added services make MoneyGram more competitive in the marketplace as well as provide consumers with a better value. However, they do cost money.

MoneyGram agrees that it is important for consumers to be banked, and that, in the long run, will help consumers improve their economic opportunities, but MoneyGram also believes traditional money transmitters can play a critical role in this transition. Bank consumers who are new to the United States are generally not quick to open a bank account, but rather, tend to move towards a banking relationship over time. Encouraging partnerships between money transmitters and banks provides a bridge to these consumers.

Turning towards the impact of regulations, a pressing issue for MSBs today is the challenge of securing and retaining a bank account. Due to increased regulatory pressure imposed on banks, many have either closed MSB accounts or have refused to open new accounts. As a result, banking costs have risen significantly for MSBs, which ultimately affects the price consumers pay for remittance services.

In seeking to solve this problem, MoneyGram has joined with MSBs and bank trade associations to draft legislation that would allow banks to rely on a certification by their MSB account holders that they are in compliance with their regulatory requirements.

Another major cost of doing business is complying with antimoney laundering regulations. MoneyGram takes very seriously these duties. At MoneyGram, nearly 4 percent of our entire global workforce is dedicated exclusively to compliance and fraud prevention, but MoneyGram and its agents need help if they are going to have the ability to continue to make significant investments in antimoney laundering compliance. We must have unimpeded access to banking services, and regulatory mandates cannot overwhelm our ability to operate in an efficient manner.

I want to thank you, Mr. Chairman, and members of the committee, for the honor of having the opportunity to present testimony today on behalf of MoneyGram. We truly appreciate your

continued interest in improving the remittance climate in the United States for consumers, banks, and money transmitters.

Mr. Chairman, we hope that you will view us as a partner in this effort and will call upon us for whatever assistance we can provide. Thank you again.

[The prepared statement of Mr. Haider can be found on page 31 of the appendix.]

Chairman GUTIERREZ. Thank you.

Mr. Thompson, please.

STATEMENT OF MARK A. THOMPSON, ASSOCIATE GENERAL COUNSEL, THE WESTERN UNION COMPANY

Mr. THOMPSON. Thank you, Mr. Chairman.

The modern international remittance market is relatively young, just over 20 years old. Today, Western Union provides a convenient, fast, and reliable way to send money in over 195 countries and territories.

The cost of remittances has dropped significantly over the past 5 years. The GAO found that competition in the remittance market has resulted in a drop in the cost to send remittances. The Inter-American Dialogue found that the cost of sending remittances from the United States to Latin America fell from 12.5 percent in 2003 to 7 percent in 2005, an average as low as 4 percent in countries with higher levels of competition. As competition continues to increase, we anticipate that this trend will continue.

Price is not the sole factor considered by consumers. In fact, for some consumers, price falls behind other factors such as security, speed, reliability, and convenience. In addition to the fees and exchange rate, customers will often ask questions such as, "When will I be able to send money? Are you open on weekends? Will my money get there? How long will it take to get there? Can my family members pick the money up in their village or town? Will my relatives have to open a bank account to get their money?"

Consumers should have adequate information to make an informed decision as they choose among providers, therefore, we support transparency with respect to fees and foreign exchange rates. With limited exceptions, at the time a transaction originates in the United States, Western Union provides its customers with a written receipt that clearly states the following information: the amount stated in U.S. dollars the customer has presented for transfer; the fee stated in U.S. dollars that Western Union charges for the transfer; the total amount stated in U.S. dollars that the customer has provided to Western Union, which is the sum of the first two items; the retail currency exchange rate that Western Union will apply to the transfer; the amount stated in the currency of the payout country that Western Union will provide to the recipient of the transfer; and a statement advising the consumer that Western Union makes money from currency conversion.

Requiring a disclosure that would reflect the difference between the exchange rate Western Union offers to a consumer and the exchange rate established by the U.S. Treasury Department, as set forth in legislation in the past years, would not be relevant to the consumer and could have adverse effects, such as reducing competition in exchange rates.

The Federal Reserve ACH system can provide a lower cost structure when both the sender and the receiver have bank accounts. While the majority of our U.S. senders are banked, our experience is that banked individuals on both ends of our transactions are the exception, not the rule. Studies indicate that a majority of receivers in Latin America are unbanked. In Mexico, for example, only about 29 percent of individuals who receive remittances are banked.

In order to serve unbanked individuals at a lower cost, we encourage you to consider allowing nonbank money transmitters to open an account at the Federal Reserve and utilize the Fed's services, thus eliminating one layer of the money transfer cost.

We support the policy goal of making remittances more available and affordable to consumers. However, legislation should not create an unlevel playing field and place the Congress and Federal agencies in the position of choosing winners and losers in a competitive and evolving market. Favoring depository institutions presumes that remittance services provided by such financial institutions are cheaper than those of traditional remittance providers, ignoring the fees and penalties associated with checking accounts, ATM transfers, and other services.

Thank you, and I am happy to answer any questions you may have.

[The prepared statement of Mr. Thompson can be found on page 63 of the appendix.]

Chairman GUTIERREZ. Thank you very much, Mr. Thompson.

Mr. Orr.

STATEMENT OF JAMES C. ORR, CHAIRMAN, MICROFINANCE INTERNATIONAL CORPORATION

Mr. ORR. Thank you very much, Chairman Gutierrez, and Ranking Member Paul. It is a great pleasure to be back again with the committee after a lot of years. Pretty much everything I know about banking, and most of what I know about development, I learned in 8 years working as a legislative counsel to this subcommittee some years back.

I am here today representing Microfinance International Corporation. The company's mission is to expand affordable, professional financial services for people who are either disconnected from mainstream banking or who have faced overpriced financial services in the past. We are based here in Washington, D.C. We have 11 shops in the mid-Atlantic region, and we work with 20 financial institutions throughout Latin America—in 20 countries of Latin America. We are employing microfinance technology and methodology, and we bring a commercial banking approach to our business.

I think perhaps one of the best ways for me to address the questions that I was asked to talk about would be to describe briefly what our vision was in forming the company and then a little bit about our system.

We started from a very different starting point than most companies. We looked at Latin America and saw the agonizingly slow progress towards economic development. We saw the failure of many, if not most, large-scale development projects. We saw immigrants being forced to pay exorbitant fees for very basic financial

services that people who have lived in this country for a long time take for granted and pay very little for.

We saw a lack of competition among money transfer companies and a pricing structure that often resulted in up to 10 percent of the remittance amount being taken in fees when foreign exchange transactions were included, and we saw a U.S. banking system failing to meet the needs, the legitimate needs, of loans, insurance, and other financial products to the Hispanic community in the United States.

Some of the existing remittance mechanisms had substantial weaknesses. Commercial banks using the SWIFT system and their correspondent banking relationships take 2 days and charge $35 to do the kind of transmission that any company here before you today can do almost instantaneously for roughly a third of that price.

Some of the traditional remittance companies that use an agent-based system, that is, an agent on both ends of the transaction, have a high-cost structure which, in today's world of falling prices, gives them financial hurdles, and it also presents obstacles when trying to work on compliance.

A real advantage that our firm had was that we began after September 11th, and we knew we were starting in an environment where compliance would be the number one key to the success of our operation. Our remittance platform, which is really the heart of the operation, is Internet-based and enables us to charge low fees and guarantee smooth transactions. Only seconds after the transaction is booked here in the United States, the recipient can collect it in many thousands of locations in Latin America. Perhaps I should say hundreds of locations; I am not 100 percent sure that we are at the "thousands" stage yet.

Many of the regulatory compliance aspects of booking a remittance are done automatically by our sophisticated computer system. They are checked in real time, and a teller is immediately alerted if there is some evidence of a suspicious transaction.

This leap in technology allows us to charge lower prices. When we began operating in Latin America, the average remittance cost, or the average remittance of $300 cost about $15 to send. When we opened our doors, we charged $9 for that same remittance. Today, the average is about $10.

I see that I have consumed more time than I imagined. I wanted to talk a little bit about our compliance system, and I would be happy to do so in the question-and-answer period. I would like to make a few comments, thinking about a better compliance regime.

You know, right after September 11th, regulators were presented with a huge problem. They had no system for tracking this, and while they were trying to decide what to do, they decided that, "perhaps we can make banks, and money transfer companies can do this for us," and essentially, they established a system that puts the onus on financial institutions to look for suspicious activity, and bankers and money transfer agents become, essentially, deputies of the regulatory system. The system cannot work very well for many reasons which you can understand.

When a bank or a financial institution makes a mistake, they get a very high penalty from their supervisor, so the tendency becomes

to file suspicious activity reports any time it occurs to the agent to do so. That way, they are covered against a huge problem. A much better system, if we could start over again, would be to have all financial institutions and remittance companies give to the government a list of all transactions over a certain threshold and let the government do the data mining instead of Western Union or Microfinance International.

A serious problem with our doing it is that we have no idea what the other remittance companies are doing, and a clever operator wishing to send money illegally could book remittances in a number of different companies, and the system would never see it.

Thank you very much, Mr. Chairman. It is a pleasure.

[The prepared statement of Mr. Orr can be found on page 53 of the appendix.]

Chairman GUTIERREZ. Thank you.

I recognize Dr. Paul for a unanimous consent request.

Dr. PAUL. Mr. Chairman, I ask unanimous consent to insert an article into the record dealing with this subject.

Chairman GUTIERREZ. So ordered.

Thank you. It is great to have you all here. I guess I am going to ask some questions.

I am happy to see the change and the progress, and I want to see how we can perfect that change and that progress, which is already being made. I want to see how close we can get, so all of the panelists—the benefits and the rates that you get as informed consumers, which I am sure you all are and which I certainly am—so the same kinds of fees that I pay and that you pay and that we all pay and that we come to expect, as we have heard in the testimony, Americans have come to expect, that those least able to afford transaction fees and fees are able to get.

So I kind of look at my situation, and if I go to my bank—and banks are pretty good these days except for their fees; it seems like every time there is a new fee, and whatever the fee is it seems to be going up.

I lost my ATM card. It is $40. I get a free credit card. What do you want $40 for, for an ATM card replacement, when I can get a free credit card? They do not charge me $40. I said, "I will go across the street to the other bank if you want $40 for it."

As you all know, banks recognize your economic ability and leverage to move your money, so those fees many times get waived, so that is what I want to get to. I want to get to, how can you help us in the industry, and how can you help as advocacy groups to get us there?

Mr. Thompson, in your testimony, you outlined the items that Western Union already discloses to its consumers on remittance transaction receipts. So does the exchange rate apply to the fees charged on the total amounts to the consumer?

You state that Western Union believes, "This type of information gives consumers the information they require to make an informed decision." Most of us can agree that this type of information will enable consumers to make an informed decision, but how informed that decision is depends on when the consumer gets the information. In this case, it is after the transaction.

Don't you agree that this information would allow consumers to make a more informed decision if it were disclosed before the transaction? What does Western Union currently disclose prior to the remittance transaction?

Mr. THOMPSON. Mr. Chairman, Western Union provides the consumer with the opportunity to call an 800 toll-free number from home to find out about current rates and fees. They can also ask the agent, before they start a transaction, to look up what the current exchange rate is, since the exchange rates are changing 3 to 4 times a day, and they can do that before they give the agent money. Then before the transaction is actually finalized, they are given the written receipt, and the finalization of the transaction occurs when the consumer signs that receipt that they are given.

Chairman GUTIERREZ. So I would know the exchange rate? In Mexico, I would know the exchange from dollars to pesos? I would know that these dollars would then create so many pesos on the other end?

Mr. THOMPSON. Yes, before the transaction is finalized. You are actually required to sign the agent copy of the receipt that is printed that details that information.

Chairman GUTIERREZ. Thank you.

Mr. Haider, following up with you, in your testimony, you state that MoneyGram maintains a toll-free number that consumers can call if they have questions about a transaction, including rates and fees for future transactions.

What if a consumer calls and gets a rate and a fee quoted to them and then goes to a MoneyGram location, makes a transaction, and the amount actually paid is different from the amount quoted? I am not saying this happens at MoneyGram, but there is anecdotal evidence that it happens in the industry. In such a case, is there any recourse for the consumer?

Mr. HAIDER. Mr. Chairman, a situation as you have described could certainly happen. A consumer could call in the morning and ask what the transaction exchange rate would be and then not go to a location, say, until late in the afternoon. By then, for some currencies, there may have been fluctuations in the exchange rate.

The fee portion of the transaction will not change; our fees tend to remain fixed for long periods of time. But the exchange rates, as we know with all of the different currencies around the world, are volatile, and they can fluctuate during the day. So we caution a consumer when they call and speak to one of our representatives to find out what the cost of the transaction will be. We always caution them on the phone that the exact exchange rate will be set at the time they conduct the transaction.

Chairman GUTIERREZ. I see that my time is up.

I want to say to Mr. Grace and to the credit unions, thank you for the great and wonderful work that you do in giving consumers new alternatives.

To Ms. LoVoi and to Ms. Ibarra, I look forward to working with you as we work with the industry. As you see, we do not have two separate panels here today. We try not to divide people up into good guys and bad guys but into all active participants, and I would say to the industry that we are going to help make sure that the system works for you and that it allows you to reduce your

costs, and with those reductions in cost, that it allows you to get better services and a reduction in cost to consumers.

So we understand that not everybody is going to have an account, but you know, because we want—I mean, my goal is, you know, Mr. Haider and Mr. Thompson, to phase you guys out eventually.

I mean, come on. We all know if our grandmas were in Mexico or in Guatemala or in Poland, we would send them an ATM card, and we would put some money in there, and we would send them to the bank to go get that money, and we would have conversations. We know what we would be doing. And I think what we wanted to do—the goal is, again, as I stated earlier, to allow them to have the same kind of access to consumer instruments that we enjoy and that are plentiful to us.

Dr. Paul, please, you are recognized for questions.

Dr. PAUL. Thank you very much, Mr. Chairman.

My interest in this subject is in working to keep the costs down because it is beneficial to the consumer, and also in maintaining competition.

Obviously, there is a lot of competition, and prices have come down. Sometimes I think that the price came down because of technology and in spite of the government because what government does tends to raise the prices.

Also, I am very interested in the privacy issue.

So, in dealing with some of the things that Mr. Orr talked about, that is not so easy. I do not like the idea that the burden is put on the bank to do the policing, but then there are times when I am not so sure that the government does a much better job because, you know, they have suspicious lists of terrorists, and if you get your name on there, you cannot get it off. So it is really a tough choice.

I do not agree that you should be the policeman. At the same time, turning everything over to the government is not very attractive either because there is so much abuse of individual privacy.

Also, when individuals like yourselves are in the business, it is really hard—you are well set up, and you have the computer programs. For new people to come in is a real challenge. So, in some ways, complicated technology is an exclusionary factor for new people coming into the market and is challenging for those who are already there.

Today, we have a situation where the government does want a lot of information. We live in the age of terrorism; they want to be checking for that. There is concern about illegal immigrants, and if you overly regulate and immigrants are frightened about it and they, you know, use other sources because they are afraid of being detected, there are IRS reasons why they want this information—and there is also the drug war that goes on—so then the burden falls on you.

I am just wondering a little bit—I am going to make some comments, and I will let any of you answer to this. What type of information do you get at the beginning, and how long do you keep this information? Do you all gather the same information? What is the purpose of that?

As to the suspicious activity reports, Mr. Haider said that 4 percent of his workforce is dealing in this, and we already have the Bank Secrecy Act, we have the PATRIOT Act, we also have the money laundering business to deal with, and now they are talking about adding more controls on through the Real ID Act.

I am just wondering, is there a limit to how the technology can compete with this? When do you run into a problem? Do you think you need more regulations about the Real ID on top of all of these other regulations that you have?

Also, if any of you could give me information—you must fill out a lot of these forms, these suspicious activity reports. How many people do you know who have been caught? I mean, how many people have you really helped arrest? What is the percentage? What is the return on this?

So I would like to hear your comments about this subject.

Mr. HAIDER. Thank you, Dr. Paul.

Tom Haider, again, from MoneyGram. I am happy to respond to those questions.

You are absolutely correct that the regulatory environment today is extremely complex. MoneyGram, however, recognizes our role in helping to combat terrorism and in helping to prevent money laundering. We are dedicated, and we work very closely with law enforcement entities, and very closely with FinCEN and OFAC of the Treasury Department to try and prevent those things from occurring.

We do file a lot of suspicious activity reports. In any given year, we file more than 10,000 suspicious activity reports. In terms of what the government does with that information, your guess is as good as mine, Congressman, because we do not really get much feedback on that.

I think the real challenge, though, that I was trying to address earlier in my testimony, when it comes to compliance and the changes that have been brought about since 9/11, is the fact that today our States—that are the primary regulators of money services businesses and money transmitters—are now interpreting the Federal antimoney-laundering laws each in their own way and directing us to apply different standards from State to State. This adds a layer of complexity to our compliance that far exceeds anything that I believe exists out there on the Federal financial side.

So we are faced today with multiple States' interpreting Federal antimoney-laundering and terrorist prevention laws and telling us how we must comply with them. That is the area of complexity that we are wrestling with today. That is why, at MoneyGram, we are proposing the concept of a uniform Federal regulator for the industry. We think that will not only ease a lot of the administrative costs and regulatory burdens we face, but it will be a real benefit to law enforcement in getting uniform information and uniform compliance.

Mr. ORR. Dr. Paul, if I can comment briefly?

Chairman GUTIERREZ. I will extend extra time so you can answer that.

Mr. ORR. Thank you.

Dr. Paul, you asked about privacy and whether we were inadvertently contributing to the problem of sharing information. I

think most money transfer companies collect essentially the same information—name, address, the phone number of the remitter, and information on the recipient of the remittance. So there is not really much in the way of any sensitive information there.

In terms of what the government does with the data that is turned over to them, it would typically be one of the government agencies with an intelligence—an antimoney-laundering function, probably the Treasury Department, that would mine this data. So I do not think there is a particular concern about the information from a suspicious activity report, for instance, being used for purposes that you would not support.

In terms of the numbers of SARs, suspicious activity reports, that are filed, the regulators who were before a different subcommittee of this committee last week admitted in questioning that they do not even examine all of the SARs that are filed these days, and part of the problem, of course, is that financial institutions are filing these for defensive reasons these days.

Chairman GUTIERREZ. Thank you, Mr. Orr.

I recognize the gentleman from Minnesota, Mr. Ellison, for 5 minutes.

Mr. ELLISON. Thank you, Mr. Chairman, and thank you for having this hearing. It is a very important issue.

I want to thank all of the panelists as well.

Mr. Haider, I know that MoneyGram has done extensive work in Central and Latin America, and I think it is good that people can get some income from their family members and loved ones here, but let me ask you about Africa and the Middle East.

I come from a district where there is a large Somali community, and I know that they have institutions that they call hawalas, and there has been significant difficulty with their being able to do wire transfers to their loved ones in that part of the world.

Can you tell me whether one of the administrative regimes or whether the—well, I guess, let me keep the question broad.

Could you describe to me whether doing business in Latin America and doing business in East Africa is similar or different? What are some of the differences? What are some of the different challenges?

Mr. HAIDER. Thank you, Mr. Congressman.

There are a lot of challenges, country by country, in conducting remittance services, and it depends a lot on the regulations in the remit country. So, for example, in Latin America, we face fewer barriers than we do in some of the African countries. Somalia is a classic example.

Today, there is no true central government there. There is no central banking system in Somalia, so, at MoneyGram, we are not serving Somalia today.

We very much would like to. We know that there are consumers who greatly need this service, but due to the disruption of the government there, the chaos, we simply do not feel that it is a prudent risk at this time to venture into that country.

Again, sometimes it is due to the regulations in that country. Sometimes it is due to the regulations right here at home, and we recognize the fact that, if we take these kinds of risks and go into

certain countries, we are exposing ourselves to potential problems with our own regulators.

Mr. ELLISON. Well, when you talk about Somalia—and again, you know, my district—you know, our cards are up on the table—has more people of Somali ancestry than any other part of the country, including Columbus, Ohio. So I am going to ask some questions about that.

How would you describe your risk in doing business with people who live in or near Somalia? I know a lot of their relatives are in refugee camps in Kenya or in Djibouti. Where does the risk lie? Is it on that side or is it on our side?

Mr. HAIDER. It is a bit of both. We do serve the surrounding countries for Somalia. The biggest challenge today is to find reputable entities that could operate in Somalia and serve as our location there to pay out the transaction to the recipient.

So it is very difficult to find, as I say, reputable entities that can represent us there and be relied upon to consistently pay out the proper amount to the citizens.

Mr. ELLISON. What about here? I mean, does MoneyGram encounter sort of like a danger in terms of, perhaps, engaging in remittance activity because the U.S. regulatory system would raise flags about sending money to certain countries because of fears of terrorism that are, perhaps, legitimate?

Mr. HAIDER. Certainly, there are situations like that. The Sudan is one example that quickly comes to mind.

In the Sudan, we have to be extremely careful that none of our transactions are for a business purpose. They can only be for family remittances, and you are basically relying upon the truthfulness of the sender and the recipient that it is not connected to a business transaction, because the Treasury Department's Office of OFAC prohibits most business transactions.

So that is a constant challenge to know are these, in fact, truly family remittances?

Mr. ELLISON. Do you think that in the post-9/11 world that we live in—after 9/11, you know, of course, there were a lot of legitimate reasons to sort of get some regulation down.

Here we are in 2007. In this period since, have we gotten a better sense of how we can more accurately tailor our remittance policy to keep the money away from the people we do not want to get it, but make sure it does flow to the people who we do want to get it?

Mr. HAIDER. Well, I think with companies like MoneyGram and with my competitor, Western Union, and with your other reputable money transfer companies, we are taking very aggressive steps, a very large investment—

Mr. ELLISON. I am sorry, Mr. Haider.

What I am getting at is: Are there some regulatory changes that we need to make now that we have learned a little bit more about, how to keep money away from people whom we do not want to get it? Do you understand?

Mr. HAIDER. Absolutely.

Mr. ELLISON. Okay. Can you speak to that?

Mr. HAIDER. Certainly, Congressman.

I think the number one change was what I alluded to a moment ago, and that would be a uniform Federal regulation of this industry.

Today—I believe it was one of our prior witnesses who referred to the patchwork of regulation that exists for the industry today. It makes compliance an extremely burdensome process. I think the uniformity we would get from a Federal regulator would greatly enhance the efforts that our Federal Government is attempting to implement post-9/11.

Chairman GUTIERREZ. Thank you.

Mr. ELLISON. Thank you very much.

Chairman GUTIERREZ. Congressman Marchant, please.

Mr. MARCHANT. Thank you, Mr. Chairman.

Back in my days in the State legislature, 10 or 12 years ago, we dealt with the whole issue on the Texas border of the casa de cambio, and we spent—now Congressman Cuellar and I spent several months working on that issue with the Federal Government. So it is a subject that I am vaguely familiar with.

But many of you today have testified that there are gaps between the State and Federal regulators in your business and that leaves you kind of exposed. Would you expand on that a little bit and tell me what could be done to plug those gaps up?

Ms. LOVOI. Yes, sir. Thank you very much for the question.

I am from Texas, and so I am familiar with the phenomenon that you are describing on the Texas border and the work done by many of your colleagues in both the Texas House and the Texas Senate on the subject, and I appreciate your efforts on this subject as well.

We conducted a survey of 16 States to study State regulation. We did this in concert with two of our law firm partners. Appleseed accomplishes a good deal of its work in partnership with pro bono work from law firms; WilmerHale and Cravath, and Swaine & Moore LLP have both helped us with this project. What we found is wide variation. We looked—and we will make our report available to subcommittee staff so that you can have a little bit more detail on this subject.

But, in essence, we looked at the regulation across about six or eight factors, and we found a patchwork. That word has been used earlier today, but, without going into a great deal of detail, that is what we found.

We found great variation—there was not much attention to disclosure, which was the topic of my testimony today. We had hoped to find consumer disclosure prior to the transaction and emphasis on posting, and we found neither of those. And, as you and I know, the casa de cambio and the various outlets that operate on the Texas border and in other communities around the country do have an emphasis on posting and prior transaction disclosure, and I would just summarize our research by saying that was something that we had hoped to find and did not find widely in State regulation.

Thank you.

Mr. MARCHANT. Thank you.

Anyone else?

Okay, it seems a number of you believe that the pressure put on banks to self-regulate and be the compliance officers was the incor-

rect approach and has resulted in a number of closures. From your perspective, please outline the framework of Federal regulatory action that would ensure safety and soundness of the transaction and stop the crooks, while not being too burdensome to drive the industry underground.

Mr. GRACE. Credit unions, as I mentioned in my testimony, a limited number do provide services today to money service businesses and essentially provide banking services to them so that they have a way to enter into the payment system and clear their funds. We have seen—

In fact, I understand from the National Money Transmitter Association that, in fact, credit unions in New York are the only entity right now in a big banking State that are providing new banking accounts to these money transmitters, and we think this is an opportunity for credit unions to do that if they could expand their services to small businesses. Many of the competitors in the money transfer industry and where the price competition has come from is from small entities getting into the market and competing. It was referenced earlier that technology can keep them out. So we see that if new entrants can go ahead and provide services to some of these small businesses that there is an opportunity there for that.

Mr. MARCHANT. Thank you.

Yes, sir.

Mr. ORR. Mr. Marchant, I alluded in another question to a hearing held in this committee room 10 days ago with the regulators and mostly commercial banks. Commercial banks did a lot of whining about how hard it was to comply with all the regulations, and the regulators made a lot of self-serving comments about how hard they were working at this. But, you know, if you sort of step back and say, you know, what kind of system would give government the information they need to prevent the kinds of financing that we all want to see stopped—money laundering, terrorist financing, drug financing—it would be to have the government mine the data from the entire industry, from credit unions, commercial banks, money transfer companies and everybody else in a systematic way and find the patterns of suspicious activity and go after the wrongdoers.

The system that has evolved has each one of those individual institutions searching its own files for this sort of information in a fairly inefficient way, frankly. I mean, we are mostly financial professionals or, in some cases, grocery store clerks and that sort of thing with no background in identifying the kinds of activity that the intelligence community and others are professionals at. So if you could somehow shift that back into the role of the government.

Of course, the industry, the industry I speak for, would love to be rid of the obstacle. But the advantage of being rid of it would be we could lower our prices to our clients. That would be a salutary effect.

Mr. MARCHANT. Thank you very much.

Thank you, Mr. Chairman.

Mr. CLAY. [presiding] I thank the gentleman from Texas for that line of questioning.

Ms. Ibarra and Ms. LoVoi, both of you stressed the importance of a promised date of delivery in your testimony. But Mr. Thomp-

son testified that in transfers to certain countries it is difficult or even impossible to promise an exact date of delivery due to restrictions in the recipient countries. This is beyond the control of remitters. So how should we handle those instances where a promised date is just not possible? And we will start with Ms. Ibarra.

Ms. IBARRA. Thank you for the question.

I think that we need to form a task force or a commission where we bring people together, industry and consumer advocates and civil rights organizations, to talk about what these challenges are and to come up with some uniform processes. How do we conduct oversight and how do we create these uniform disclosures? And we can look at this issue as well and see what the challenges are and how we can improve the system for consumers, particularly with issues that they care about, such as date of delivery, guaranteed location spots, and other issues.

But I think, you know, your question is technical. I would like to hear how the industry would respond to that. But, from our perspective, it is important to consumers, and that we need to come together to look at the challenges and try to come up with some good solutions.

Mr. CLAY. How about you, Ms. LoVoi?

Ms. LOVOI. Thank you very much for the question.

We conducted focus groups with senders in 4 States to try to determine what factors are most important to the senders, and what we learned is that predictability of transfer is of paramount importance. The senders want to know how much money will be received in a foreign country. But almost equally important, they want to know what is the date and time of delivery.

So we learned from the testimony earlier this morning that some of the companies are able to provide immediate transmission where there are good pickup points in the foreign countries, and there are many of these in Mexico. So, in those instances, the sender can let the receiver know that they will receive their money immediately.

In more difficult countries, such as the one that Congressman Ellison described, Somalia, there may be difficulties in that environment.

So I would suggest that what the sender and receiver both are looking for is predictability. If it is going to take a week, if it is going to take 4 days, if it is going to take 2½ days, let us just tell both parties and have an advance disclosure so that there are no surprises on either end.

And thank you for your question.

Mr. CLAY. Thank you so much.

Mr. Grace, I agree with all of your testimony regarding the role of multinational development banks and USAID in leveraging remittances in developing countries.

One of the items you mentioned is expanding our voice in vote language from H.R. 928 to include all of the development banks, not just the Inter-American Bank. I agree wholeheartedly, but I would like to hear your thoughts on what specifically we should include in our voice and vote requirements for the development banks.

Mr. GRACE. Certainly. Thank you very much for the question. Absolutely.

The Inter-American Development Bank has brought an awful lot of attention to this issue. But many of the other development banks—the Asian Development Bank, the African Development Bank—simply haven't been engaged in the issue. About 3 weeks ago, Mr. Chairman, I was in China with the Asian Development Bank and the leaders in that agency on microfinance, and nowhere in the discussion did it come up on the radar.

I think it is an issue that needs to be recognized as important not only for Latin America but important for Asia and Africa as well. So I think you could include simply adding those other multilateral development banks into the bill, as well as encouraging them, and ensuring that the United States Agency for International Development, USAID, is not limited in any future bill to working just in Latin America. But USAID's remit is global, and any language in the bill should be global in nature.

Mr. CLAY. Thank you for that response.

We are about to have a series of votes on the Floor. I want to thank all of the witnesses for their testimony and their answers to the questions today.

We will keep the record open for 30 days, and we will conclude this hearing. Thank you all for being here. The hearing is adjourned.

[Whereupon, at 11:10 a.m., the hearing was adjourned.]

A P P E N D I X

May 17, 2007

Dr. Paul's Opening Statement
DIMP Remittance Hearing – 5.17.07

It is clear to most people that remittances provide a significant economic boost to many South American and Latin American countries. Remittance flows to some countries dwarf foreign direct investment and foreign aid and have a beneficial effect on economic development, enabling low-income families to better their situations. The effect of remittances on development showcases the beneficial effects of market-based interaction to improve peoples' lives.

Some legislative proposals would require wire transfer services and other money services businesses to comply with elements of the REAL ID Act. While often well-intentioned, such measures, aside from infringing constitutional liberties, would have the effect of creating a thriving black market financial system which would make it even more difficult for law enforcement to track truly criminal financial transfers.

Heavy-handed government intrusion into the operation and regulation of money services businesses would also have the effect of raising the costs of doing business. Money service businesses have done a good job of identifying and serving their customers' needs. Healthy competition has led to a reduction in fees over the years so that money services businesses are accessible to more and more consumers. As some of our witnesses will attest, even the threat of regulation can have a chilling effect on the operation of money services businesses. The money services market has done an admirable job of self-regulation so far. The worst thing Congress could do is intervene in an overly forceful manner and undo all the good things that have been done so far.

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STATEMENT OF DAVID GRACE
VICE PRESIDENT OF THE WORLD COUNCIL OF CREDIT UNIONS
ON BEHALF OF
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
AND
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY
POLICY, TRADE & TECHNOLOGY

"Remittances: Access, Transparency and Market Efficiency – A Progress Report"

MAY 17, 2007

STATEMENT OF DAVID GRACE
VICE PRESIDENT OF THE WORLD COUNCIL OF CREDIT UNIONS
ON BEHALF OF
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
AND
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)
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Chairman Gutierrez, Ranking Member Paul, and members of the Subcommittee, I am David Grace, Vice President of the World Council of Credit Unions in Madison, Wisconsin. I also serve on the Board of Directors of Latino Community Credit Union, the nation's fastest growing credit union. I appreciate the opportunity to appear before the Subcommittee today on behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU) to address the issue of remittances. CUNA is the largest credit union advocacy organization, representing over 90 percent of our nation's 8,500 federal and state chartered credit unions and their 89 million members.

The World Council of Credit Unions is the global trade association and development agency for the international credit union movement and represents over 42,000 credit unions in 92 countries.

Beginning in 1997, WOCCU started working with its members on the sending and receiving end of remittances to facilitate money transfers among credit unions. In 2001 the project became formalized and WOCCU's IRnet service was launched in partnership with Vigo Remittance. Today we work with MoneyGram and Vigo Remittance to facilitate transactions through approximately 300 credit union locations throughout the United States and 900 rural and urban credit union locations in Mexico, Honduras, El Salvador, Guatemala, Bolivia, Ecuador, Jamaica, Nicaragua and Kenya as distributors of remittances. We believe that these activities and the $1.5 billion that has been transmitted through IR*net* program since its inception makes it one of, if not the largest, remittance program of any microfinance network. During this timeframe we have helped bring attention to the issue of remittances, provided additional alternatives for consumers and lowered the fees that credit unions have charged for such services.

I would like to address three areas in my remarks this morning: 1) the role U.S. and foreign credit unions play in facilitating access to financial services for working individuals, 2) how remittance costs can further be reduced; and 3) the role that the multi-lateral banks and the United States Agency for International Development (USAID) can play in achieving these objectives.

1. Role of Credit Unions in Remittances and the Link to Access to Financial Services
Credit unions around the globe serve over 157 million working individuals. As member owned financial cooperatives, credit unions are by their nature consumer-oriented. As such, it should not be surprising that CUNA and WOCCU support transparency of remittance transactions. Since becoming engaged in this service, we have ensured that our service providers meet the highest standards for transparency and with the exception of promising delivery times, credit unions have complied for years with the provisions of H.R. 928, the International Remittance Consumer Protection Act of 2005 introduced last Congress by Chairman Gutierrez.

Earlier this month, the WOCCU, the Inter-American Dialogue and others issued a policy guidance report titled *"Making the Most of Family Remittances"*. This report demonstrates that between 10% to 50% of the remittance receivers in credit unions in Central America are opening new accounts – rates that are much higher than in commercial banks.

WOCCU's research, which has been supported by USAID, shows that without remittances, 62% of remittance receivers in Guatemalan credit unions would have very little income and 40% would be living on less than $1 per day. As a result of receiving remittances through a credit union, over 60% of these consumers had incomes above the gross national income per capita in Guatemala of $2,400.

Our most recent work on the ground in rural Guatemala with USAID indicates that remittance receivers in the heaviest migration zones have unmet needs for additional financial services. Credit unions' experimentation with remittance linked products shows that consumers are interested in remittance backed home loans and micro-enterprise loans and to a lesser extent, direct deposit or remittances.

In part, due to enabling legislation passed last year in Congress, of which Chairman Gutierrez was an unwavering champion, for the first time U.S. credit unions are able to compete with the corner grocery store and provide check cashing and remittance services to non-members *within* their fields of membership. We are now seeing increased remittance volumes sent by US credit unions and innovations in the market. For example, the largest credit union in South Carolina has decided to offer *free* remittances to any new members. Many other credit unions are incorporating remittances into larger service offerings including tax preparation support and first time mortgages for new Americans.

A frequently overlooked area is that some U.S. credit unions are also providing banking and settlement services for smaller money transmitters that have had their accounts closed at large commercial banks. If Congress were to restore credit union's ability to actively serve small businesses and add underserved areas to their fields of membership, as found in the Credit Union Regulatory Improvements Act, H.R. 1537. I believe that we would see further innovation and service to immigrant communities.

2. Reducing the Cost of Remittances

In nearly every developing country where credit unions exist, the majority of the credit union offices are located in rural areas. In addition, like with U.S. credit unions, foreign credit unions are generally organized in a highly cohesive network structure. These characteristics along with sheer number of locations and their experience in managing liquidity make credit unions an ideal partner for many money transmitter organizations (MTOs).

The two clearest avenues to further reduce the cost of remittances among credit unions are: 1) eliminating exclusivity requirements by MTOs to facilitate competition; and 2) facilitating access to the payments systems and card networks for regulated non-banks, including microfinance institutions and credit unions.

Exclusivity

An outcome of the Group of Eight's (G8) Sea Island Summit in 2004, was that the Ministers of Finance agreed to an action plan to facilitate remittances. WOCCU has worked extensively with the World Bank and the Bank for International Settlements on the development of the *General Principles for International Remittances* which flowed out of the Sea Island Summit. CUNA's voluntary principles for international remittances are included in this guidance from the World Bank.

Within these *General Principles for International Remittances* is the call for competitive market conditions. We believe there is a need to eliminate the pervasive use of one-way exclusivity contracts in the remittance market. Many of the firms utilizing such contracts are US-based companies. If this competition-limiting practice were eliminated we believe prices would again decrease for remittances. We find this practice particularly untenable in countries where government offices are forced to enter such arrangements.

Access to Payment System

In the majority of developing countries, including large remittance markets such as Mexico, Colombia, Ecuador, Kenya, Brazil, Guatemala and Dominican Republic, credit unions must rely on local banks (which are increasingly also competitors) to clear and settle their remittance flows with an MTO. As a result, remittances processed through credit unions have higher cost structures than they otherwise could or should have and put receiving credit unions at risk of default from MTO as credit union branches must provide payment to receivers before being paid by the MTO. Having to wait longer for settlement of funds increases the risk to distributing credit unions. In addition credit unions are often shut out from direct membership in debit and credit card networks as a result of their non-bank status. This has a severe impact as new technologies are adapted for remittances but credit unions and microfinance institutions are shut out from their adoption.

We reject the notion that equitable access to a payment system or debit/credit card networks is the possession of a "banking" license especially where credit unions are supervised by the *same* government agency supervising banks and at times must adhere to stricter prudential standards.

We frequently hear the line of argument against such direct access being that credit unions and microfinance institutions are too small to be able to afford access and too unsophisticated to be granted access without creating "systemic" risk. The irony is that credit unions are allowed to accept public deposits but hampered in their ability to offer efficient and secure payments for their members. We have found that commercial banks often restrict such access to limit competition. Alternatively, we have seen governments (e.g., Mexico) determine they will allow payment system access for credit unions only through a government development bank, which also directly competes with credit unions in the provision of retail financial services.

It was the Monetary Control Act that finally opened up the payment system for US credit unions in the early 1980s and allowed them to actively enter the payment system. This ultimately benefited all consumers through greater competition and choice. For the benefit of consumers abroad, the multilateral development banks, Treasury and USAID should work with foreign governments to allow greater payment systems and debit/credit card access for regulated microfinance institutions and credit unions.

International ACH
In testimony to the Senate Banking Committee in early 2002 and again late 2003 CUNA and WOCCU encouraged the development of a connection between the US and Mexican ACH systems which would allow credit unions on both sides of the transaction to directly access the payment system. To help support the start-up of what has become the Directo-a-Mexico program, WOCCU provided the Federal Reserve System with the names and details of the most promising U.S. credit unions for inclusion in the system. One of those credit unions, Latino Community Credit Union, is now the second largest originator of remittance transfers among all financial institutions in the Directo-a-Mexico service.

Much to our dismay, Mexican credit unions still cannot directly access this payment service. This makes the service less accessible to working individuals in rural Mexico where most of the migration stems from. While potentially detrimental to our own program, we supported the development of this service because of its long term potential to help a segment of the remittance market. However, as a global organization, WOCCU cannot support or promote the Directo-a-Mexico program until credit unions in Mexico are given the same rights of direct access to their national payment system as American credit unions enjoy.

3. Role of Multilateral Development Banks and USAID
In some developing countries (e.g., Brazil, Dominican Republic) we still experience regulatory ambiguity and/or a clear prohibition of credit unions from being able to offer remittance distribution services. We believe that the Sea Island Summit action plan is direct in its intention to ensure that credit unions and other microfinance institutions deepen remittance activities. Clear positions and actions through the multi-lateral development banks, Treasury and USAID encouraging foreign governments to allow credit unions to offer remittance services would help significantly in this regard.

As discussed above, credit unions on both the sending and receiving sides of the transfers are offering the product for similar reasons. The service enables credit unions to leverage their existing infrastructures to offer money transfers and thereby develop new relationships. Much like how checking accounts are offered at or below costs to build relationships for financial institutions, credit unions are able to offer remittance services as a relationship product with the expectation that income will be generated from such members down the road. This positioning of the product and the non-profit status of credit unions, enable them to undercut prices of the for-profit money transfer companies and generate revenue on the relationships that can be built. In contrast, the major money transfer companies are publicly traded firms that must maximize their profits solely from the fees.

Lastly, while remittances to Latin America and the Caribbean have justifiably received significant attention, largely due to the good work of the Inter-American Development Bank, the other multilateral development banks should be encouraged to study and promote efficient remittances and the direction for USAID in this area should not be regionally specific. While many remittance markets in Latin America have experienced rapid reduction in cost as a result of competition, much of Africa and Asia still resembles practices in Latin America a decade ago.

Conclusion

Credit unions throughout the country are leading the way in ensuring that immigrants have access to affordable remittance and financial services. We want to work with Congress and the Administration to further these efforts through the development of more efficient, consumer-oriented payment mechanisms that would encourage financial institutions to reach out to this market. Such efforts should also ensure that the Congress restores credit unions' ability to provide small business loans to new Americans and allows for greater service to undersevered communities.

Thank you for holding this very important hearing. We would welcome the opportunity to continue meeting with the Committee to explore ways to improve the delivery of international remittances.

TESTIMONY
BY

TOM HAIDER, VICE PRESIDENT AND CHIEF COMPLIANCE OFFICER,
MONEYGRAM INTERNATIONAL, INC.

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
FINANCIAL SERVICES SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE AND TECHNOLOGY

HEARING ON
REMITTANCES: ACCESS, TRANSPARENCY, AND MARKET EFFICIENCY –
A PROGRESS REPORT

MAY 17, 2007

Good morning Mr. Chairman and members of the Committee. My name is Tom Haider, and I am the Vice President and Chief Compliance Officer for MoneyGram International. Thank you for providing me the opportunity today, on behalf of MoneyGram, to speak with the Committee about issues affecting remittances, including the regulation of money transmitters and the ongoing bank discontinuance problem for Money Services Businesses[1] (MSBs).

Company Background

MoneyGram is an international payment services company doing business in more than 170 countries and territories, through more than 114,000 locations. The locations that sell MoneyGram's services, commonly referred to as "agents," include banks, credit unions, supermarkets, convenience stores, and other retail locations. In the U.S., MoneyGram is licensed and regulated as a money transmitter by the majority of states, most often through the state banking department. In addition, MoneyGram fully complies with the Bank Secrecy Act, the USA PATRIOT Act, and is registered with the Treasury Department as an MSB. MoneyGram is also a member of the Money Services Round Table, which is a coalition of the leading money transmitters in the U.S. and whose other members include: American Express Travel Services, Western Union, Comdata Network, Travelex Americas, Sigue Corporation, and Ria Financial Services.

Remittances

Chairman Gutierrez, MoneyGram appreciates the leadership that you have brought to the issue of remittances, and we look forward to working with you, your staff and members of the Committee on ways to bring greater transparency to remittance transactions. MoneyGram strongly supports legislation that would establish a federal regulator to license and regulate the money transfer industry. MoneyGram believes a federal regulator would benefit consumers, law enforcement, the banking community, and the money transmitter industry. Today, there is widespread inconsistency in the regulation of the industry. This leads to unnecessary administrative costs for the industry, which leads to higher costs and inefficiencies for consumers. The banking community, which continues to retreat from providing services to

[1] Money Services Businesses "MSBs" are defined in 31CFR103.11uu, and include money transmitters, money order issuers and sellers, check cashers, travelers check issuers and sellers, and stored value providers.

MSBs, is skeptical of the current regulatory regime and would gain greater confidence in the industry if it were subject to an effective federal regulator. Furthermore, law enforcement's battle against money laundering and terrorist financing would be enhanced through uniform regulation of the industry that would make it easier to detect illegal use of MSB services. MoneyGram believes an effective, federal regulator could be the best solution to these challenges.

MoneyGram, however, is opposed to simply adding a layer of federal regulation on top of existing state regulation since that would only increase compliance complexity and costs to the industry. Those additional costs would ultimately be passed along to consumers, defeating the long-term goal of reducing inefficiencies and costs for remittance consumers. As noted in the "General Principles for International Remittance Services," issued by the Committee on Payment and Settlement Systems and The World Bank in January 2007: "It is important that any regulation balances the benefits of increased safety and soundness against the potential costs in lost efficiency, competition and innovation. Complying with regulations can often be costly and therefore may drive up remittance prices. Regulations can also be a barrier to entry and thus restrict competition." (Principle 100.)

MoneyGram is proud to have been a leader in bringing lower, more simplified pricing to the remittance industry. MoneyGram has led the way in reducing fees and exchange rates for guest workers sending money home to Latin America and other regions. For example, at the time the current management took over MoneyGram in 1998, the average foreign exchange rate was nearly 7%; but today the global blended exchange rate is less than 2%, and less than 1% for many parts of Latin America. (The exchange rate represents the cost that a money transmitter incurs in converting a transaction from the currency of the sending country to the currency of the receiving country.) Likewise, during this same time period the average fee per transaction has dropped from nearly $22 to less than $10 for most transactions to Mexico and Latin America.

MoneyGram has also been a leader in the development of simplified pricing to the remittance industry. No longer do consumers struggle with complicated pricing charts that vary the transaction fee, in $50 or $100 increments, depending on how much money is to be sent.

Instead, using the MoneyGram service today, consumers can send up to $1,000 to most countries for a flat fee of less than $10, with a foreign exchange rate of less than 2%. These reduced fees and exchange rates reflect MoneyGram's commitment to provide consumers with an affordable, reliable and convenient payment service.

Of course, we recognize that in the opinion of some groups, almost any fee will be viewed as too high. But at least one respected, independent organization has noted that fees are just about as low as they can go. In its May 2007 report entitled "Making the Most of Family Remittances," the Inter-American Dialogue reported "For some destinations, MTO [money transfer operator] costs make it difficult to bring prices down much further. The average cost of managing a remittance collection point (which includes rental or purchase of space, salaries, and equipment) is about $7 per transfer. In recipient countries, additional investments have to be made in delivery services, with expenses varying from place to place. For instance, a money transfer to Mexico costs about 5 percent of the amount sent, and this charge cannot be reduced much more – even with the adoption of innovative business models and new technologies."

In addition to lower fees and exchange rates, MoneyGram also provides consumers with a detailed receipt that indicates: the amount of money the "sending consumer" has paid; the exchange rate that will be applied to the transaction; all fees related to the transaction (and with MoneyGram the "recipient" is never charged a fee); and, most importantly to the consumer, the amount of local currency that their recipient will receive.

MoneyGram urges Congress to exercise caution before deciding to add more terms and conditions to consumer receipts. Too many requirements can be counter productive by cluttering the receipt with so much well-intentioned information that it actually camouflages the information that is most important to the consumer.

MoneyGram also maintains a toll free phone number that consumers can call if they have questions about a transaction, including rates and fees for any transaction they plan to make in the future. MoneyGram's customer care center is staffed 24 hours a day, seven days a week, by multi-lingual personnel. So with MoneyGram, you can speak to a "live" person when you have a

question, and you never pay a fee for that service. In addition, MoneyGram gives customers that send money within the Western Hemisphere a free calling card that they can use to notify their recipient that the transaction is on its way.

Another convenient feature of a MoneyGram transaction is that once the transaction is sent, the funds are available to be picked up by the recipient within minutes in the local currency. For example, the MoneyGram service is so quick that a sender could be in a MoneyGram location in Chicago and as soon as they pay for the transaction, they could call their recipient who is already in a MoneyGram location in Argentina, give them the transaction information, and the recipient could then go to the counter and collect their cash in Argentinean pesos.

Still another valuable aspect of the MoneyGram service is the extensive network of locations through which transactions can be sent and received, which includes thousands of bank branches in the U.S. and around the world. MoneyGram believes consumers are best served when banks and money transmitters work together to deliver remittance services. Unfortunately, we are seeing too many statement lately that portray bank-owned remittance programs as somehow better for consumers than those of traditional money transmitters. These statements are often linked to proposals that seek to provide assistance to bank-owned remittance programs, at the expense of traditional money transmitters.

MoneyGram agrees that it is important for consumers to be "banked" and that in the long-run it will help consumers improve their economic opportunities. But MoneyGram also believes traditional money transmitters can play a critical role in this transition. Un-banked consumers who are new to the U.S. generally are not quick to open a bank account, but rather tend to move towards a banking relationship over time after they have established themselves in a community. In the meantime, those individuals still need the services of a money transmitter, and if that money transmitter is a partner with a bank it will be far easier for the consumer to transition to becoming a banked customer.

Furthermore, those consumers who are banked still need the broad network of agent locations provided by traditional money transmitters. Throughout the U.S. and around the world,

MoneyGram's service is available in many ethnically owned and operated locations that serve consumers by remaining open long hours and on weekends, and are staffed by workers who can conduct transactions in the consumer's native language. This network of non-bank agents is equally important to consumers in the U.S. and the countries where the money is destined to be received.

An article in the Minneapolis Star Tribune on September 24, 2006, entitled "Wire for Growth," highlighted the value of the partnership between banks and money transmitters. The article quoted Trent Spurgeon, Vice President of Product and Segment Management at U.S. Bancorp on the issue of remittances. "If you look at the regulatory scrutiny since 9/11, while good-intentioned, it made it virtually impossible for banks to serve (money transfer customers) economically," Spurgeon said. "You have to have critical mass to keep up with it." The article said that for U.S. Bancorp, "It made more sense to partner with MoneyGram because of its well-known brand and large agent network."

Bank Account Concerns

One of the most pressing issues facing MSBs today is bank account discontinuance. The problem is one in which banks are either closing the accounts of existing MSB account holders or refusing to open new accounts. MoneyGram's CEO testified on this issue before the House Financial Services Subcommittee on Financial Institutions on June 21, 2006. Also testifying at that hearing were representatives of various federal regulatory agencies who promised to address the issue. Unfortunately, those agencies have yet to take any action on the issue and the problem has not gone away on its own. It is an issue that can only be resolved by the federal banking regulators who must remove the onus they have put on banks to conduct a due diligence analysis on the compliance programs of their MSB account holders. In essence, banks are being forced into the role of acting as the *de facto* regulator for MSBs.

In an attempt to solve this problem, MoneyGram has joined with other MSBs and various bank trade associations to draft legislation that would give banks the ability to rely on a certification by their MSB account holders that they are in compliance with the anti-money laundering requirements. We will soon be bringing this legislation to members of this

Committee for their support. Of course, we do not know whether the legislative proposal will be embraced by the federal bank regulators. However, we do know that we cannot continue to wait for action by the regulators as the issue will languish without Congressional involvement.

That is why it is important to develop a comprehensive solution to the bank discontinuance problem. Such a solution must combine two elements: first is elimination of the pressure that regulators have placed on banks to be the anti-money laundering compliance enforcer for their MSB account holders, and second is creation of a comprehensive federal regulator for money transmitters. This solution, as previously noted, is good for all parties. As several senior Treasury and law enforcement officials have noted, it would be a serious blow to anti-money laundering and terrorist financing prevention if the money transfer industry was driven underground due to the loss of banking services.

MoneyGram takes very seriously its anti-money laundering compliance duties. At MoneyGram, nearly 4% of our entire workforce is dedicated exclusively to compliance and fraud prevention. In addition, MoneyGram spends millions of dollars on technology and training to comply with the regulatory requirements and to assist its agents with meeting their compliance obligations. But MoneyGram and its agents can only continue to make these investments if there is unimpeded access to banking services and if regulatory mandates do not overwhelm their ability to operate in an efficient manner.

The impact of the regulatory burden on remittance fees was noted in the previously cited Inter-American Dialogue report, entitled "Making the Most of Family Remittances." The report noted, "[t]he U.S. post-9/11 regulatory environment has added to the cost of sending remittances. Tighter regulations and compliance with new anti-money laundering legislation have raised MTO [money transfer operators] costs of doing business." The report went on to say, "no one gains when legitimate businesses unnecessarily get caught up in enforcement actions. The regulators waste resources, the cost of doing business goes up, and – in the case of remittances – low-wage immigrant workers and low-income families pay a high cost."

Conclusion

I want to thank you, Mr. Chairman and members of the Committee, for the honor of having the opportunity to present testimony on behalf of MoneyGram International. We truly appreciate your continued interest in improving the remittance climate in the U.S. for consumers, banks and money transmitters. We look forward to working with you and your staff on advancing the issues discussed today. We at MoneyGram are proud of our company's strong efforts in the fight against money laundering and terrorist financing, and we remain dedicated to working with Congress, regulators and law enforcement officials to defeat the attempts by criminals to use any of our services for illegal purposes. Mr. Chairman, we hope that you will view us as a partner in this effort and will call upon us for whatever assistance we can provide. Thank you again.

An Eye on Remittances: The Need for High Industry Standards, Strong Consumer Protections, and Effective Consumer Outreach

Submitted to:

U.S. House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology

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I. INTRODUCTION

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to provide expert testimony on the importance of remittances for Latinos. Over the last few years, I have had the opportunity to examine the remittance market in the context of broader challenges that Latinos experience in the financial services market. This body of work is reflected in several major publications including *Reforming the Remittance Transfer Market*; *Financial Counseling: A Meaningful Strategy for Building Wealth in the Latino Community*; *Latino Credit Card Use: Debt Trap or Ticket to Prosperity?*; and *Closing the Wealth Gap: Eliminating Structural Barriers to Building Assets in the Latino Community.*[1]

The National Council of La Raza's[2] (NCLR) mission is to improve opportunities for Hispanic[3] Americans living in the U.S. Part of this mission includes realizing public policy and programmatic initiatives that improve the opportunities and the ability of Hispanic families to build wealth and move permanently into the ranks of the American middle class. The most recent household wealth survey shows that the median net worth of Hispanic households is $7,932, compared to $88,651 for White non-Hispanic households.[4] Individuals need a strong relationship with a financial institution if they are to build wealth. Yet, approximately 32% of Latinos lack a basic checking or savings account.[5] Latinos are also more likely to have no or very low credit scores.[6] As a result, many Latinos rely on payday lenders, check cashers, wire transfer companies, and pawn brokers to meet their financial service needs and often pay more than necessary to conduct basic financial transactions.

Remittance products may serve as a gateway to banking Latino individuals and families. Remitters who become accountholders have access to a wider menu of financial products and services that help facilitate saving and asset development. Still, many Latino families continue to face barriers in accessing basic banking services. For example, many mainstream financial

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[1] These publications are available at www.nclr.org.

[2] The National Council of La Raza (NCLR) – the largest national Hispanic civil rights and advocacy organization in the United States – works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations (CBOs), NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas – assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families. Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC. NCLR serves all Hispanic subgroups in all regions of the country and has operations in Atlanta, Chicago, Los Angeles, New York, Phoenix, Sacramento, San Antonio, and San Juan, Puerto Rico.

[3] The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

[4] Kochhar, Rakesh, *The Wealth of Hispanic Households: 1996 to 2002.* Washington, DC: Pew Hispanic Center, 2004.

[5] *Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets*, The Center for Financial Services Innovation, April 2005.

[6] See Stegman, Michael, et al., "Automated Underwriting: Getting to 'Yes' for More Low-Income Applicants," Presented before the 2001 Conference on Housing Opportunity, Research Institute for Housing America, Center for Community Capitalism, University of North Carolina-Chapel Hill, April 2001. Report shows that 22% of Hispanic borrowers had no credit score compared to 4% of Whites and 3% of African Americans.

institutions maintain identification requirements that effectively bar many Latinos from opening a basic checking or savings account. Moreover, many banks and credit unions do not offer a remittance product. Banks and credit unions have captured only a 3% share of the remittance market.

Although familiarity, convenience, and simplicity has driven remitters to rely on money transfer organizations (MTOs) to meet their needs, several issues exist that have made the market less efficient and, therefore, less beneficial for consumers. This statement will briefly outline key issues in the remittance transfer market and provide policy recommendations to improve efficiency and fairness in the market.

II. BACKGROUND

Global remittances reached $232 billion in 2005.[7] An estimated $50 billion was remitted from the U.S. to Latin America alone. Approximately 73% of Latinos send money to their family and community abroad, typically between $250 and $300 per month.[8] On the receiving end, family and friends use remittances to pay for their everyday basic needs such as food, housing, and utilities. Remittances are also used by recipients to pay for education, health care, and to start a small business.

The fees associated with sending remittances have dropped in recent years due to increased competition in the market. The average cost to remit $200 to Mexico was $12 in 2005, compared to $30 in the mid-1990s, leading to billions in savings for remitters.[9] Still, reductions in the costs to send remittances have been uneven. There are more than 100 MTOs facilitating remittances to Mexico, the largest remittance channel from the U.S. to Latin America. In geographical areas where remittances are less substantial, and where technological infrastructure is limited, the cost to send remittances has not dropped at a comparable rate. Moreover, migrants tend to work in the lowest-paying jobs. Even the cheapest remittance service provider may charge fees that are burdensome for these workers.

In addition to a flat fee charged to the remittance sender, and any taxes, fees may be charged to family and/or friends on the receiving end. The total price of the remittance transfer also depends on the exchange rate that is applied to the transaction. Remittance transfer providers charge a margin above the wholesale exchange rate to cover any losses, known as the exchange rate spread. Moreover, remittance service providers post different exchange rates, which tend to fluctuate on a daily, even hourly, basis. This makes it difficult for MTOs to post a remittance price and for consumers to know the true cost of remitting money at the point of purchase.

Remittance service providers are regulated at the state and federal level. The current regulatory framework at the federal level is not intended to protect consumers, but to address day-to-day operations and national security concerns, such as money laundering and suspicious activity. Financial institutions are required to comply with a multitude of state and federal regulations

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[7] *Making the Most of Remittances*, Second Report of the Inter-American Dialogue Task Force on Remittances, May 2007.
[8] *Ibid.*
[9] *Ibid.*

from various governmental agencies to ensure compliance with the Bank Secrecy Act, Anti-Money Laundering regulations, and the U.S. PATRIOT Act.

Although the current regulatory framework is essential for national security purposes, it is vague and confusing. Many mainstream financial institutions are reluctant to offer or heavily market remittance products and services to the community. This is especially true for smaller financial institutions that fear that welcoming a large immigrant clientele will expose their institutions to investigation by federal officials. As a result, an opportunity to connect remitters to mainstream financial institutions and asset-building products and services is missed.

III. ISSUES

The flow of remittances from the U.S. is substantial and growing. More Latinos in the U.S. remit money than maintain basic checking and savings accounts with mainstream financial institutions. In light of this, there is an enormous opportunity for lawmakers and industry leaders to develop the U.S. remittance market in a way that more effectively integrates Latinos into the financial mainstream. Positive and effective market reforms that increase efficiency and establish consumer protections would make a significant difference in the economic lives of many individuals and families living in the U.S. and abroad. Key consumer issues, such as the lack of clear industry standards, strong consumer protections, and limited outreach efforts, are outlined below.

Lack of clear industry standards. The lack of clear industry standards limits the ability of remitters to make informed choices when selecting a remittance service provider. For example, a growing number of MTOs provide itemized receipts to remitters following completion of the transaction. However, the information on these receipts varies widely from one company to the next, which may lead remitters to having difficulty comparing transaction costs. Additionally, the information on many receipts is incomplete. According to one focus group study, remitters are also concerned about the reliability of pick-up locations and want a guaranteed time of delivery.[10] Information addressing these concerns is often not disclosed.

In addition to the lack of uniform disclosures, there are no industry-wide accepted standards regarding the type of pre-transaction information that should be available to remitters. Since current disclosures come in the form of post-transaction receipts, key transaction cost information is provided only after a remitter has committed to using a remittance service provider and completed the transaction. Additionally, remittance service providers are not required to provide disclosures in languages and formats that all remitters can understand. According to the World Bank, language barriers may limit access to a wider range of remittance service providers.[11] Moreover, the lack of bilingual transaction information is contrary to the need for greater transparency in the market.

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[10] Improving Pricing Transparency in International Remittance Markets: Focus Group Testing of a Pricing Transparency Strategy, Appleseed, January 2007.

[11] *General Principles for International Remittance Services*, Consultative Report, Committee on Payment and Settlement Systems, World Bank, March 2006.

Lack of industry oversight and strong consumer protections. There is currently no federal government entity that exists to oversee the remittance market. Remittance service providers are regulated by a patchwork of state and federal regulations that have many gaps which leave consumers exposed.

In addition to having access to clear and detailed cost information, remitters should have the ability to protect their rights as consumers in every state. This would include rights against those who have defrauded them, the right to a refund, and a process for resolving disputes with remittance service providers. Currently, there is no centralized system for receiving and addressing consumer complaints from remitters concerning their wire transfers. If the remittance service provider cannot resolve the dispute, an independent third party should exist to ensure that disputes are fairly resolved. A national campaign targeted at remitters would also be needed to announce the creation of consumer complaint hotline and center to address complaints.

Disempowered consumer base. In any market, consumers need access to good information, reasonable levels of awareness, and the support of strong institutions in order to ensure that good industry practices drive out bad ones. A few community activists have begun to organize remitters. For example, we have seen the emergence of "million dollar clubs" in California and New York, where remitters pool their collective buying power to advocate for change. Hometown associations have also formed to help channel remittance flows to important community development projects abroad. These efforts are innovate and invaluable, and yet they have not been brought to scale. Most efforts to empower remitters have consisted of distributing informational brochures and organizing education classes. There is no national community outreach effort to raise awareness about the industry, encourage best remittance-sending practices, or connect remitters to mainstream financial institutions. Moreover, low-income remitters have little or no access to financial counselors to receive one-on-one, unbiased advice and information about their remittance-sending behavior.

IV. RECOMMENDATIONS

Positive and effective reforms would enable remitters to make more informed choices and save more of their hard-earned money for savings and investing at home and abroad. An ideal remittance market would have established high industry standards and strong consumer protections. At the same time, remitters would be empowered to make wise consumer choices.

Set High Industry Standards

- **Create a blue ribbon commission or task force to set clear industry standards.** More specifically, the purpose of the task force would be to 1) examine the potential for a new regulatory framework for remittances; 2) identify innovative methods for strengthening the payment infrastructure to increase efficiency of remittance transfers; and 3) set high standards for market practice. Commission participants would include an even distribution of and be limited to relevant nonprofit and civil rights organizations, consumer advocates, state and federal regulators, MTOs, banks, and credit unions. The commission would be coordinated and led by the Federal Reserve and hold a meeting at least every three months for one year. The commission should begin meeting no later

than 60 days following enactment of any remittances legislation. Finally, the commission would draft and submit a report to Congress within a reasonable time following its final meeting date.

- **Create a uniform disclosure.** A uniform disclosure is needed to enable remitters to compare between one remittance service provider and the next. An ideal disclosure would include 1) total amount that the sender will tender; 2) total amount in disbursing currency that the recipient will receive; 3) itemized fees paid by the remittance sender and receiver; 4) the date of delivery; 5) locations where the recipient may access the remittance; 6) a notice of the remitter's rights as a consumer; and 7) contact information of an agent collecting and reporting on consumer complaints.

- **Require remittance service providers to post important transaction information in their place of business.** A transparent remittance market would enable consumers to know and understand important pricing information prior to committing to using any particular remittance service provider. This would require all remittance service providers to post, in a clear and conspicuous place, the fees charged, daily exchange rate, available pick-up time, and pick-up fees. To be effective, the remittance service provider would post this information for sending various amounts, such as $100, $200, and $300.

- **Require that disclosures be in languages and formats that are accessible and easy to understand.** Language access rules need not be overly rigid. Reasonable criteria that trigger language-accessible activities can be established.

Enact Strong Consumer Protections

- **Establish a government entity to provide oversight of the remittance market and enforce relevant laws.** In addition to a commission to set high industry standards, a new federal entity is also needed for consumer protection purposes. The new government entity would be responsible for licensing and registering remittance service providers, drafting rules to govern their behavior, and providing necessary oversight of the industry. This new entity should also have the authority to implement compliance reviews; conduct spot checks; perform audits; and check for rate manipulation, hidden fees, and compliance with pertinent regulations. In addition, the agency could administer a consumer complaint hotline and assist in settling consumer disputes.

- **Establish a process for the resolution of transactional errors.** Remitters should have the ability to protect their rights as consumers. This would include rights against those who have defrauded them and a process for resolving disputes with remittance service providers. The new federal government entity described above would have the authority to establish a consumer complaint hotline for remitters and a process for addressing their grievances.

Empower Consumers

- **Create an effective financial education campaign.** Congress should authorize $10

million for a language-appropriate financial education campaign targeted to remitters with the purpose of promoting a consumer complaint center and hotline. The campaign would also be a good opportunity to educate remitters of their rights as consumers and connect them to mainstream financial institutions. Responsibility for coordinating and executing the campaign should go beyond the Financial Literacy and Education Commission and include nongovernmental organizations, national nonprofit organizations, community-based organizations, hometown associations, and embassies and consulates. The campaign should also be monitored by an advisory board made up of representatives of the commission noted above.

- **Create a network of community-based financial counselors.** Financial counseling is critical for ensuring proper asset development in the Latino community, and yet Latino individuals and families remain disconnected and underserved by the financial planning market. Congress should authorize a financial counseling grant program to enable low- and moderate-income individuals and families to seek unbiased, customized financial advice and information about their finances. Community-based financial counselors would be trained and certified to consult clients on issues surrounding banking, budgeting, credit, debt, taxes, vehicle purchase, and remittances.[12]

V. CONCLUSION

To date, much has been done to improve, standardize, and open up the remittance transfer market. However, reforms are needed to enact strong consumer protections to facilitate the flow of remittances and create greater fairness in the market. Reforms are also an important part of a larger effort to improve the economic well-being of Latinos in the U.S.

We applaud Chairman Gutierrez (D-IL) and Ranking Member Paul (R-TX) for their efforts and look forward to working with you on these and other related matters in the future. The work of this Committee has helped to shed light on the industry and encourage good business practices.

[12] For more information, please see: *Financial Counseling: A Meaningful Strategy for Building Wealth in the Latino Community*, National Council of La Raza, 2005.

Appleseed
Sowing the Seeds of Justice

Testimony of Annette LoVoi

The Financial Services Subcommittee
on Domestic and International Monetary Policy, Trade,
and Technology

Remittances:
Access, Transparency, and Market
Efficiency- A Progress Report.

Thursday, May 17, 2007
10:00 a.m.
2128 Rayburn House Office Building

727 15th Street, NW, 11th Floor, Washington, DC 20005
202.347.7960 Fax: 202.347.7961 www.appleseednetwork.org

Appleseed Testimony

My name is Annette LoVoi, and I serve as field director for Appleseed, a national legal advocacy organization with 16 public interest law centers across North America. On behalf of our Board of Directors and staff, I thank the Committee for inviting our testimony and extend our appreciation to you for looking into problems associated with the remittance market. Appleseed is in the fourth year of a project to bring Latin American immigrants into the mainstream financial system, helping them to avoid predatory and other high-cost financial services and enabling them to build credit and assets.

Appleseed first became involved in the Financial Access Project because immigrants carrying around large sums of cash, frequently on payday, have been targeted throughout the country for assaults. Targeted shootings this spring of seven immigrants in Cobb County, Georgia, which resulted in two deaths, illustrate our concern. Appleseed and other organizations had earlier realized that bank accounts for immigrants not only protect money but also protect lives. As we spoke directly to immigrants in our work to create a fair, financial playing field for all, we learned that protecting their money and understanding costs are crucial to them and their families in Mexico and Latin America. This led us to examine more closely the area of remittances. It became clear to us that improving transparency was vital.

This project emanates directly from the excellent work of several Appleseed Centers. Texas Appleseed pioneered this work with its remittance consumer protection disclosure legislation. Nebraska and Chicago Appleseed conducted meticulous work with the financial industry, regulators, and immigrants. Georgia and Alabama Appleseed recognized its relevance to the southeast United States. And Mexico Appleseed provided information on trans-border issues.

Appleseed has studied the remittance market as part of our work to create a fair financial playing field for all. Most recently, increasing transparency was the subject of a report Appleseed released last month proposing a "Fair Exchange" brand to improve pricing disclosures for consumers sending money to Latin America. Just as consumers may shop for Fair Trade coffee, knowing that such certification signifies that the producers adhere to certain wage standards for their employees, so too with the Fair Exchange remittance brand: consumers will know that they are being told the deal they're getting.

In our view, such industry standards are long overdue. As highlighted in a 2005 Appleseed study of the U.S.-Mexico remittance market, immigrants face daunting and unnecessary challenges every day when they try to perform what should be the simple task of sending money to relatives. A major finding of the Appleseed report, in line with principles specified in a January 2007 report by the World Bank, was that the international remittance market could benefit from consistent, accessible, and comparable pre-transaction pricing disclosures.[1]

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[1] *Creating A Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market.* Appleseed. December 2005.

Without federal leadership on this issue, that is unlikely to happen. The 2005 Appleseed study found enormous fluctuations and inconsistencies in the cost of sending money. Within the **same company** during one two-week period, the amount consumers paid to transfer money varied from as little as $1.52 and as much as $13.84. The study found that exchange rate pricing varied even on the **same day**. In Georgia, for instance, a consumer could have spent as little as $3.88 or as much as $21.90 on the same day to send $300 to Mexico.

For immigrants whose incomes barely rise above the poverty level, these amounts are significant. But getting the information they need to make an educated choice about money transfer services can be difficult. When Appleseed researchers sought this information they were met with mixed results. Some companies quickly offered exchange rate data, while others provided inconsistent or incomplete answers. In Nebraska, for example, calls at the same time to different agents who worked for the same companies resulted in different exchange rate information.

To help remedy this situation, Appleseed launched the Fair Exchange Project, with the support of industry, community, policy and regulatory partners in April 2006. Its mission is to explore the possibility of creating a market-based initiative for providing improved pricing disclosures in international remittance markets, similar to the Fair Trade branding of coffee. The premise of the Appleseed initiative is that offering clear pre-transaction disclosures for remittance transactions could increase the market share for financial institutions committed to providing full, up front disclosure to consumers—benefiting both consumers and the bottom-line. After all, by highlighting their pricing up front, financial firms would publicly signal their interest in dealing with customers in a fair and forthright manner. It is a solution that, we believe, benefits everyone.

Appleseed worked with the Fair Exchange group to develop a disclosure template that is workable for industry and helpful to consumers. Our work was informed by the generous support of pro-bono counsel at WilmerHale and Cravath, Swaine & Moore LLP.

Our research, as detailed in our April 2007 report – *"The Fair Exchange: Improving the Market for International Remittances"* – has shown that consumers want information about the total cost of remitting money. Consumer focus groups conducted by Appleseed found that when participants were shown various pre-transaction posted disclosures, they chose a disclosure with more information over those that offered little data. These focus groups provided valuable information for developing the Appleseed Fair Exchange disclosure template.

As one participant shared, "I would not like just one business to use this [disclosure template.] I would like all businesses to use this!" Among the other focus group findings:

- Participants in each of the focus groups stated that they would prefer to use a business that **posted a pre-transaction pricing and service disclosure** over one that did not.

- All of the participants liked the idea of a **clear, uniform, pre-transaction disclosure**.

- Participants chose **more detailed transaction information** rather than the simplest version.

- Participants focused on the **actual value of the funds received** by their family member in local currency.

- **Predictability of the transfer** is a high priority for the participants. Having an official disclosure helps them not only compare services, but also feel secure that the service they choose is providing a guarantee to meet their expectations. As one participant commented, "Inevitably tellers make mistakes regarding the information they are conveying. Having a disclosure table would prevent those human errors."

- Participants felt that confusion over remittance fees would be alleviated with **pre-transaction disclosures**.

- Better disclosures would also make the process of comparing prices **less cumbersome for consumers**. A group participant explained, "You have to go everywhere to get information...Stores don't often give information over the phone -- they say come on into the store and they'll give you the information."

Appleseed is currently piloting the international remittance disclosure template with five industry partners with the hope of rolling it out nationally. The Appleseed Fair Exchange collaboration also discussed problems with access to bank accounts for money service businesses, including non-bank money transfer businesses and is considering creative collaborations among banks, non-bank money transfer businesses and consumer organizations to improve the financial inclusion of immigrant communities.

As a result of our work in the remittance arena, Appleseed strongly supports standardizing disclosures for remittance transactions. We also believe disclosure standards should be developed collaboratively, with industry, consumer, and regulatory input. This approach would best accommodate the variety of business models and regulatory frameworks that currently apply to remittance providers, while serving the best interests of consumers.

Appleseed has found that state regulation of consumer disclosure produces varying and inconsistent standards. Improving disclosures in the remittance marketplace will encourage competition, help to drive down costs and enhance consumer confidence in financial institutions. If they are confident that they are getting a fair deal, they will be less likely to carry around large sums of money or stash such sums at home, tempting criminals.

It's only fair. Imagine someone who works hard to save $200 to send to his mother in Mexico so that she can receive a $180 medical procedure, figuring that the family will

lose ten percent on the exchange rate and the initial transaction fee. Only $175 actually arrives because of an undisclosed pick-up fee. Her care is delayed while she and her son struggle to arrange a second remittance. He will be charged more transaction fees, lose more money on the exchange and must decide between using the same remitter and paying another pick-up fee or attempting to find another agent who may or may not charge even more fees, all the while delaying his mother's medical care. Why not just specify all the fees and total cost up front, as is the standard across many other financial services?

Appleseed was asked to provide suggestions for changes to HR 928 from the 109th Congress. Our suggestions are:

- Under Sec. 6: Expansion of Financial Institution Provision of Remittance Transfers, add a new section, section (e), to require the Secretary of the Treasury to conduct a study regarding the use of alternative credit scoring measures, including data on remittances, for immigrant populations in the United States. In conducting this study, the Secretary should consult with consumer and immigrant organizations and banking, credit union, and remittance industry representatives, as well as with credit information organizations and government-sponsored enterprises.

- Under Chapter 13: Social Investment and Economic Development for the Americas, add a new section, section 9(b)(7), to require, as part of the study to be conducted by the Comptroller General of the United States, an assessment of how the private sector could match remittance funds or otherwise leverage remittance relationships to benefit economic development in sending and receiving communities.

- Consumer disclosures should be posted at agent or branch locations and be available to consumers prior to initiating a remittance transaction.

- As a general standard of disclosure we recommend requiring posting of disclosure information for the top three markets served by a particular branch or agent location.

- The Appleseed Fair Exchange disclosure, which was developed through industry, community and regulator input, provides an example of how transaction information could be posted.

- The disclosure fields should include at least a sample of locations where the money can be received and the corresponding fee, exchange rate, availability of funds, type of transaction, pick-up fees, and sample transaction amounts to illustrate the amount of foreign currency to be received. The locations for pick-up are important, as pricing can vary based on the place the money is picked up. For services that offer uniform pricing, locations are less significant, but can still be helpful as a way to let customers know some of their options.

- With regard to exchange rate information, a provision should be added to accommodate the special structure of the Federal Reserve international ACH system

to Mexico, marketed as Directo a México. In its 2005 report, Appleseed highlighted Directo a México as a model of transparency and low-cost in the US-Mexico money transfer market.

- In the case of on-line transactions that are not conducted through an agent or branch location, there should be a provision that the disclosure could be made electronically.

- Developing consumer disclosures should be a collaborative process to ensure that the final posted disclosure format addresses concerns of consumer and immigrant organizations and banking, credit union and remittance industry representatives. To this end, Appleseed recommends that the Federal Reserve Board be granted rule-making authority to delineate posting requirements and define the format of the posting, in collaboration with the parties mentioned above.

- The Federal Reserve Board should also be granted enforcement authority under this new provision.

- Disclosure standards should also include provisions for error resolution, such as when the designated recipient in the foreign country does not pick-up transferred funds.

- Also under Sec. 6, which addressed the expansion of financial institution provision of remittance transfers, we recommend the addition of a new section, section (f), which would require the Secretary of the Treasury to conduct a study regarding the ability of remittance transfer providers to obtain necessary banking services to support their remittance provision. A number of non-bank international remittance businesses have lost access to bank accounts in recent years. This loss of access diminishes competition in the marketplace. The study should include an assessment of the impact of federal and state regulation on the availability of such banking services and a recommendation for how the problem of access to banking services for remittance providers can be remedied.

Thank you for your time and consideration. I, and other staff at Appleseed, as well as the six centers working on our financial access project, stand ready to assist the Committee as you move forward in creating a competitive free market for remittances predicated on full disclosure of information.

ANNETTE M. LOVOI
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(512) 477-6587

2005 – Present
Appleseed,
Field Director

Appointed Field Director of Appleseed, a national legal advocacy organization with sixteen public interest law Centers across North America, including Mexico. Facilitates Center work on national projects such as the Financial Access project and the Indigent Criminal Defense Reform project.

1997 – 2006
Texas Appleseed,
First Executive Director

Selected by an attorney board of directors to establish Texas Appleseed. Texas Appleseed has been awarded the 2002 W. Frank Newton Award by the State Bar of Texas for "outstanding pro bono legal services by a group of attorneys in Texas." Texas Appleseed published *The Fair Defense Report: Analysis of Indigent Defense Practices in Texas* in 2000 to document the need for improvement in the quality of legal representation for indigent criminal defendants. The organization then led a coalition of hundreds of law firms and individual attorneys advocating for successful passage of S. B. 7, the Fair Defense Reform Act, hailed as the most important reform of its kind in 25 years.

1995 – 1997
Comptroller of Public Accounts, State of Texas, Electronic Benefits Transfer (EBT) Liaison and Texas Performance Review Member

Represented Comptroller in final implementation of the largest government electronic benefits transfer program in the United States, replacing paper food stamps and Aid to Families with Dependent Children checks with electronic benefits. The program produced a $30 million error-reduction bonus for the State in 2002. Served as a member of the Texas Performance Review which has recommended savings totaling over $5 billion prior to several legislative sessions and served as the model for Vice President Gore's National Performance Review.

1991 – 1994
Office of the Governor, State of Texas, First Texas Ombudsman

Appointed by Governor Ann Richards to create the Ombudsman Office to execute projects critical of government practices leading to policy and management change. For example, over 100 complaints from nursing home residents and their families led to an overhaul of nursing home regulation that drew national attention on CNN and was monitored and replicated by other states and a federal agency. The office fielded over 1,000 citizen concerns per week.

Summer 1993
National Performance Review, Executive Office of the President

Served as a team leader for Vice President Gore's National Performance Review. Produced recommendations for more efficient operation of the White House Executive Office operations.

1987 – 1990
President,
TX Consumer Assoc.

Spearheaded a five-point insurance reform program adopted through legislative and management reform.

Other Professional Experience

Elected to the Austin Independent School District Board of Trustees May 12, 2006. First consumer representative to the City of Austin Electric Ratesetting Process that recommended rate calculation changes resulting in stabilized rates for residential and small business consumers for an unprecedented six years. Additional prior experience includes Assistant Deputy Commissioner in the Texas Department of Agriculture, Management Consultant for Peat, Marwick, Mitchell, and Legislative Assistant for Social Policy for Congressman James R. Jones, former Ambassador to Mexico and Lyndon B. Johnson White House appointments secretary.

EDUCATION

The Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin, Master of Public Affairs, May 1980. *Mitzi Newhouse Fellow* and elected by colleagues as student commencement speaker.

Testimony of

James C. Orr

Chairman

Microfinance International Corporation

Before the

U.S. House of Representatives
Committee on Financial Services'

Subcommittee on Domestic and International
Monetary Policy, Trade, and Technology

On

Remittances: Access, Transparency, and Market Efficiency

May 17, 2007

Chairman Gutierrez, Ranking Member Paul and distinguished members of the Subcommittee. On behalf of Microfinance International, thank you very much for including me in today proceedings. It is good to be back with the Subcommittee and Committee again. Much of what I know today about development and banking, I learned during the eight years I worked as legislative counsel to this Subcommittee (for both Democrats and Republicans).

First, I would like to commend the Chairman and the Committee for their focus on these important issues. Busy companies within the industry and their regulators do not stop often enough to consider the interests of the consumers of remittance services. As we all know, families, communities, countries and entire regions of Latin America are highly dependent on these flows, and we must ensure that remittance architecture works smoothly and efficiently and that consumers are being given a fair deal. This is an important role ideally suited to the Congress.

I am here today representing Microfinance International Corporation (MFIC). The company's mission is to expand affordable and professional financial services to new markets where services have been overpriced or disconnected from mainstream banking. We are based here in Washington, DC, in the United States but work with financial institutions across 20 countries in Latin America on remittances and other financial services.. Our approach combines microfinance methodology with a commercial banking approach in a for-profit model, enabling us to offer financial services in a manner that is self sustainable, scalable and socially responsible.

You have asked me to address a set of questions revolving around the costs of remittances, issues of compliance and the adequacy of transparency within the industry. I think the best way for me to answer these questions is to briefly describe how MFIC's remittance platform operates, because it differs in important ways from systems with which you may already be familiar. Later in my presentation I will comment on other questions and point to some of the weaknesses in the current compliance regime and suggest one way to improve it.

A Different Vision

Microfinance International began from a starting point different than most remittance companies. Our concern was with the agonizingly slow progress toward economic development in many parts of Latin America. We saw what must be described as the failure of large scale development projects and programs to make a significant difference in the lives of poor people. We saw U.S. immigrants being forced to pay exorbitant fees for very basic financial services that any long time U.S. resident would have considered usurious. We saw a lack of competition among money transfer companies, and a fee structure that typically took 10 percent of the amount being remitted, counting both commissions and foreign exchange rates. We saw the formal U.S. banking system turn a blind eye to immigrants' legitimate need for loans, insurance and other products longtime residents take for granted.

Existing remittances systems had their weaknesses. Commercial banks, dependent on the SWIFT transfer system and their correspondent relationships, were a slow (2 days) and

expensive ($35) choice for handling remittances. Additionally, banks are typically located in larger cities in developing countries and this limited their ability to serve remittance receivers who more often live in rural areas. At the same time, most traditional money transmitters relied on a system of agents on both ends of the transaction. In the modern era, this has proven to be an uncomfortably high cost structure and presents significant obstacles in ensuring regulatory compliance.

MFIC also started with some tremendous advantages. The project was conceived by a senior international banker with three decades of experience in Latin American and other international markets. Second, the company began operations after September 11, 2001, at a time when it was abundantly clear that attention to compliance would be critical to the firm's success.

The heart of the MFIC model is its advanced remittance platform. It is Internet-based and contains a quick and easy interface, enabling us to charge low fees and guarantees smooth transactions. Senders can book and receive remittances at any of our wholly owned and operated shops or at an allied financial institution. Transactions take place at the speed of light, such that the receiver can collect the funds seconds after they are placed. Much of the required regulatory compliance elements are checked automatically in real time by the system, which also provides compliance guidance to the teller electronically. A "Help Desk" located in El Salvador can step in quickly if a remittance appears to have gone astray.

Most of our remittances are paid out at microfinance institutions and banks with such programs in developing countries. These institutions are happy to partner with the company because remittances bring new customers to their doors with money to save or invest in other products. In fact, much of the company's overall approach is based on microfinance principles proven long ago to work in impoverished countries, where clients are not very financially literate and lack credit histories.

The leap in technology with associated lower costs enabled MFIC to drop remittance prices to well below the norm. When we opened operations in Central American, the average cost of sending a $300 remittance was about $15. We began by charging $9. Today the average is around $10.

MFIC's Remittance Platform

I mentioned that our system was designed with compliance very much in mind and that many features are automated within the system. Here is how it works. A client comes in wishing to send $300 to a relative in (say) Honduras. He presents an ID card to the teller who records his name, address, telephone number and the information on the recipient of the funds. While the client is waiting, the system checks his identity against the Treasury Departments list of problem individuals (OFAC SDN list) and other government lists of designated nationals. If there is a match, the remittance transfer is frozen instantly until the case is investigated by a compliance official.

At the same time, the system checks each remittance transaction for suspicious activity following a sophisticated SAR-matrix that aggregates transactions across all locations and screens them against a wide set of criteria to detect suspicious patterns. The system flags suspicious transactions and others that might exceed limits set by us or by regulation. Any time a suspicious match is found, our compliance officer receives a computerized printout that also list any and all related transactions. At this stage, unless the compliance officer knows there were reasonable explanations for these occurrences, (s)he would file a suspicious activity report (SAR) as required under the Bank Secrecy Act.

This system is now working very well within our nine shops in Washington DC, Delaware, Maryland and Virginia. Recently we began making the system available as a turn key platform to commercial banks and other money transfer companies who are seeking greater efficiency and the need to improve their compliance.

The Current Shakeout in the Remittance Industry

It is important to know that the remittance industry is in the middle of a shakeout largely caused by heightened compliance requirements. Many smaller remittance companies have found it difficult to comply with new regulations because they lack a system to do this. Many have chosen to sell their operations to more sophisticated remittance companies or close their doors.

Regulators also inadvertently contributed to the disruption in the industry. In late 2005, regulators issued guidance to commercial banks warning that money service businesses were "high risk businesses" and told them that they should take steps to more closely monitor the activities of any MSB clients. To most banks, this added regulatory responsibility was not worth the profits derived from a handful of small MSB clients and most leading national and regional banks closed existing MSB accounts and adopted a policy of no new ones.

In retrospect, this episode is seen by many in the banking industry as an attempt by regulators to force commercial banks to do their work for them – to take on the supervisory responsibilities assigned to the regulatory agencies. However, the plan backfired when banks decided it was not worth the added work and dropped their MSB clients, forcing some MSB to go underground. Regulators backtracked and announced it was OK for banks to maintain accounts for well-managed MSB clients, but by this time, much damage was already done.

MFIC itself faced the closing of its bank accounts at some banks, and the company had to scramble to find a bank willing to listen long enough to hear and understand our story. This is particularly ironic because we have no doubt that our own compliance system is superior to theirs in tracking remittances.

Patterns of Remittance Costs

Studies by noted remittance expert Manuel Orozco and the InterAmerican Development Bank show that remittance fees charged to consumers have come down markedly in the last 10 years. [See charts that follow]. We see two main causes. First, the IDB and other multilateral

institutions turned a bright spotlight on the remittance industry, which had operated for many years out of sight of the public and federal regulators. The IDB initiated a public discussion of the high remittance costs, attracting new entrants into the industry who were seeking the high margins then prevailing. Ultimately this new competition helped bring costs down. Second, the U.S. Treasury Department and other major finance ministries publicly called for lower fees and ultimately the G-8 Finance Ministers issued a joint communiqué on the subject.

Some figures on remittance cost patterns follow:

[Text resumes on the following page]

Number of Remittance Companies Operating in Selected Countries: (Source: M. Orozco, International Flows of Remittances, 2006)

	2001	2002	2003	2004.01	2004.11	2005.12
Bolivia			18	18	16	14
Colombia	4	16	37	37	40	29
Cuba	2	12	10	9	7	5
Dominican Republic	30	36	34	31	32	25
Ecuador		13	34	18	16	19
El Salvador	21	26	24	29	20	15
Guatemala	22	30	32	30	23	14
Haiti	5	10	18	14	10	7
Honduras		16	20	20	20	12
Jamaica	7	7	8	13	11	6
Mexico	25	49	69	51	58	56
Nicaragua	13	14	16	11	6	6
Peru			23	24	17	13
Venezuela			18	10	11	8

Cost of Remittances to Selected Countries (Source: M. Orozco, 2006))

	2001	2002	2003	2004.01	2004.11	2005.12	01-05
Ecuador		5.7	5.1	5.4	4.4	3.9	1.8
Peru			6.2	5.5	6.1	4.6	1.6
Colombia	10.1	8.7	6.0	6.5	5.9	5.0	5.1
Nicaragua	7.5	7.5	7.0	6.9	6.7	5.2	2.3
Venezuela			7.4	8.6	6.5	5.2	2.2
El Salvador	6.7	6.2	5.8	5.7	5.0	5.2	1.5
Guatemala	7.4	7.3	7.8	7.1	6.3	5.6	1.8
Bolivia			10.1	8.2	6.7	5.6	4.5
LAC with out Cuba	***8.6***	***7.8***	***7.7***	***7.4***	***6.4***	***5.6***	3
Honduras		6.9	6.9	7.2	6.2	5.8	1.1
Mexico	8.8	9.3	7.5	7.5	6.2	6.0	2.8
LAC	9	8.6	8.2	8.3	7.1	6.3	2.7
Dominican Rep.	9.4	8.4	7.2	8.8	7.1	6.4	3
Haiti	9.0	8.1	10.4	8.9	7.9	6.7	2.3
Jamaica	9.8	10.0	12.7	10.2	8.8	8.2	1.6
Cuba	13.0	12.9	12.4	12.1	12.4	12.0	1

Transparency

Transparency has been an issue within the industry, but here again, competition has helped improve the situation. We have all heard many unhappy stories where consumers have been lured to a particular remittance provider by the offer of low fees on the deposit end, only to find that the remittance receiver has to pay huge foreign exchange or other fees to withdraw funds in local currency on the other end. In many instances remitters are not told how much local currency they will receive for the money transferred and the money transfer company later applies a foreign exchange rate that is substantially different from the one shown at the time of the transfer.

This is an area where the 'buyer needs to beware.' We know that Chairman Gutierrez has considered legislation to bring more transparency with respect to foreign exchange fees charged to remitters. MFIC would fully support any reasonable requirement for more transparency because it can only aid the consumer and well-intentioned and competitive remittance companies.

However, this is a difficult area in which to legislate for a number of reasons. First, the cost of foreign exchange is driven by the market forces and varies from day to day; from place to place; and from buyer to buyer. A huge company like Western Union can buy foreign exchange at wholesale rates. In contrast, small remittance companies are forced to acquire foreign exchange at retail rates, which can be higher by a percentage point or more.

Our customers tell us they are satisfied when they are given the exact amount the recipient will receive in local currency. This allows them to make comparisons and ensure that their transfer will cover the need of the recipient. Accordingly, our receipt shows the amount of the remittance, the fee we charge them, the FX rate applied and the ultimate amount that will be delivered to the recipient in foreign currency. The company guarantees the exchange rate in effect at the time of the remittance and published to the remitter, and as a result carries the exchange risk until the transaction is completed.

Toward A Better Compliance Regime

Finally, I would like to offer some comments on the current compliance regime and suggest some ideas that may prove to be a better approach for all over the longer term. We read the testimony from last week's hearings at this Committee on the cost to banks and MSBs of complying with the Bank Secrecy Act[1]. I was struck by what seemed to me to be whining by industry and self-serving statements by regulators. Of course, there is always tension between industry and regulators and this is natural and probably good. However, I was also disappointed not to see more innovative suggestions for improvements.

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[1] Hearing title: Suspicious Activity and Currency Transaction Reports: Balancing Law Enforcement Utility and Regulatory Requirements. May 10, 2007. U.S. House of Representatives Committee on Financial Services, Subcommittee on Oversight and Investigation.

No one disputes the need for regulation to stop terrorist finance and criminal money laundering. Every American individual and financial service firm sincerely wants to stop money laundering and block terrorist finance to the maximum degree possible. The question is how this can best be done.

My personal view is that regulators took the wrong tack in their haste to respond after 9/11. Essentially they chose to deputize American financial institutions and to make them part of the supervisory apparatus responsible for the pursuit of criminals and supporters of terrorism. Commercial banks and money service businesses were and are ill-equipped for this role, and they have been struggling ever since to meet regulators expectations in a cost effective way.

Take for instance the filing of suspicious activity reports (SARs). Banks and others have learned that no matter how conscientious they are in filing SARs, if they fail in one instance to spot suspicious activity and file a report, examiners are very, very unforgiving. Huge financial penalties have resulted. Now, it has become common practice for financial institutions to engage in "defensive filing" of SARs at every possible juncture so as to avoid the possibility of making a mistake. The result of this is a badly clogged system. Many SARs are never even examined by regulators and authorities waste precious time looking over completely benign transactions.

Additionally, there is also a so-called "silo" problem. Each financial institution and remittance company can be diligent in checking its own database for repetitive remittances of a suspicious nature, but none of these databases are linked. Each is an individual silo. So then, what happens when a criminal books one transaction with MoneyGram, another with Western Union, a third with MFIC, etc.? None of the individual institutions would be in position to note any suspicious activity.

A better system would have banks and MSBs submit a list of all transactions over a specified threshold to the appropriate regulatory authorities. Then, government could mine that data, looking for patterns of suspicious activity. They would quickly find those patterns of transaction that are invisible to individual companies no matter how diligent they are. This would all have the salutary effect of taking financial service companies out of the policing business, an activity for which they are not well suited.

Thank you very much, Mr. Chairman for this opportunity to present our views. We look forward to working with the Committee in any future efforts related to these topics.

Required Biographical Information for:

James C. Orr
Chairman, MicroFinance International Corporation

Mr Orr has worked in government and the private sector in finance, development and international trade for 40 years. His principal occupation is Executive Director of *The Bretton Woods Committee*, a group of 650 corporate chief executives, former cabinet officials and other prominent Americans who have joined together to improve understanding and help increase the effectiveness of the World Bank, the International Monetary Fund and other global and regional development institutions.

In 2003, Mr Orr was elected Chairman of *MicroFinance International Corporation.* MFIC is a diversified financial services provider dedicated to offering high quality, affordable services to underserved markets and where services have been overpriced or disconnected from the mainstream banking system. Products range from unsecured micro-loans for consumers with no credit history to transnational loans enabling immigrants to buy homes and start small business loans in their home countries. MFIC operates a robust, Internet-based remittance platform which is highly compliant with federal regulations.

In 1983, he founded *James Orr Associates* where he oversees the firm's operations on behalf of domestic and international clients in the financial services industry and international business more generally. He works closely with Congress, federal departments and financial regulatory agencies. Prior to the formation of the firm and the Committee, Mr. Orr served both Republicans and Democrats during eight years as legislative counsel to the House Financial Services Committee and the International Trade and International Development Subcommittees in the U.S. House of Representatives. He has an undergraduate degree in economics from Wesleyan University and a master's degree in international economics from the School of Advanced International Studies (SAIS), Johns Hopkins University.

Mr. Orr also serves on the Board of Directors of *TechnoServe, Inc.* – a non-profit, aid organization helping entrepreneurial people in developing countries build businesses and create employment, income and opportunity for their communities.

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"Truth in Testimony" Disclosure, required by the Committee on Financial Services:

Neither Mr. Orr nor Microfinance International Corporation has received any Federal grants or contracts, either in the period since October 1, 2004 or prior to that date.

Testimony of

Mr. Mark Thompson

On Behalf of

The Western Union Company

To The

House Financial Services Committee Subcommittee on Domestic and International Monetary Policy, Trade and Technology

Hearing on Remittances: Access, Transparency, and Market Efficiency – A Progress Report

May 17, 2007

Mr. Chairman, Members of the Committee:

Good Morning. My name is Mark Thompson and I am an Associate General Counsel of The Western Union Company. I appreciate the opportunity to provide testimony at today's hearing.

Although Western Union began sending money for customers 135 years ago, when the Western Union Telegraph Company started offering telegraphic money transfers throughout the United States, the international remittance market as we now know it is relatively young. Two decades ago immigrants did not have an affordable, convenient, fast and reliable means of sending small amounts of money to friends and relatives in other countries. International money transfer services were available only to wealthy individuals with banking relationships. Over the last two decades, Western Union has played, and continues to play, a central role in expanding the use of electronic remittance systems and enabling millions of immigrants to send money back home to their families. Today, Western Union provides a convenient, fast and reliable way to send money in over 195 countries and territories.

Nearly all experts now agree that the cost of remittances has dropped significantly over the past five years. In its November 2005 report on the industry, the GAO found that "competition in the remittance market has resulted in a drop in the cost to send remittances...." The Inter-American Dialogue found that the cost of sending remittances from the United States to Latin America (as measured by percentage of principal) fell from 12.5 percent in 2003 to 7 percent in 2005, and average as low as 4% in countries

with higher levels of competition. As competition continues to increase, we anticipate that this trend will continue.

Price is not the sole factor considered by consumers--in fact, for some consumers price falls behind other factors, such as security, speed, reliability and convenience. Although we agree that consumers should have the ability to discern the costs of products as they shop, we also believe that too often remittances are viewed by policymakers as a commodity, with consumer decisions driven only by price. Our experience is that, in addition to the fees and exchange rate, customers will often ask questions such as "When will I be able to send money? Are you open on weekends? Will my money get there? How long will it take to get there? Can my family members pick the money up in their village or town? Will my relatives have to open a bank account to get their money?"

We agree with the general principle that consumers should have adequate information to make an informed decision as they choose among providers, and we agree that remittance transfer providers should disclose this information to potential customers.

We support transparency with respect to fees and foreign exchange rates. With limited exceptions, at the time a transaction originates in the United States, Western Union provides its customer with a written receipt that clearly states the following information: 1) the amount (stated in U.S. dollars) that the customer has presented for transfer; 2) the fee (stated in U.S. dollars) that Western Union charges for the transfer; 3) the total amount (stated in U.S. dollars) that that customer has provided to Western Union (this is

the sum of the first two items); 4) the retail currency exchange rate that Western Union will apply to the transfer; 5) the amount (stated in the currency of the payout country) that Western Union will provide to the recipient of the transfer; and 6) a statement advising the consumer that Western Union makes money from currency conversion.

We believe this type of information gives customers the information they require to make an informed decision. We believe that requiring a disclosure that would reflect the difference between the exchange rate Western Union offers to a consumer and the exchange rate established by the U.S. Treasury Department -- as set forth in legislation in past years -- would not be relevant to the consumer and could adverse effects, such as reducing competition in exchange rates.

To lower the cost of international remittances, the Federal Reserve is working with banks to expand the use of the ACH system for international remittance transfers. While we agree the Federal Reserve ACH system can provide a lower cost structure when both the sender and the receiver have bank accounts, we believe companies such as our company are valued by senders and receivers because no bank account is necessary. For us, banked individuals on both ends of our transactions are the exception, not the rule (although our studies show a majority of our U.S. senders are banked).

Other studies indicate that a majority of receivers in Latin American are unbanked. In Mexico, for example, approximately 29 percent of individuals who receive remittances are banked. We encourage you to consider assisting companies that are willing to create

networks not served by the banks in order to serve unbanked individuals at a lower cost. For example, if a company were allowed to open an account at the Federal Reserve and utilize the Fed's services, it would be able to eliminate one layer of the money transfer cost structure, that being the need to move the money through a traditional banking institution in the United States.

We support the policy goal of making remittances more available and affordable to consumers. Given our commitment, and the commitment of other remittance providers, to serve our consumers, we believe that legislation should not grant advantages to banks and credit unions that are not available to traditional remittance providers. Such legislation would create an un-level playing field and place the Congress and the federal agencies in the position of choosing winners and losers in a competitive and evolving market. It would also presume that remittance services provided by such financial institutions are cheaper than those of traditional remittance providers, ignoring the high fees and penalties associated with checking accounts, ATM transfers, and other services.

Additional Comments Regarding Past Remittance Legislation

In addition to the issues raised above, Western Union also has the following comments regarding general topic areas of remittance legislation that has been introduced in past years. While we understand that the committee may consider a bill that is different in some respects from HR 928, introduced in the 109th Congress, we thought it would be appropriate to voice our concerns with the previous proposal so that our views might be of some assistance moving forward.

Date of Delivery

Western Union's person to person money transfer services are generally available immediately (usually within 10 minutes), except in certain foreign countries where the recipient country restrictions prevent that from happening. Western Union discloses to consumers when and why delivery may not be immediate. In addition, Western Union offers a next-day service to certain international markets where senders choose to have their money available within 24-hours for the recipient. Consumers pay a lower money transfer service fee for this service. Western Union also offers a home delivery service in certain international markets. For these reasons, an exact promised date of delivery is often difficult or impossible to provide.

Name and Address of Recipients

Depending on the location in a country, recipients may not have formal addresses or telephone numbers. The recipient may also be traveling and his/her home address may not be relevant to the transaction. Consequently, it would be impossible to create a standard form to track the addresses or telephone numbers of recipients in 195 countries and territories. Western Union requires the sender to provide the name of the intended recipient and city and country of payout. Western Union has operating procedures in place to assure that the intended recipient is the person to whom we deliver the money.

Exemption to Receipt Requirement

Our position is that mailed receipts should be required if the customer so requests. Often times, the consumer may not request a receipt due to the fact that he or she may be traveling. In addition, our telephone initiated transactions are not "conducted entirely by

telephone". They are initiated by telephone but completed by payout in person at an agent location.

Error Resolution

Our error rate and related customer complaints are very low. Safeguards are provided through state licensing of money transmitters, state examination of money transmitters as well as federal and state consumer protection laws. This requirement would shift the burden of proof of demonstrating that an error has been made from the consumer to the remittance provider. Shifting the burden to the provider opens the provider up to fraud because it would be easy for the consumer to get a payout by simply alleging that the provider paid money to the wrong person. Western Union believes the time period involved is too long given that most transfers are paid out within a day or two. A bank account holder under the UCC is required to notify its bank within 30 days of receipt of his/her statement of an error or such account holder begins to lose its right to make claims against the bank for an error, with an absolute bar on claims against the bank arising after one year. See UCC 4-406. A similar standard should apply here.

Remedies

While it is reasonable to ask the provider to respond substantively to a complaint within 90 days, exceptions should be provided when the information requested may take more than 90 days to retrieve the information off receipts in remote countries and report back to the United States. Any legislative approach should recognize that we are not dealing with the U.S. ACH system as is the case under the EFT Act and Regulation E. We are

dealing with transfers that may involve receivers in remote regions of the world such as in Africa, the Middle East and Asia.

Agents and Subsidiaries

State money transmission laws require a money transmitter to adequately supervise its agents and impose liability on the money transmitter if it fails to do so. Money transmitters are also uniformly responsible for the transmission of the customer's money regardless of whether that money is received by the money transmitter from its agent or not. In accordance with the Law of Agency, agent violations of law are outside the scope of the agency and the principal is not liable for such violations. A new federal standard making money transmitters, as the principal, liable for violations of law by their agents is unnecessary and contrary to current state law. Such a standard would likely cause providers to shrink their networks with respect to low volume agents, thus reducing availability of services to the unbanked and low income communities.

Conclusion

Thank you for the opportunity to appear before you today on behalf of The Western Union Company. We look forward to working with the Subcommittee as you continue to examine this issue.

The Honorable Luis Gutierrez
Chairman
Subcommittee on Domestic and International Monetary Policy,
Trade, and Technology
United States House of Representatives
Committee on Financial Services
2128 Rayburn House Office Building
Washington, DC 20515

June 18, 2007

Dear Chairman Gutierrez,

Enclosed are the responses from Appleseed to the five questions submitted to us as a follow up to our testimony at the May 17, 2007 hearing entitled, "Remittances: Access, Transparency, and Market Efficiency- A Progress Report."

Appleseed firmly believes that requiring the posting of remittance cost and service information, pre-transaction, will lessen the cost of remittances, by requiring that one of the basic principles of the free-market be in place – full information.

We appreciated the opportunity to testify before your Subcommittee and are pleased to provide any additional resources or information to assist you in addressing the policy areas of transparency and market efficiency for remittance markets.

Please feel free to contact me if I can be of any further assistance. We look forward to continuing to work with you on this important issue.

Sincerely,

Annette LoVoi
Field Director

727 15th Street, NW, 11th Floor, Washington, DC 20005
202 347 7960 Fax 202 347 7961 www.appleseednetwork.org

Additional Questions for Ms. LoVoi

June 18, 2007

1)	Ms. LoVoi, in your written testimony you discuss the *Fair Exchange* program and the data collected through the program, which demonstrates the priority that consumers place on pre-transaction disclosures. What information should absolutely be disclosed pre-transaction? Should remitters be required to disclose all possible costs associated with a transfer prior to the transaction? This might be feasible with a large remitter location, but in a bodega, the owner doesn't have the resources to go through this amount of detail with each customer. How do you think we should address that issue?

In developing the Fair Exchange disclosure template, we worked with a number of interested parties to create a disclosure that is both feasible to implement and meaningful to consumers. The template accommodates varying business models. All of the fields of the Fair Exchange disclosure template should be included in a posted pre-transaction disclosure, as we expressed in our testimony.[1] Based on focus group testing of the Appleseed Fair Exchange template, consumers want to know the fee, the exchange rate, the time of delivery, and information on pick up fees. The focus groups also found the sample transaction information extremely helpful and asked for additional sample transaction values to be included, to provide information on higher dollar transfers. The Fair Exchange disclosure template allows for an "apples to apples" comparison of remittance options, which is a core goal of a pricing and service disclosure.

As we mentioned in our testimony, Appleseed recommends a posted disclosure with the Fair Exchange template information for the top three delivery channels for the top three markets served by an agent or branch offering remittance services. We also recommend that the Federal Reserve Bank be granted rule making authority in implementing the disclosure and be required to consult with consumer and immigrant organizations and banking, credit union and remittance industry representatives in setting the final disclosure rules.

A posted disclosure, modeled after the Fair Exchange disclosure, is flexible, to accommodate different market approaches by remittance companies, and not onerous, given the limitations of the number of countries and pick up agents or services that would be required. It presents a compromise that takes the core values of full pricing disclosure and implements them in a practical way that benefits the largest number of remittance consumers.

[1] See Attachment 1 for a copy of the disclosure and the attached report, "The Fair Exchange: Improving the Market for International Remittances".

In addition to the posted disclosure, remitters should be required to disclose all possible costs for any unique transaction, in accordance with standard for many other financial service transactions. That disclosure could be made in the form of a receipt which the customer views before finalizing the transaction, or through other means which could be developed through a rule making process implementing such a requirement.

Bodega owners post many different types of information in store locations—the price of cigarettes, beverage specials, the cost of money orders and cashing checks. There is no reason why a remittance disclosure could not be posted as well.

2)	Through the Fair Exchange program, Appleseed is working toward voluntary standardized disclosures for remittance transactions. If that is the case, why do we need federal legislation on disclosures?

We are proud of the Fair Exchange program and the initiative our partners have taken in working to improve disclosures for remittance customers. However, launching such an initiative is time-intensive and it could take some years before the proposed standards become broad market practice. While a form of the Fair Exchange disclosure may become the industry standard over time, we are realistic in our expectations and understand that regulation will be more efficient and have a broader, more-consistent impact. The standards we have arrived at through the Fair Exchange process are in a word, the standards that are fair to consumers. They resemble the standards in many regulated areas of finance and the consumer economy. Put simply, the law recognizes in most areas that consumers are entitled to know the price of what they are buying before entering into the transaction. The general rules of the game should not be relaxed for remitters as is the current practice.

3)	In his testimony, Mr. Thompson states that any legislation we consider should not place traditional remittance providers at an unfair advantage to banks and credit unions. In general, do you agree with Mr. Thompson's statement, and specifically, if we give banks and credit unions access to the ACH transfer system, shouldn't we also give access to money remitters?

Appleseed has not undertaken any legal research into the issues surrounding the ACH transfer system.

4)	In his testimony, Mr. Thompson expressed concern about the error resolution provision in my bill from last Congress, H.R. 928. Specifically, he stated that this particular provision would shift the burden of proof from the consumer to the provider. In other words, the consumer would only have to claim that an error had been made and the provider would then have to prove otherwise. Also, Mr. Thompson states that the one-year period allowed for a consumer to bring a complaint of an error is unfair. How do you respond to Mr. Thompson's concerns?

We find credence to aspects of Mr. Thompson's argument. Both Regulations E and Z give the consumer 60 days to report an error. We recommend that Regulation E be used as the guide for error resolution language and that the enacting legislation include more details on the error resolution procedures, including details regarding what is required of a consumer when reporting an error. Also, H.R. 928 gives the provider 90 days to respond to a consumers claim, whereas Regulations E and Z apply a much stricter standard of 10 days with a possible extension to 45 days under certain circumstances. Those standards should also be brought in line with the standards of Regulation E. Suggested language for changing the error resolution provision could include:

> The Federal Reserve Board shall, within 180 days of enactment, issue proposed rules for error resolution for international remittances substantially similar to those the Board has issued under Regulation E, 12 FCR 205.11, taking due regard of the need for (a) a domestic U.S. entity to be responsible for error resolution on transactions in which it has participated, regardless of the contractual relations of the parties to the transactions; (b) provisions related to the full range of potential errors in international remittance transfers, including but not limited to error resolution claims that the correct amount of funds were not transferred, that an incorrect fee was charged, that an incorrect exchange rate was employed, or that the designated recipient in the foreign country did not pick up the transferred funds.

5) In his testimony, Mr. Haider mentioned that MoneyGram is opposed to adding a layer of federal regulation on top of existing state regulations because this would increase compliance costs to this industry, which will be passed on to the consumer. Please respond to this. Doesn't he have a point? Are not increased regulatory requirements sometimes at odds with lower fees?

Using Mr. Haider's own arguments regarding the benefits of federal regulation of remittance businesses, if new federal standards provide a higher standard of disclosure and dispute resolution as compared to state standards, having one clear standard could make compliance processes more efficient because businesses would only be concerned with one set of standards at least in those two areas. Instead of viewing this as adding a new layer of regulation, it could be seen as a first step towards broader federal oversight and consistent industry standards.

However, Congress should be clear as to where the federal standard has pre-emptive authority over state law, or it could inadvertently introduce new areas for confusion and litigation. Surely regulation can sometimes cost the consumer, but here, we believe that enforcing a requirement that remittance agents tell consumers what the cost of a remittance is, pre-transaction, will lessen the cost of remittances, by requiring that one of the basic principles of the free-market be in place – full information.

Attachment 1: Fair Exchange Preliminary Disclosure Template

COUNTRY: **Name of Country**

SERVICE: **Name of Remittance Service**

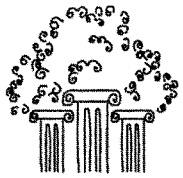
TELEPHONE: Phone Number

Service Description						Sending $300 with all fees included	Sending $200 with all fees included	Sending $100 with all fees included
Pick Up Location	Fee for Sending $1-$300	Exchange Rate (currency)	Available for Pick Up	Type of Transaction	Pick Up Fee	(currency) Received	(currency) Received	(currency) Received
Pick Up Location 1	$10	10.96	Same Day	Bank Account*	0	3178.40	2080.50	986.40
Pick Up Location 2	$9	10.90	Next Business Day	Cash	0	3171.90	2081.90	991.90
Pick Up Location 3	$8	10.95	One Hour	Cash	25.00 (currency)	3172.40	2079.32	982.40

* **Note:** A monthly fee may apply. You must have an account to access this product.

Appleseed

Sowing the Seeds of Justice



THE FAIR EXCHANGE:

Improving the Market for International Remittances

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We would like to give special thanks to the Center for Financial Services Innovation, for providing the seed funding for the Fair Exchange initiative, and to the Annie E. Casey and Levi Strauss Foundations for supporting our work. Cravath, Swaine, and Moore, LLP provided excellent support in the design and drafting of this report. We would like to thank the Fair Exchange Committee for their time, effort, and many contributions to our work, and Linda Singer, the former Appleseed executive director, for her important contributions to this report and to the Fair Exchange process. We would also like to thank all those interviewed for this report, for their time and insight.

The findings and conclusions of this report are those of Appleseed alone and do not necessarily reflect the opinions of the Fair Exchange Committee members, interviewees or other outside contributors, or of the project advisors or funders.

Finally, we would like to thank our community partners for their assistance in organizing the focus groups: Olivia Hernandez with Centro Comunitario Juan Diego in Chicago, Illinois; David Casas with the Latin American Association in Atlanta, Georgia; and Karen Lyons and Erika Leos with Foundation Communities in Austin, Texas.

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Appleseed, a non-partisan and non-profit organization, is a network of public interest law Centers working to identify and address injustices in their communities. Appleseed works to build a just society through education, legal advocacy, community activism and policy expertise, addressing root causes and producing practical solutions. As one of the nation's largest legal pro bono networks, Appleseed Centers work both independently and collectively, bringing their own experiences to create local solutions that are nationally relevant. We connect the top private practice lawyers, corporate counsel, law schools, civic leaders, and other professionals to tackle problems.

Executive Summary

International remittances from the United States to Mexico and Latin America are continuously increasing paralleling the large growth in Latino immigrant communities in the United States. A recent report from the Inter-American Development Bank estimated that remittances from the United States to Latin America, primarily sent by migrants to their family members abroad, reached $45 billion in 2006, an increase of $5 billion from 2005.[1] The growing importance of international remittance markets, both as a business and an economic development opportunity, has drawn policy and research attention in recent years. Policymakers, market participants and researchers have recently focused attention on how to reduce the costs and improve the transparency of pricing of international remittances.

In the 2001 Partnership for Prosperity between the United States and Mexico, both countries focused on cooperation to reduce the cost of international remittances as an important joint policy goal. The 2004 Summit of the Americas in Monterrey, Mexico also affirmed the goal of reducing remittance costs in the Americas. A report from the spring of 2006 showed that prices are likely coming down. From 2000 to 2005, the average cost of sending $200 from the United States to Latin America fell from 10% of the transaction amount to 5.6%.[2] However, more can be done to reduce costs and improve price transparency, to assist consumers in comparison shopping for remittances. With existing disclosures it is often hard for consumers to understand, before they engage in a transaction, the full costs of sending a remittance, including transaction fees and the exchange rate spread, the difference between the exchange rate offered to the customer and that obtained by the remittance firm.

Recent studies by the World Bank have noted the importance of transparency in international remittance markets. A January 2007 report, entitled *General Principles for International Remittance Services,* listed as the first general principle, "The market for remittance services should be transparent and have adequate consumer protections."[3] A 2005 Appleseed study of the U.S.-Mexico remittance market highlighted challenges consumers face in determining and comparing exchange rates and fee pricings for low-dollar international remittances to Mexico across service providers. A major finding of the report, in line with the World Bank's principles, was that the international remittance market could benefit from consistent, accessible, and comparable pre-transaction pricing disclosures.[4]

As part of a new approach to implementing consumer disclosures, Appleseed and its partners launched the Fair Exchange effort in April of 2006 to explore the possibility of creating a market-based initiative for providing improved pricing disclosures in international remittance markets, similar to the Fair Trade branding of coffee. The premise

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[1] Inter-American Development Bank and Multilateral Investment Fund. *Sending Money Home: Leveraging the Development Impact of Remittances.* October 2006. p.4.

[2] Manuel Orozco. "International Flows of Remittances: Cost, Competition and Financial Access in Latin America and the Caribbean—Toward an Industry Scorecard." Inter-American Dialogue. May, 2006. p. 2.

[3] *General Principles for International Remittance Services.* Committee on Payment and Settlement Systems. The World Bank. January 2007. p.21.

[4] Appleseed. *Creating A Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market.* December 2005.

of the initiative is that offering clear pre-transaction disclosures for remittance transactions could increase the market share of participants, benefiting competitive players and consumers alike. By highlighting pricing up front, market participants would publicly signal that they are interested in dealing with customers in a forthright manner. Voluntary disclosures could help to improve the public image of the participating firms. Moreover, the Fair Exchange process would help to create a forum for industry and consumer representatives to engage in positive and creative dialogue and joint initiatives with the goal of producing mutually beneficial market solutions to other relevant issues. As part of the process of developing a market-based voluntary disclosure program, Appleseed convened the Fair Exchange Committee, including representatives of the international remittance industry, banks, credit unions, federal and state regulators, and consumer advocates. Appleseed has worked with the committee to develop approaches for pre-transaction disclosures and for a Fair Exchange program.

This report summarizes the findings of the Fair Exchange process in three areas:

- model **consumer disclosures**, which underwent focus group testing in immigrant communities;
- models of **voluntary industry standards**; and
- a fair exchange **program and disclosure template for piloting**.

Focus Group Testing of Consumer Disclosures

For consumer disclosures to work, consumers need to understand them. The Fair Exchange developed disclosure models after extensive discussion with experts, and then tested the models through focus groups in four immigrant communities with a total of fifty participants. The first section of the report presents the results of consumer focus group testing of pre-transaction disclosure template developed through discussions with the Fair Exchange Committee.

Four focus groups were held in Chicago, Illinois; Atlanta, Georgia; Lincoln, Nebraska; and Austin, Texas. The groups included people who regularly remit money to family members in seven countries in Latin America, with the majority remitting to Mexico. They also included variations in gender, age, education, and income:

- The majority of participants had monthly incomes of $2000 or less;
- One-quarter had only an elementary school education, while 42% had a middle school or high school level education;
- Just over half of the participants sent amounts between $100 and $300 to family members in Latin America; and
- 65% of participants sent money at least once per month.

Through the focus groups, we strived to understand the immigrants' remittance practices and priorities and to test their reactions to the new pricing disclosure template. Participants were asked to rank a variety of factors affecting remittance transactions on a scale from most important to least important. Participants could rate more than one factor as most important. Of the factors presented, the top three were **security, reliability, and cost**.

Sixty-one percent of participants ranked security as most important, 57% ranked reliability as most important, and 50% gave cost the highest ranking.

Prior to seeing the model disclosures, most participants reported that they felt they had adequate access to pricing information. Participants tended to use word of mouth as their main source of information regarding pricing and service. Those who compared prices often had to visit the locations of competing services, which they found cumbersome.

Notwithstanding their previous sense of comfort with the transaction information, when participants viewed the disclosure templates, they found them extremely beneficial. The discussions revealed that participant expectations of the marketplace were quite low. When presented with higher standards of disclosure, they quickly embraced them:

- All the participants liked the idea of a **clear, uniform, pre-transaction disclosure**. The current practice differs from firm to firm and location to location, with some locations providing various components of pricing information prior to the transaction and others only after the transaction has been completed.
- In comparing the different versions of the pre-transaction pricing disclosure template, participants chose the templates with **more detailed transaction information** rather than the simplest version.
- Participants focused on the **actual value of the funds received** by their family member in local currency in the recipient country, net of all fees to send or receive, and net of the exchange rate spread.
- The discussion revealed that **predictability of the transfer** is a high priority and that having an official disclosure helps them not only compare services, but also feel secure that the service they choose is providing a guarantee to meet their expectations.
- Participants in each of the focus groups stated that they would prefer to use a business that posted a pre-transaction pricing and service disclosure over one that did not.

As one participant shared, "I would not like just one business to use this [disclosure table], I would like all businesses to use this!"

The focus groups provide evidence that that there is a market-based incentive for businesses to adopt consistent and complete pre-transaction disclosures for international remittance transactions. The results reflect the importance of remittance transactions to immigrant consumers and the multiple priorities that affect decisions to use one service over another. The disclosure templates presented to focus group participants address many of those priority issues, including information on fees, the exchange rate, date of availability, and a subset of locations for pick up of the funds. Consumers in the groups wanted the information and expressed a preference for businesses that would provide it. The preliminary template, which represents the disclosure preferences of the focus group participants, can be used as a starting point for developing a final disclosure form. Further market testing and industry vetting, to ensure the disclosure is compatible with varying business models, are necessary to reach a final template.

Models for Voluntary Industry Standards

Section II of the report presents information on models for voluntary, market-based initiatives for implementing industry standards, similar to the Fair Trade concept. The models are designed to provide insight into how the international remittance industry could create a voluntary program for pre-transaction disclosure standards. The section explores four models that currently exist in the marketplace:

1. An **industry trade association** setting and enforcing market standards for its members;
2. A **independent non-profit organization** working to establish industry standards through **grassroots** work;
3. A independent non-profit organization **setting and enforcing standards for industry**; or
4. **Individual businesses** setting internal standards for investments, suppliers, or agents.

Each of these models could be applicable to a market-based pre-transaction disclosure initiative. Appleseed worked with the Fair Exchange Committee in order to target the most appropriate models in the context of the current international money transfer industry environment.

A Fair Exchange Program

The final section of the report provides approaches to a Fair Exchange program proposed by Appleseed and based on feedback from the Fair Exchange process. Designing a market-based disclosure initiative for international remittance businesses has two key components:

- developing **participation standards** and
- developing an **administrative framework** for the initiative.

The Fair Exchange Committee proceedings pointed to minimum market standards that take into account key barriers to disclosure raised by industry participants in the committee and that could be implemented in the current market environment:

1. **Pre-transaction Disclosure**. A pre-transaction disclosure, such as the preliminary template developed through focus groups and committee proceedings, will be provided to each money transfer retail location for the top three paying agents[5] in the top three destination countries;

[5] A paying agent is the agent that disburses the funds sent through a money transfer business in the United States to the funds recipient in the destination country.

2. **Facilitated Complaint Resolution**. Each money transfer business must provide consumers with a phone number to call in the event of any problems with the service and the phone number of appropriate state and federal regulators; and

3. **Good Faith Compliance with Minimum Standards**. Money transfer businesses must make a good faith effort to have the pre-transaction disclosure posted in each retail location of the business.

In addition to issues around consumer disclosures, the committee discussed other concerns and opportunities that a Fair Exchange program could address. These include:

1. Working to address problems with access to bank accounts for money service businesses, including non-bank money transfer businesses; and
2. Exploring creative collaborations among banks, non-bank money transfer businesses, and consumer organizations to improve the financial inclusion of immigrant communities.

Two of the voluntary market-based industry standard models described in the second section of the report stand out, currently, as having the most potential for the international money transfer market:

1. A business setting internal standards; and
2. An independent non-profit organization setting and enforcing industry standards.

Of the two models listed above, the model of the business setting internal standards is the easiest to implement. It is low-cost and offers each business significant flexibility in implementing standards to fit its business model. The disadvantage of this approach is that it may face difficulties in gaining credibility among consumers and businesses would not benefit from a broad-based marketing campaign and collaborative advantages of being part of an organization that implements and enforces the standards.

The second approach, an independent non-profit administered program with membership based on meeting explicit standards, similar to the Fair Trade Federation, would be costly and difficult to establish. Benefits of this approach include a national branding and marketing of the initiative; credibility of the standards through enforcement by an independent body; advantages of working with other members to explore creative solutions for issues impacting both industry and consumers; and collaborating on future market-based initiatives.

This report is a preliminary step in launching such a market-based initiative. It provides an opportunity for the industry to work cooperatively with consumer organizations to achieve common goals. The next steps in the process include a limited pilot to test the disclosure in a market setting, and then expanded implementation if the pilot proves successful. A number of participants in the Fair Exchange process have agreed to pilot pre-transaction disclosure in the coming months. These pilots should lay a solid foundation for future work establishing the Fair Exchange.

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Introduction

The international remittance market in the United States, largely fueled by immigrants sending money to family members abroad, has experienced significant growth over the last 15 years. Based on statistics from the International Monetary Fund, from 1990 to 2005, remittances sent from the United States to countries around the world more than tripled, from $11.8 billion to over $38 billion.[6] Remittances worldwide to Latin American countries grew from $5.8 billion in 1990 to over $53 billion in 2006, with much of that remittance activity originating in the United States.[7] The Inter-American Development Bank estimates that remittances sent from the United States to Latin America and the Caribbean reached $45 billion in 2006, an increase of $5 billion over 2005.[8] Remittances to Mexico alone reached $25 billion in 2006, with the vast majority coming from the United States.[9]

The growth in the U.S. international remittance market can be tied to significant growth in immigrant communities and particularly growth in immigration from Latin America. Currently, over 35 million immigrants live in the United States, including over 19 million from Latin America.[10] The Latin American immigrant population grew 126% from 1990 to 2005, and has grown 18% between 2000 and 2005.[11] Increases in remittances are tied to both growing immigrant communities and growth in the amounts of money sent by individual remitters. Because of the large amounts of money flowing across borders, international remittances have become a major policy focus, both in terms of their development impact on recipient communities and their importance to immigrant communities here in the United States.

Lowering the costs of sending remittances and improving pricing disclosures for remittance transactions have been components of important domestic and international initiatives in recent years. The U.S.-Mexico Partnership Prosperity was launched in September of 2001. One of the explicit goals of the partnership was, "Lowering the cost to Mexicans and Mexican-Americans in the United States of sending money home so that their families get to keep more of their hard-earned wages."[12] It was this agreement that prompted the Federal Reserve Bank collaboration with Banco de México to create the FedAutomated Clearinghouse International Mexico Service, a low-cost money transfer

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[6] *Global Economic Prospect 2006: Economic Implications of Remittances and Migrations.* World Bank. 2005.

[7] Sanket Mohapatra, Dilip Ratha, Zhimei Xu, and K. M. Vijayalakshmi. "Migration and Development Brief 2: Remittance Trends 2006." World Bank. November 2006. and *Global Economic Prospects.* World Bank. 2006

[8] *Sending Money Home: Leveraging the Development Impact of Remittances.* Inter-American Development Bank and Multilateral Investment Fund. October 2006. p.4.

[9] "IDB fund, Institute of the Americas hold conference on investments backed by remittances in Mexico." Inter-American Development Bank. February 1, 2007.

[10] American Community Survey 2005.

[11] U.S. Census 1990 and 2000 and American Community Survey 2005.

[12] "Joint U.S.-Mexico Statement." Joint Statement by the Presidents of the United States and Mexico. Monterrey, Mexico. March 22, 2002.

option now called "Directo a Mexico."[13] In addition, a number of bills have been filed in the U.S. Congress to improve pricing disclosures for international remittance transactions. These efforts have attempted to create standardized disclosures for receipts and create requirements for pre-transaction disclosures of total costs, including fees and the cost of the exchange rate spread, the difference between the exchange rate received by the money transfer company and the exchange rate provided to the customer.[14] To date, none of these initiatives has become law, but there continues to be a policy debate over what types of disclosures are appropriate for international remittance transactions.

The 2004 Summit of the Americas in Monterrey, Mexico highlighted the priorities of the leaders of the Americas for reducing the cost of remittance transactions by one-half by 2008 through encouraging competition, leveraging technology, eliminating regulatory barriers, and improving pricing transparency and consumer protections.[15] Two years later, there is evidence supporting a decrease in pricing, particularly in major remittance corridors, such as the U.S.-Mexico corridor. An Inter-American Dialogue study, from the spring of 2006, documented a drop in average charges for a $200 remittance from the U.S. to Latin America from 10% of the transaction amount in 2000 to 5.6% in 2005.[16] The same report documented improved competition over the five-year period, with a recent trend of consolidation in the remittance industry.

A study of the U.S.-Mexico remittance market, published in December 2005 by Appleseed, examined pricing transparency in the U.S.-Mexico market and noted the decrease in pricing, but highlighted difficulties consumers face in comparing total transaction pricing among companies, in part because of difficulties in comparing exchange rates.[17] The report documented three key issues impacting pricing transparency: challenges faced by consumers in choosing the best-priced service because of variations in the exchange rate spread from day-to-day; inconsistent pre-transaction pricing information, with some services refusing to provide exchange rate information over the telephone; and a lack of consistent regulations from state to state with regard to disclosure requirements.[18] A World Bank study, released in November of 2005, included similar issues.[19] The report noted that remittance pricing was often complex and not fully transparent.[20] It also cited varying regulatory burdens faced by the industry as a contributor to costs and fees.

A recent World Bank report, providing principles for international remittance services, reinforces the need for improved pricing disclosures for remittance transactions: "General

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[13] For more information, see: http://www.frbservices.org/Retail/intfedach.html.
[14] *Creating a Fair Playing Field for Consumers*. Appleseed. December 2005. p. 4.
[15] "Declaration de Nuevo Léon." Accessed on 2/4/07 at http://www.sice.oas.org/ftaa/nleon/nleon_e.asp.
[16] Manuel Orozco. "International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean—toward an industry scorecard." Inter-American Dialogue. May, 2006. p. 2.
[17] *Creating A Fair Playing Field For Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market*. Appleseed. December 2005.
[18] *Creating a Fair Playing Field for Consumers, Summary Report*. Appleseed. 2006. p.6.
[19] *Global Economic Prospect 2006: Economic Implications of Remittances and Migrations*. World Bank. 2005.
[20] *Id.* P.136.

Principle 1. The market for remittance services should be transparent and have adequate consumer protections."[21] The report points out the importance for consumers to know the total price and speed of the transaction before committing to a particular service and asserts that this level of transparency will benefit the market through more effective competition and improved efficiency.[22]

Building on the research to date, examining opportunities for increased pricing transparency in international remittance markets, Appleseed is working to create a positive path to address negative perceptions of the international remittance market and to find ways by which businesses that provide international money transfer services can grow and differentiate through providing a better consumer end product.

In April of 2006, Appleseed convened a group of industry, regulatory, and consumer representatives, the Fair Exchange Committee, to explore options for a voluntary market-based approach to improve pre-transaction disclosures for international remittance transactions. This report includes three main sections describing the results of the work of the committee and presenting options for creating a branding program similar to the Fair Trade concept. The goal of the program is to assist consumers in choosing the best remittance value to meet their needs and to positively differentiate competitive industry players.

A major challenge in providing pre-transaction pricing disclosures for international remittances is in determining what information is practical for the different industry players to provide and what is meaningful for consumers. The first section of this report presents the results of focus group testing, with Latin American immigrants, of pre-transaction disclosure templates. The templates tested were developed through discussions and feedback of the Fair Exchange Committee.

The second section of the report presents four voluntary standards models that currently exist in the marketplace and upon which a branding campaign could be based. The four models include an industry trade association administered program; an independent non-profit working to establish standards through grassroots organizing; an independent non-profit setting and enforcing standards for industry; and a powerful consumer or business setting internal standards for subcontractors, suppliers, or agents.

The final section of the report presents voluntary market-based disclosure program models that have potential to work, based on the discussions and feedback of the Fair Exchange Committee.

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[21] *General Principles for International Remittance Services.* Committee on Payment and Settlement Systems. The World Bank. January 2007. p.21.
[22] *Id.* pp. 11 and 13.

Section I: Consumer-Testing of Pre-transaction Disclosures

A major component of the work of the Fair Exchange Committee has been to explore a pre-transaction pricing disclosure strategy both designed and implemented by the industry, in partnership with consumer advocacy organizations.[23] Discussions of the group, over a nine-month period, raised issues that make disclosures challenging for remittance providers. Key challenges raised include the following:

- Exchange rates offered by money transfer providers vary based on the agent location and currency fluctuations throughout the day;
- Exchange rates may also vary based on paying locations in the destination country;
- Some money transfer providers serve a large number of countries, and posting for each country would be impractical;
- Agents may lack space for posting or the willingness to post pricing information; and
- Quantifying the added costs of account maintenance or overdraft fees may be indirect costs of using international money transfer products at financial institutions.

In an effort to address many of these concerns, Appleseed worked with the Fair Exchange Committee to develop a disclosure that could overcome practical barriers while providing consumers with essential transaction information.

The consumer focus groups, discussed in this section, were designed to gauge the importance and effectiveness of the resulting disclosure.[24] The focus group information reflects the practices and opinions of the participants and does not necessarily reflect those of remitting communities as a whole.

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[23] The findings and conclusions of this report are those of the authors alone and do not necessarily reflect the opinions of the Fair Exchange Committee members or of the project funders. The Fair Exchange Committee includes representatives from Appleseed and its center affiliates; JoAnn Carlton and Paul Kramer, Bank of America; Arjan Schütte, Center for Financial Services Innovation; Sandra Reilly, Citibank; Oscar Chacón and Amy Shannon, Enlaces América; Michael Frias, Federal Deposit Insurance Corporation; Elizabeth McQuerry and Elena Whisler, Federal Reserve Bank Retail Payments Office; Ben Knoll, GrupoExpress; Manuel Orozco, Inter-American Dialogue; Don Terry, Inter-American Development Bank; John Herrera, Latino Community Credit Union; James Maloney, Mitchell Bank; Dan O'Malley, MoneyGram; Beatriz Ibarra and Eric Rodriquez, National Council of La Raza; Edna Butts and Paco Felici, Texas Attorney General's Office; Stephanie Newberg, Texas Department of Banking; Scott Schmith, U.S. Department of Commerce; Ronald Schwartzman Uniteller; Michael Barr, University of Michigan School of Law; Paul Dwyer, Viamericas; and Daniel Ayala, Wells Fargo.

[24] See Appendix A for the disclosure templates created through the Fair Exchange Committee input.

Focus Group Overview

Between September 26 and October 11 of 2006, Appleseed conducted focus groups in Chicago, Illinois; Atlanta, Georgia; Lincoln, Nebraska; and Austin, Texas. The goal of the focus groups was to gain insight into three questions:

- What information is important to consumers when selecting a remittance service?
- How do they access that information?
- Would a pricing and transaction information disclosure chart be helpful and understandable?

The focus groups had a total of 50 participants who sent money on a regular basis to Latin America. Participants were born in eight different countries and remitted money to seven countries in Latin America. Over half of the participants were women, 66% female and 34% male. The participants were largely lower income, with the majority having monthly incomes of $2000 or below. Just over half of the participants had a high school education or below, and the majority of the participants had lived in the United States for five years or more.

Focus Group Participant Overview

Country of Birth

Mexico	58%
El Salvador	8%
Guatemala	4%
Peru	4%
United States	6%
Honduras	2%
Colombia	14%
Dominican Republic	4%

Gender

Female	66%
Male	34%

Years Resided in U.S.

1 year or less	10%
1 to 5 years	18%
Between 5 and 10 years	34%
More than 10 years	38%

Education

No School	0%
Elementary	24%
Middle/Jr. High	18%
High School	24%
Technical/Trade School	16%
University	18%

Monthly Family Income

Less than $1000	42%
$1000 to $2000	44%
$2001-$3000	10%
More than $3000	4%

Current Participant Remittance Practices

The focus group participants sent money to the country of their birth, with the exception of those born in the United States, who sent money either to Mexico or to Honduras. They sent a variety of amounts, with 86% sending $300 or less and 64% sending $200 or less. The cost of the transaction fee was evenly spread among participants throughout the range of $5 to $15. Few people spent more than $15 to send money per transfer. They tended to send money once per month or more, with 43% sending once per month and 22% sending more frequently than once per month. Money transfer companies were the most common method of transfer among participants. Seventy-nine percent used a money transfer company. Twelve percent used a bank account or ATM card transfer and 22% either brought the money themselves or gave money to another person to bring for them. Some participants used more than one transfer option.

Participant Remittance Profile

Amount Sent

$0 - $100	31%
$101 - $200	33%
$201 - $300	22%
$301 - $400	10%
$401 and above	4%

Frequency

Once or twice a year	9%
A few times a year	28%
Every month	43%
Every two weeks	13%
Every week	9%

Cost

Average cost	$8.68
$5 or less	28%
$5.01 to $9.99	30%
$10-$15	36%
Over $15	6%

Sending Method
(multiple methods could be selected)

Wire transfer/Remittance service	79%
Traveler's checks	4%
Mail personal check	2%
Mail cash	6%
Mail money order	4%
Use bank ATM/Debit card	6%
Electronically transfer money from a bank account	6%
Bring it myself by hand	9%
Family member brings it	13%
Courier or other business to drive or send it to destination	11%
Other	2%

Destination

Mexico	62%
El Salvador	8%
Guatemala	4%
Peru	4%
Honduras	4%
Colombia	14%
Dominican Republic	4%

Choosing a Money Transfer Service

Focus group participants were asked a series of questions regarding how they obtain information about international remittance transactions and what factors they consider in choosing one service over another. Participants listed a variety of factors that are important in selecting a remittance service. The most important factors across all the focus groups were security, reliability—having the promised amount of money arrive in the designated time period—and accessibility to family members on the receiving end. A common sentiment expressed in the group was that people would be willing to pay a little more to ensure that their family members received the full amount promised without any delays or other difficulties. After those factors, transaction price and exchange rate were the most important. Participants also expressed wanting flexibility in choices as well as access to more information at the beginning of the transaction. Most participants commented that it was easy to obtain pricing information, but could be time intensive: "You have to go everywhere to get prices," and, "Stores don't often give information over the phone—they say come on into the store and they'll give us the information." Family and friends were consistently the most common way for people to obtain pricing and service information. Participants were generally satisfied with the information presented on transaction receipts and tended to stick with a service once it proved reliable.

"It is much more important that the person who receives the money is satisfied...the manner in which they are treated over there."
Focus Group Participant, Chicago, Illinois

"The exchange rate and sending fee are one of the most important things. We always look for the best price, but sometimes we have to accept what they offer us because we don't have many alternatives, especially if we're sending money to a smaller community."
Focus Group Participant, Lincoln, Nebraska

As part of the discussion, participants also raised challenges and concerns. Participants across the focus groups expressed frustration regarding transactions not turning out as promised. In some instances, the pick up location was much farther from their family home then the sending agent had indicated or was not open on a weekend. Identification requirements to pick up the money were not always clearly communicated, and in some instances, participants sent money in dollars only to find out that the pick up location refused to pay out in dollars or did not have dollars available. Participants also complained of instances where money was not delivered at the promised exchange rate. There was a strong desire for predictability in the transaction. As one participant expressed, "We want to know what the fee is that they'll charge us on the other side." According to another participant, "the amount paid over there makes a larger difference than whatever it is you may save here." Participants commented that money is not always available for pick up at the promised time and sometimes the pick up locations claim they have no money available to pay out. "It is important to us that the price is good, and it would be good to see it lower, but what we want most is to make sure is that our family receives the money."

Confidence in the banking system as a means for sending remittances varied among the different focus groups. Those who used banks liked being able to call a number and obtain accurate transaction information and felt that bank-to-bank services were

preferable because they were often the cheapest and the fastest option. However, other participants distrusted banks and were suspicious of fees charged to maintain accounts. Participants generally expressed confidence in banks in the receiving country as a pick up location. They felt banks were more secure and reputable, as well as having a better track record with customer service and a more reliable record of paying out money on time. "It is very important that [the pick up agents] have respect for our time. Folks have things to do, children to watch, and cannot afford to be waiting around for service." Some participants also liked to see official documentation of licensing of both the sending and

Participant Priorities in Choosing a Money Transfer Service*

Money Available Quickly

Most Important	61%
Very Important	35%
Important	4%
Not Important	0%

Convenient Pick Up Locations

Most Important	34%
Very Important	49%
Important	13%
Not Important	4%

Sender Long-time Service User

Most Important	24%
Very Important	26%
Important	43%
Not Important	7%

Service is Secure

Most Important	61%
Very Important	33%
Important	7%
Not Important	0%

Convenient Sending Location

Most Important	35%
Very Important	33%
Important	20%
Not Important	13%

Convenient Hours for Sender

Most Important	20%
Very Important	35%
Important	30%
Not Important	15%

Service is Reliable

Most Important	57%
Very Important	35%
Important	9%
Not Important	0%

Comfortable for Recipient

Most Important	36%
Very Important	30%
Important	32%
Not Important	2%

Comfortable Sending Environment

Most Important	19%
Very Important	36%
Important	36%
Not Important	9%

Sending Fee

Most Important	50%
Very Important	33%
Important	17%
Not Important	0%

Agent Speaks Sender's Language

Most Important	30%
Very Important	43%
Important	15%
Not Important	13%

No Other Options for Sender

Most Important	16%
Very Important	34%
Important	30%
Not Important	20%

Exchange Rate

Most Important	49%
Very Important	29%
Important	13%
Not Important	9%

*** Focus group participants ranked each of the factors in this table by level of importance to them. Participants could designate the same ranking level to multiple factors.**

receiving agents to give them confidence in the legitimacy of the businesses, and also a place to contact if they have a problem or grievance.

The results of the survey largely mirrored the focus group discussion. Security and quick availability of money were most important for the largest number of focus group participants, at 61%. Reliability of the service was the next highest priority, at 57%, followed by sending fee and exchange rate at 50% and 49%, respectively.

Disclosure Tables: Consumer Feedback

After the general discussion regarding market preferences and practices of the focus group participants, four different disclosure charts, using a transaction to Mexico as the sample transaction, were shared for consumer reaction. Each chart was presented individually and in a different order among the four focus groups. The fields of information covered by the charts included:

- Pick up location
- Fee for sending $1-$300
- Exchange rate
- When funds are available for pick up
- Type of transaction
- Pick up fee
- Money received for sample $100, $200, and $300 transactions
- Effective exchange rates for each sample transaction.[25]

Table 1 included all of the fields; Table 2 included all the fields except for the sample transactions; Table 3 included all the fields except for the effective exchange rate; and Table 4 included the pick up location, fees for sending the money, exchange rate, and the three sample transactions without the effective exchange rate.[26]

The order of presenting the charts did not generally impact consumer reaction to them. In each of the focus groups consumers preferred more information rather than less. They wanted to see information about the speed of availability, type of transaction, and any account fees that might apply, and they found the sample transactions to be very helpful. In one focus group, participants asked that sample transactions be provided for $100 to $1000. Another group had some discussion regarding whether or not it was relevant to have multiple sample transactions. A participant commented, "I can just do the math with my calculator." However, other participants laughed and one said, "You're going to be there with your little calculator, but if I don't have a calculator with me, it's not going to work!" The group agreed, after some discussion, that having three amounts was good, because the best option depended upon the amount being sent.

[25] The effective exchange rate is the exchange rate a customer would receive if all the fees were included in the rate, similar to the APR on a home mortgage loan.
[26] See Appendix A to view the tables.

Three of the four groups liked the effective exchange rate after it had been explained. The fourth group found it confusing: "Although there is a lot of information [in this table] the truth is that this chart is incomplete because, for example, the effective exchange rate was not defined." One group felt that the effective exchange rate had to be present to really compare costs and another, once they understood the rate, began reassessing their opinions about the best option based on the new information.

"I would not like just one business to use this [table], I would like all businesses to use this!"
Focus Group Participant, Chicago, Illinois

Participants in all of the groups were able to choose the cheapest option in the table as well as assess the best option given their needs—one-hour transfer or next-day transfer and the amount of money being sent. They understood all of the information in the tables, found it useful, and took the time to read it carefully. One participant said, "I come in with my pencil and paper and I figure out how much they are charging for what they are paying out." Though one group commented that they do not usually read the fine print, all groups saw that there was a fee associated with the account-based product and the fee impacted their assessment of the product. In designing a final table, it may be appropriate to increase the size of the fine print.

"Inevitably, tellers make mistakes regarding the information they are conveying. Having a disclosure table would prevent those human errors."
Focus Group Participant, Chicago, Illinois

All of the focus groups reacted positively to the disclosure tables and affirmed that they would prefer a business that offered such a disclosure over one that did not. Participants expressed their need to have things in writing to avoid confusion about what was conveyed to them by the teller and what they agreed to on the receipt. This point supports the survey and discussion data regarding consumer priorities of security, reliability, and guaranteed availability. It reflects the importance to these consumers of receiving official information that the money sent will, in fact, be available for pick up at the time and in the amount promised.

Participants wanted to see the information in a variety of locations. They currently access money transfer information through advertisements, television, and word of mouth. Suggestions for places to see the disclosure included the following:

- On a poster at the point of sale
- In the window at the point of sale
- On a business card sized or other small sized paper that consumers could take with them
- In community newspapers
- On television
- On the radio
- On the bus
- In the news broadcast

Participants also requested additional information fields:

- Identification requirements to pick up the money
- Hours of pick up locations—particularly to confirm weekend hours
- Telephone number to call the money transfer company
- Telephone number of regulator to report a problem or grievance

Of the tables presented, Table 3, which includes all the fields of information except for the effective exchange rate, was the one most commonly perceived to be the clearest and provide the best information. Consumers liked the effective exchange rate, but felt it would require educating money transfer customers about it to avoid confusion. Participants also suggested some minor changes in wording for the Spanish version of the table. The following page shows a version of the table with changes based on many of the participant suggestions. It does not include identification requirements to pick up the money, hours of the pick up location, or a phone number for official complaints. Those fields could be included if feasible for money transfer service providers.

Participants in the four focus groups were savvy about the costs and other factors involved in choosing a service to send money to their home countries. They prioritized low cost, but particularly cared about the predictability of the transaction on the receiving end and were willing to pay more for a service they knew to be reliable and easy to use for their family members in Latin America.

The participants liked the disclosure tables because they provide official information about money transfer transactions and clarify all significant costs and other factors related to the transactions so that both the senders and receivers know what to expect. They noted that the tables would make them feel more confident that they are receiving a legitimate service and that all the transaction terms are clear.

Prior to viewing the disclosure tables, participants felt that they had reasonable access to pricing information. Upon viewing the tables, they saw the potential for greater clarity and easier access to information and they wanted the information. They all said that they would prefer a business that provided such information to one that did not.

In the context of launching a market-based pricing disclosure initiative, the focus group information provides compelling evidence that offering a complete, pre-transaction disclosure could have a positive business impact. The disclosure addresses key consumer concerns—predictability of the transaction terms and cost information—in an easy to access and reliable form. Providing the disclosure also helps the industry by creating positive public exposure and highlighting competitive pricing and good customer service. The disclosure preferred by the focus groups provides an important step towards a broader industry disclosure standard. Further market testing and industry vetting is necessary to arrive at a final disclosure template. The final template will need to accommodate the varying business models of financial institutions and money transfer businesses.

Preliminary Disclosure Template

PAÍS: **México**

SERVICIO: **Name of Remittance Service**

TELÉFONO: 1-800-736-3669

Descripción						Envío de $300 con las tarifas incluidas	Envío de $200 con las tarifas incluidas	Envío de $100 con las tarifas incluidas
Lugar de entrega	Tarifa por envío de $1-$300	Tasa de cambio (pesos)	Disponible para recoger	Tipo de transacción	Tarifa por recibir el dinero	Pesos por recibir	Pesos por recibir	Pesos por recibir
Pick Up Location 1	$10	10.96	Mismo día	Cuenta bancaria*	0	3178.40	2080.50	986.40
Pick Up Location 2	$9	10.90	Siguiente día hábil	Efectivo	0	3171.90	2081.90	991.90
Pick Up Location 3	$8	10.95	Una hora	Efectivo	25.00 pesos	3172.40	2079.32	982.40

* **Nota:** Una cuota mensual podría aplicar. Se requiere tener una cuenta bancaria en EEUU para tener acceso a este servicio. La cuota mensual de $5.99 incluye poder escribir cheques gratis, cobrar cheques, deposito directo, pago de cuentas y cuenta de ahorros.

Section II: An Examination of Voluntary Industry Standard Models

The data from the focus groups present compelling information that supports the viability of a market-based approach to pre-transaction disclosures for international money transfers. This section presents information about current market-based approaches to voluntary industry standards that could serve as a template for a Fair Exchange program.

Fair Trade initiatives that work through voluntary standards have been successful in other market segments. They help consumers and producers alike. They provide consumers with key information to make product choices and promote market access for producers and service providers. Adopting a set of voluntary disclosure standards for international money transfer providers—such as the proposed Fair Exchange standards described in Section III of this report—has potential to create many benefits for industry players. Adopting consistent standards could enable a remittance agency to build market share, create a positive public image of the industry, and take advantage of economies of scale. In addition, by showing leadership to address the need for consumer pricing disclosure, the industry may obviate the need for state and federal regulators to address the issue.

- ***Build Market Share.*** A Fair Exchange initiative in the international remittance market would have to be executed with strong community partnerships and a marketing strategy geared toward immigrant consumers. These partnerships would serve to publicize to consumers the Fair Exchange logo or disclosure standards and let consumers know that participating businesses offer better prices and services. Standing out to consumers as a fair and low-cost service, particularly in high volume corridors, where consumers have many options, could build market share in an increasingly competitive environment.

- ***Create a Positive Public Image.*** The international money transfer industry is often lumped with other financial services that tend to overcharge low-income consumers. Participating in a proactive initiative to establish consumer disclosure standards would serve to separate the businesses that are interested in offering a fair product with transparent pricing from those that seek to appear low-cost through poor disclosure of total pricing information.

- ***Benefit from Economies of Scale and Collaboration.*** Fair Exchange will provide a forum through which participants could collaborate to invest in new technology or other shared infrastructure, such as systems that enable customers to send remittances via cell phone,[27] which could dramatically reduce each participant's transactional costs and boost profits, without the participant having to shoulder large upfront capital expenditures on its own. Fair Exchange participants could also collaborate to bundle remittances[28] to create economies of scale that small remittance agencies might not otherwise realize, which could enable them to maximize their profits and simultaneously reduce the cost of their services. In addition to collaboration

[27] See World Bank, *Global Economic Prospects 2006: Economic Implications of Remittances and Migration.*
[28] *Id.*

regarding infrastructure and technology, Fair Exchange program participants could work together to develop creative solutions to challenges that impact both the industry and consumers.

- ***Prepare for Potential Future Regulation.*** There are a number of legislative campaigns afoot to introduce regulation that would require remittance agencies to adopt standards akin to the voluntary guidelines of the Fair Exchange.[29] Action by the industry to address these issues on its own might reduce the pressure for regulatory action. In addition, remittance agencies who agree to adopt the Fair Exchange guidelines would be ideally poised to capitalize on their competitive advantage if and when regulation is introduced.

Models for Voluntary Industry Standard Programs

Programs for implementing or encouraging voluntary industry standards generally fall into four categories:

1. An industry trade association setting and enforcing market standards for its members;
2. An independent non-profit organization working to establish industry standards through grassroots work;
3. An independent non-profit organization setting and enforcing standards for industry; or
4. A large consumer or individual business setting internal standards for investments, suppliers, or agents.

All of the approaches include specific market standards and an enforcement mechanism. They differ in terms of the entity administering the program and in the target constituency. The trade association model is an industry administered program that sets and enforces standards for its members. The non-profit grassroots model strives to alter industry practices through changes in consumer behavior. The non-profit enforcement model mixes the approaches, striving to improve industry standards and convince consumers that they should only purchase products that meet these standards. The final model also mixes the two approaches, using the buying power of a large company to impact the activities of its agents.

The various approaches have been successful in other market contexts. The following section explores the applicability of each approach to the Fair Exchange concept.

[29] Appleseed Foundation, Creating a Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market (December 2005).

Summary Chart of Voluntary Industry Standards Approaches

Model	Strengths	Challenges
Trade Association	• Builds on an existing infrastructure, cutting cost of implementation; • Access to and credibility with industry partners.	• Developing credibility among consumers; • Finding a trade association approach to accommodate both financial institutions and money transfer companies.
Independent Non-profit Grassroots	• Consumer driven; • Trust of consumers; • Can be integrated into existing community education and outreach campaigns.	• Gaining industry buy-in with project goals; • Affecting market place offerings in a timely way so as to maintain consumer interest; • May require consumers to forgo a product or service if standards are not met.
Independent Non-profit Administered	• Well-positioned to gain both consumer and industry credibility; • A neutral forum for setting and enforcing market standards.	• Costs associated with establishing and maintaining a new program; • May not have long-term organizational track record; • Most examples require government or foundation funding for long-term impact.
Large Consumer or Individual Business-driven Standards	• Demonstrates the power of a large individual consumer or group of consumers in changing market practices; • Could also stem from industry wanting to assert particular values in the marketplace.	• Requires significant market power on the part of the consumer(s); • In the case of business-driven standards, implementation depends fully on integrity and the commitment of the business to the standard.

The Trade Association Model

A Fair Exchange program could be structured to be administered and monitored by a trade association. This model has many advantages in the context of money transfer markets. It builds on the established infrastructure of the trade association, which has credibility and name recognition among industry players. It also provides an incentive for businesses to participate in the voluntary standards, particularly if the standards are a condition of membership in the association, as businesses may want to benefit from other association services. Creating the standards also could easily fall within the mission of a trade organization, which often includes presenting a positive public image for its members and impacting regulatory issues to benefit its members.

The first challenge in establishing a Fair Exchange program using the trade association model is finding a willing partner or group of partners. No single trade association plays a dominant role in the remittance arena. The National Money Transmitters Association (NMTA) represents a number of remittance agencies.[30] An association such as the NMTA could partner with a banking trade association to include all market players. Other possible partners include the newly formed International Association of Money Transfer Networks, which currently includes a small group of banks and money transmitters, and the associations of state money transmission and banking regulators.[31]

In partnering with a trade association, a number of issues arise that impact the implementation of a Fair Exchange program. The first challenge is to build consensus around meaningful standards. Once member entities agree on these standards, the second challenge is to ensure rigorous enforcement, which puts the trade association in the difficult position of taking action against dues-paying members. The association must be committed to the notion that individual member non-compliance impacts the image of the entire industry, thereby damaging the reputation of all members. Finally, member entities should be committed to fund a Fair Exchange program at levels adequate to provide for meaningful consumer education and enforcement. The trade association's involvement, while trusted by its members, may fail to inspire the confidence of consumers, who are more likely to be unfamiliar with the association and wary of its ability to be independent.

Though these challenges are real, they are not insurmountable. The Canadian Payday Loan Association established standards for its members regarding pricing disclosures and loan terms in response to significant criticism of the industry. The Association has worked to make the standards credible and establish a meaningful enforcement process, creating a position dedicated to enforcing the standards and penalties for violating the standards that include fines.

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[30] For a list of members, please see http://www.nmta.us/main/links.html.

[31] Current members of the International Association of Money Transfer Networks include: Western Union, Travelex, Unistream, City Forex, Earthport, EuroGiro, Chequepoint, the UK Money Transmitters Association, Standard and Chartered Bank, Bank of China, and ICICI Bank of India. The Association grew out of an international conference at the Institute of Directors in London in October of 2005.

THE CANADIAN PAYDAY LOAN ASSOCIATION

The Canadian Payday Loan Association (CPLA) represents the largest payday lenders in Canada and over half of the 1000 retail payday lending stores across Canada. The CPLA is a voluntary membership association.

Critics had decried the practice of payday lenders, with effective annual percentage rates in violation of criminal usury limits. They also complained about the industry's habit of rolling over loans, either extending a loan's due date for a fee or advancing a new loan, with new fees, to pay off an outstanding loan. Payday lenders also charged insufficient fund fees, sometimes charging repeatedly for the same shortfall.

The CPLA responded to complaints by first commissioning an independent study—performed by Ernst & Young—detailing the cost of providing payday loans.[32] The study found that, in Canada, the average cost of providing a payday loan is $20.66 per $100 of payday loans, with costs ranging between $15.35 and $21.22 depending on the size and volume of the lender. This study was helpful in providing regulators with an idea of industry costs should they decide to regulate rates and fees associated with payday loans.

Second, the CPLA commissioned an independent survey of 2000 Canadians—a 1000-person random sample of Canadians in general, and a 1000-person random sample of payday loans customers.[33] The survey found, among other things, that a significant majority of Canadians believed that payday lending should be available.

Third, the CPLA adopted a Code of Best Practices. CPLA members must abide by the Code as a condition of membership. The Code bars rollovers of payday loans, limits loan amounts, terms, and insufficient funds charges, creates a rescission period, and requires clear disclosure of terms and costs to consumers.

The CPLA enforces the Code in two ways. First, it performs its own random surveillance of member businesses to ensure compliance. Second, CPLA members are required to anonymously report any violation of the Code by any member. CPLA has hired an Ethics and Integrity Commissioner to strengthen enforcement of the Code. The Commissioner has the authority to issue warnings and impose fines of up to $30,000.

As a result of establishing a voluntary code, the payday loan industry enjoys first-mover advantages regarding government regulation. Any regulatory scheme likely will be shaped by the preexisting code, the Ernst & Young report and the consumer survey.

CPLA is working to gain consumer awareness of the program and logo through utilization of free media. As the payday loan issue already enjoyed high visibility in the Canadian press, the CPLA issued press releases and gave interviews in order to get its message out. CPLA strove to get media coverage of the logo and the code, encouraging consumers to patronize CPLA establishments where they would be treated fairly.

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[32] See *The Cost of Providing Payday Loans in Canada* (Ernst & Young, October 2004), viewed March 2006 at http://www.cpla-acps.ca/files/EYPaydayLoanReport.pdf.

[33] See *Environics Research Group Consumer Payday Industry Awareness Survey* (Environics Research Group), viewed March 2006 at http://www.cpla-acps.ca/english/reports_en.htm.

Independent Non-Profit Organization Grassroots Approach

Another approach for the Fair Exchange program could be a grassroots campaign organized by a non-profit organization with strong community connections. This approach differs from the previous one in that it strives to impact the market by changing consumer behavior and creating a collective voice for consumers.

Grassroots campaigns have met mixed success. They have been used in agriculture to attempt to fight the unfair treatment of farm workers, such as the United Farm Workers grape boycott; to protest international political policies, such as the movement of divesting from South Africa during the time of apartheid; and to impact treatment of laborers in developing countries, among other issues. Some of the campaigns have had major market impact, changing investment strategies and consumer expectations of producers and manufacturers. Others have not been able to change the market behavior of a large enough number consumers to impact the market and change policies or standards.

Advantages of such campaigns are many. By engaging consumers directly in setting an agenda for market standards and expectations, consumers are vested in the process and in working to ensure that standards are met in a way that benefits their communities. Grassroots campaigns can empower consumers and help them to realize their strength in the market. They can also be successful in helping consumers from seemingly diverse backgrounds work for common goals.

Challenges of such campaigns include the ability to arrive at unified goals among enough consumers to impact the market. Consumers of the same product or service may not all have the same goals or aspirations, which could make it difficult to target a unified agenda across sometimes diverse interests. Organizing also takes a lot of resources on the ground, working with small groups of people to build consensus around the broader goals for developing and enforcing market standards around particular goods or services.

The Transnational Institute for Grassroots Research and Action (TIGRA), based in Oakland, California, has launched a grassroots effort to organize remittance senders and recipients. The goal of the initiative is to use the market power of these communities to bring about positive industry change. TIGRA is working with a variety of remitting communities in the United States, including immigrants from Latin America, Africa, and Asia. The organization is working to help these diverse groups find commonalities in their experience of remitting to family members abroad, and leverage those common goals to improve community economic development and asset building.

A challenge and strength for a grassroots campaign in the context of a Fair Exchange process is that it brings in industry on the back end rather than on the front end. The challenge of this approach is in gaining industry cooperation to implement community goals, while the strength is that it creates an organized market force, with unified objectives, that could impact the market share and profits of industry players. Such a campaign could provide a strong complement to a more industry-centered process.

TRANSNATIONAL CAMPAIGN ON REMITTANCES

TIGRA launched its campaign to organize remittance senders and recipients approximately two years ago. The organization spent the first 20 months of the project reaching out to immigrant community organizations around the country. They have focused their efforts on California, the New York/New Jersey area, and certain Midwestern areas with concentrations of immigrant communities.

The campaign is a multiple year project with an annual budget ranging between $200,000 and $400,000. Much of the cost of the project is in strengthening local infrastructure in remitting communities to develop and sustain an organizing effort. The campaign is working at three levels: local, national, and international. The local organizing work is strengthened by its connection to national networks and by connecting to strong organizations in remittance receiving countries.

The local organizing is conducted by creating "million dollar clubs". The clubs include approximately 375 individuals, who collectively remit $1 million per year. The effort to launch a club includes a community survey. The goal of the survey is to determine what services people use to remit money, how much they pay, why they choose the services they use, additional financial services used by the community, and to target community development priorities. Two community priorities that have come out of recent surveys include better access to good, affordable child care and an increase in English class offerings in the community.

The national and international organizing is being done through creating a unified set of priorities. In August of 2006, TIGRA brought together a group of organizations representing remitting communities across the country, from a variety of national origins, and organizations in seven remittance receiving countries. Together, they established agreement around a set of general principles called the Transnational Community Benefits Agreement.[34] This agreement will form the basis of collective negotiations with industry representatives around local and international community priorities.

To date, preliminary negotiations are underway with industry representatives, some focused on local issues and others on a broader scale. Proposals currently under consideration include profit sharing arrangements, with community organizations serving as agents for money transfer service providers, and donations of a specific amount of money per transaction originated in a designated community. Pricing transparency and investments in remittance receiving countries are also community priorities.

The initiative is not developed to the point of having established systems of monitoring and enforcing agreements. There is potential to create a monitoring body with representatives of consumer and industry interests as well as independent partners. Enforcement would likely be tied to consumer choice in using particular services.

[34] Francis Calpotura. "Transnational Leadership Gathering Summary Report." TIGRA. September 2006.

Independent Non-Profit Organization Implementing Industry Standards

The third model for voluntary industry standards is a system similar to the trade association model in that businesses agree to comply voluntarily with a set of standards and benefit from a certification program and marketing that adds value to their compliance. The primary difference is that an independent non-profit administers and enforces the program. This is currently the most prevalent model for implementing market standards.

The non-profit model is generally based on three pillars: government or foundation funding and/or regulation; non-profit monitoring of compliance; and a public awareness campaign. For example, the Clean Clothes Campaign, established to enforce labor standards for clothing manufacturers, relies heavily on funding and regulation from individual European nations as well as by the European Union.

The Dolphin Safe Tuna Project is another example of an approach combining public awareness, legislative reform, and non-profit monitoring. Following public pressure in the 1980s, legislation in 1990 set up a trademark to be used to denote tuna from the tropical Pacific region that is fished without risk to dolphin. Despite initial resistance from the industry, three major brands, mostly notably Heinz, responded to public and private pressure following a documentary and subsequent press interest in the plight of the dolphins. It is now viewed by manufacturers as a marketing strategy to enable competition with cheaper "non-Dolphin safe" tuna. The Earth Island Institute continues to monitor compliance with the Dolphin Safe Tuna standards through inspections and partnerships with other environmental groups to promote public awareness.

Fair Trade coffee is another example. To become Fair Trade Certified™, an importer must pay a minimum price per pound of $1.26 and provide credit and technical assistance to farmers. The program is administered through the Fair Trade Federation, which sets criteria that must be met by the marketers or processors that display the Fair Trade logo. The Fair Trade Federation monitors member finances, management practices, and business policies. It is funded through member dues and individual donations.

Establishing a non-profit entity to administer and monitor the Fair Exchange program could be appropriate. It would avoid the difficulty of finding a trade association that would encompass the different entities that provide money transfer services, including money transfer businesses and commercial banks. However, unlike a trade association, a non-profit may lack resources needed to implement a significant marketing and enforcement campaign and credibility with industry players. That said, the reputation and connections of the non-profit may better enable it to win consumers' trust and attention.

The Responsible Credit Partnership provides an interesting variation on the non-profit model that could be beneficial in constructing a Fair Exchange program. It pulls in industry and consumer interests to develop initiatives that address consumer concerns and needs in ways that are workable and potentially profitable for industry. Instead of enforcement, the Partnership strives to gain industry cooperation.

THE RESPONSIBLE CREDIT PARTNERSHIP (RCP)

RCP was launched in 2000 as a consumer advocacy initiative to improve credit card practices directed at university students. The initial phase of work focused on researching and documenting problems students face in the credit card market. Because of negative publicity and regulatory pressures targeting credit card issuers, some major financial service players came to the table, largely to "play defense", and have a say in work impacting their industry. Early partners included Marquette Financial Services, Wells Fargo, U.S. Bank, Target, university staff, and credit counseling services.

The program runs on an annual budget of $300,000 to $400,000, with approximately half of the funding coming from foundations and half from the industry. Half of the budget is dedicated to advertising and consumer outreach. Industry members in the Partnership are required to make a contribution of between $15,000 and $30,000. Depending on the level of support, contributors get acknowledgement and access to Partnership materials.

Instead of setting target industry standards, the Partnership has pursued a three-pronged strategy designed to create a framework for working on both the demand and supply side of credit card issues. To understand the supply side, they conducted studies examining issues financial service providers face in marketing to and serving college students.

To address the demand side, they launched a grassroots initiative that includes a class offered to incoming college students to teach them about using credit and an advertising campaign called, "What's My Score." The campaign was launched in 2003. It is an unbranded campaign, with no industry names attached, to maintain the neutrality of the information provided. The advertising campaign teaches students about the importance of maintaining a good credit score and its impact on their financial future.

Finally, the Partnership worked with industry partners to pilot strategies they believed would be successful in improving the responsible use of credit among college students. The pilots have established effective strategies for reducing poor credit behaviors and have set the groundwork to establish cost-effectiveness of broad-based implementation.

The Partnership is currently working to expand its campaign to reach immigrant, refugee and other minority communities. It is considering educational approaches to teach those communities about credit issues.

On-going challenges include data collection limitations, the lack of large consumer advocacy organizations at the table, and building organizational capacity to expand distribution channels for Partnership initiatives and materials.

The success of the Partnership has depended on three major factors: having the right level of decision maker at the table; including both consumer and industry participants; and providing opportunities for participants to see issues from the perspective of other stakeholders.[35]

[35] In January, 2007, the Responsible Credit Partnership, now called the Responsible Credit Roundtable, moved to the Center for Financial Services Innovation in Chicago. It will expand its work to other financial services and to have a national impact.

Large Consumer/ Individual Business-Driven Standards

The large consumer or individual business-driven model generally relies on a strong consumer, usually a large institution or company, demanding certain minimum standards from its suppliers or other contractual partners. However, it can also rely on an industry wanting to set basic standards internally as a way to demonstrate support for a particular set of values in the marketplace.

Such programs have come about largely in response to movements that highlighted child labor and poor labor standards in the manufacturing plants that supply shoe, toy, and clothing brands. The primary insights it provides into successful implementation of market standards are in demonstrating the power of a unified consumer voice and in highlighting the importance of selecting standards that are enforceable. For some of the institution-driven programs, the complexity of the standards has hindered the development of an effective compliance mechanism.

This model has relevance in the context of a Fair Exchange program if industry is willing to take on the standards independently. It does not require any external infrastructure. Each business could make the internal decision to abide by a particular set of standards and implement and regulate the standards independent of any oversight body.

The example below is of a large consumer enforcing manufacturing standards through its purchasing power. Though not directly comparable to the international remittance industry, it does provide an example of how standards can be set and enforced.

DUKE UNIVERSITY MERCHANDISE PROGRAM

In the case of Duke University, several tertiary institutions, including other universities, demanded that the manufacturers of their licensed merchandise–especially apparel–comply with ethical employment practices.

The companies that produce merchandise for the university and other universities involved in the program were initially very hostile until an ultimatum on the licensing was made. The universities pledged not to purchase any logo merchandise unless the producers abided by the employment practices.

Two non-profit entities were set up to monitor compliance, one with and one without funding from the companies involved. The one which received company funding has had significant difficulty in attracting public support due to a perceived conflict of interest between the business and consumer goals, but the one without manufacturer funding has been able to establish more credibility.

Section III: A Fair Exchange Template

The four models examined in the previous section highlight five factors that should be considered in establishing a program for voluntary consumer disclosure standards in international remittance markets:

1. Buy-in both among industry members and consumers;
2. A sustainable administrative and funding structure;
3. Standards that are feasible for the administering entity to enforce and easy for the consumer to understand;
4. Flexibility to respond to technological and other market changes; and
5. Active grassroots marketing and membership components in addition to industry membership.

A program meeting the above criteria has good potential to positively impact the marketplace, providing a benefit both for consumers and the businesses that adopt the standards.

Based on the conversations of the Fair Exchange Committee and subsequent focus group testing of a disclosure template,[36] Appleseed proposes the following program parameters that reflect options that are currently most feasible to pursue.

Market Standards for a Meaningful Fair Exchange Program

The proposed market standards below provide general standards for a pre-transaction pricing disclosure program. The standards were designed to accommodate complicated aspects of the industry, including the logistics of disclosing pricing for multiple countries and receiving agent locations, and the reliance of non-bank money transfer businesses on an agent network that can be difficult to regulate. They were developed through feedback from the Fair Exchange Committee and reflect actions that could be implemented in the current market environment without legal or regulatory changes.

The proposed standards focus on three important issues:

- ***Pre-Transaction Disclosure.*** The preliminary disclosure template, developed through consumer focus groups and Fair Exchange Committee discussions, or a variation of it, will be posted or otherwise made available to consumers at the sending location, in English and in the primary language used to do business with customers, for the **three** major paying agents[37] in the **three** major destination countries served by a particular agent or retail location. (See the preliminary disclosure template on page 13.)

[36] See Section I of this report.

[37] The paying agent is the agent that disburses the funds sent through a money transfer business in the United States to the funds recipient in the destination country.

- ***Facilitated Complaint Resolution.*** Industry participants will provide consumers with a phone number to call if there is a complaint about service as well as the phone number of the appropriate state or federal regulator.

- ***Good Faith Compliance with Minimum Market Standards.*** Industry participants must make a good faith effort to have this information available at their agent and stand alone locations. Agents or locations that do not provide the disclosures or other information would have a consequence for failing to comply with the program rules. For example, they would not be permitted to display the Fair Exchange logo if the program includes branding.

In addition to discussions around consumer disclosures, Fair Exchange Committee members highlighted priority issues, which could also be addressed through a Fair Exchange program or collaboration. The two major supplemental issues include:

1. Working to address problems with access to bank accounts for money service businesses, including non-bank money transfer businesses; and

2. Exploring creative collaborations among banks, non-bank money transfer businesses, and consumer organizations to improve the financial inclusion of immigrant communities.

Program Administration and Enforcement

The comments and discussions of the Fair Exchange Committee and the models of market-based initiatives presented in Section II of the report point to two models that could be implemented in the international remittance market:

1. Business-driven standards; and

2. An independent non-profit organization implementing industry standards.

The trade association model, though conceptually promising, faces the main challenge of pulling together trade associations that encompass the diverse players at the table. The non-profit grassroots initiative is an interesting, viable option and a few efforts are currently underway to organize remittance senders to use their economic power to negotiate for better remittance transaction pricing and terms. The current makeup of the Fair Exchange Committee does not lend itself to such a model. However, partnering with organized consumer groups with overlapping goals could be useful in marketing a Fair Exchange program and in encouraging consumers to use businesses that meet the Fair Exchange standards.

The following is a brief discussion of the two most promising models and how they might be applied to providing improved consumer disclosures for international remittances.

Business-driven Standards

The industry-driven implementation approach requires the least infrastructure and coordination. Each company would set internal standards and enforce them among branch or agent networks as the company deemed appropriate.

Such an approach has some important advantages in the Fair Exchange context:

- It is low-cost;
- It does not require agreement across companies with diverse market approaches and penetration; and
- It allows companies to implement standards in a way that best fits their business approach and relationships.

It is the most flexible of the options, giving latitude to each company regarding how the Fair Exchange principles are applied.

The disadvantages to this approach stem from the same source as the advantages. In exchange for easier implementation, companies lose significant advantages:

- A unified branding and a collaborative marketing effort to reach consumers and educate them about the consumer-friendly practices of participating companies;
- Consistency in how the standards are implemented; and
- Independent verification that companies are being accurate in their disclosures.

Companies would also lose the collaborative exchange among peers that would come through a more organized or centralized system of administration.

Remittance providers that agree to adopt the Fair Exchange standards under the institution-driven model could form a loosely organized group to share experiences and collaborate on issues of mutual interest. They could, therefore, preserve some of the collaborative elements of a more formal or centrally administered program.

Non-profit Organization Implementing Industry Standards

In order for there to be branding associated with a Fair Exchange standard, there would need to be some centralized administrative entity. The entity would control participation in the group, periodically assess member compliance with standards, and play an enforcement role when necessary to warn or penalize members that are not in compliance.

Having an independent organization administer the Fair Exchange program has some key advantages:

- Companies can actively distinguish themselves in the market and with regulators through membership in a group;
- A centralized organization can coordinate marketing, partnerships with community organizations, and other supporting outreach activities;
- Strict program standards could be established that ensure accurate presentation of disclosure information;
- An enforcement system would be established to ensure compliance with program standards. Those not complying would not be able to reap the market advantages of the program;
- The organization coordinating the program could also convene periodic membership meetings to facilitate member interaction and cooperation regarding mutually agreed upon concerns or interests.

A new organization could be created or the responsibilities of the Fair Exchange program administration could be taken over by an existing organization that has the capacity and the credibility to administer the program. Some examples of the types of organizations that could administer such a program could be an existing organization already interested in improving remittances markets, such as the Inter-American Development Bank, an existing government initiative, such as the U.S.-Mexico Partnership for Prosperity, or a new non-profit created specifically for this purpose.

With the increased value that an administering organization brings comes an increased cost. Program participants would have to be willing to shoulder at least a portion of those costs, which would likely be in the $200,000 to $400,000 per year range depending on the responsibilities of the organization.

In addition to the cost, there are other issues that could pose challenges to implementing a non-profit or independent organization administered program. The challenges include resolving difficulties in reaching industry consensus about how the disclosure requirement should be implemented; developing an enforcement system to which all parties could agree; and encouraging a sufficiently large number of remittance service providers to participate in the Fair Exchange program. A successful non-profit administered initiative would have to address these issues in a way that accommodates the varying needs and business models of industry partners and at the same time enforces a meaningful consumer disclosure standard.

Next Steps

All of the models presented in Section II of this report have potential to be viable ways to administer a Fair Exchange program. The two approaches highlighted in this section of the report appear to be most compatible with a collaboration between industry and consumer organizations and enjoy significant strengths. Any barriers could be overcome with a willing group of partners. In the short-term, there are two steps that are necessary to move ahead an initiative to implement a Fair Exchange program:

1. Reach agreement with industry and consumer partners on a workable preliminary administrative structure for the Fair Exchange program; and
2. Develop a pilot for the Fair Exchange program.

The two frameworks for administration proposed in this section offer flexibility in options based on the amount of investment of effort, funds, and commitment that the parties are willing to make. A pilot, within the administrative framework selected, can be limited to a particular geography, or limited based on each industry partner's capacity and infrastructure. The more a pilot is tailored to individual company needs, the less possible it will be to launch a logo and advertising effort along with the pilot because of the resources needed to target multiple communities and geographies.

If the pilot is successful, based on the experiences and assessment of the participants, then the program can be reassessed and the groundwork established for a move towards broader implementation.

Some members of the Fair Exchange Committee have agreed to launch a pilot of the disclosure initiative as a preliminary test of the practical issues tied to its implementation and consumer response in a market setting. The pilot phase will last for three to six months and will be evaluated through staff and consumer feedback.

Launching a Fair Exchange program is a win-win scenario for consumers and for the industry. If effectively administered and implemented, it will achieve four goals:

- Support a positive image for the industry;
- Distinguish market players that offer superior pricing and service;
- Create a forum for industry and consumers to address additional issues of concern and explore areas for creative collaboration; and
- Show that market participants can engage in effective self-regulation.

This report lays out multiple frameworks for the creation and implementation of a Fair Exchange program. It outlines a unique opportunity for industry and for consumer organizations to cooperate towards mutually beneficial goals and opens up new avenues to creative approaches to financial services markets. It is now up to the interested parties to make this plan work and take advantage of the framework established through the Fair Exchange process. Implementing a Fair Exchange program will improve competition in the international remittance marketplace, highlight positive market practices, and better meet consumer needs.

Appendix A: Disclosure Tables for Focus Groups

Note: The data in the tables was presented as an example, and does not reflect actual pricing or services.

Table 1

Spanish:

PAÍS: **México**
SERVICIO: **Latin America Express**

						Pago de $300		Pago de $200		Pago de $100	
Lugar de entrega	Tarifa por envío de $1-$300	Tipo de cambio	Disponible para recoger	Tipo de transacción	Tarifa por recoger (pesos)	Pesos recibidos	Tipo de cambio efectivo**	Pesos recibidos	Tipo de cambio efectivo**	Pesos recibidos	Tipo de cambio efectivo**
Bancomer	$10	10.96	Mismo día	Cuenta bancaria*	0	3178	10.60	2081	10.40	986	9.86
Banamex	$9	10.90	Siguiente día hábil	Efectivo	0	3172	10.57	2082	10.41	992	9.92
FAMSA	$8	10.95	Una hora	Efectivo	25	3172	10.58	2079	10.40	982	9.82

* NOTA: Una cuota mensual podría aplicar. Se requiere tener una cuenta bancaria en EEUU para tener acceso a este servicio. La cuota mensual de $5.99 incluye poder escribir cheques gratis, cobrar cheques, depósito directo, pago de cuentas y cuenta de ahorros.

** Incluye tarifas por enviar y recoger envío

English

COUNTRY: **Mexico**
SERVICE: **Latin America Express**

						Sending $300		Sending $200		Sending $100	
Pick up Location	Fee for sending $1-$300	Exchange Rate	Available for Pick Up	Type of Transfer	Pick up Fee (Pesos)	Pesos received	Effective Exchange Rate**	Pesos received	Effective Exchange Rate**	Pesos received	Effective Exchange Rate**
Bancomer	$10	10.96	Same Day	Account*	0	3178	10.60	2081	10.40	986	9.86
Banamex	$9	10.90	Next Business Day	Cash	0	3172	10.57	2082	10.41	992	9.92
FAMSA	$8	10.95	One Hour	Cash	25	3172	10.58	2079	10.40	982	9.82

* NOTE: Monthly fee may apply. An account in the US is required to access this service, the monthly fee is $5.99, which also includes free check writing, check cashing, direct deposit, bill payment, and savings account.

** Includes fees for sending and picking up transfer

Table 2

Spanish:

PAÍS: **México**
SERVICIO: **Latin America Express**

Lugar de entrega	Tarifa por envío de $1-$300	Tipo de cambio	Disponible para recoger	Tipo de transacción	Tarifa por recoger (pesos)
Bancomer	**$10**	**10.96**	Mismo día	Cuenta bancaria*	**0**
Banamex	**$9**	**10.90**	Siguiente día hábil	Efectivo	**0**
FAMSA	**$8**	**10.95**	Una hora	Efectivo	**25**

* **NOTA:** Una cuota mensual podría aplicar. Se requiere tener una cuenta bancaria en EEUU para tener acceso a este servicio. La cuota mensual de $5.99 incluye poder escribir cheques gratis, cobrar cheques, depósito directo, pago de cuentas y cuenta de ahorros.

English

COUNTRY: **Mexico**
SERVICE: **Latin America Express**

Pick up Location	Fee for sending $1-$300	Exchange Rate	Available for Pick Up	Type of Transfer	Pick up Fee (Pesos)
Bancomer	**$10**	**10.96**	Same Day	Account*	**0**
Banamex	**$9**	**10.90**	Next Business Day	Cash	**0**
FAMSA	**$8**	**10.95**	One Hour	Cash	**25**

* **NOTE:** Monthly fee may apply. An account in the US is required to access this service, the monthly fee is $5.99, which also includes free check writing, check cashing, direct deposit, bill payment, and savings account.

Table 3

Spanish:

PAÍS: **México**
SERVICIO: **Latin America Express**

						Pago de $300	Pago de $200	Pago de $100
Lugar de entrega	Tarifa por envío de $1-$300	Tipo de cambio	Disponible para recoger	Tipo de transacción	Tarifa por recoger (pesos)	Pesos recibidos	Pesos recibidos	Pesos recibidos
Bancomer	$10	10.96	Mismo día	Cuenta bancaria*	0	3178	2081	986
Banamex	$9	10.90	Siguiente día hábil	Efectivo	0	3172	2082	992
FAMSA	$8	10.95	Una hora	Efectivo	25	3172	2079	982

* NOTA: Una cuota mensual podría aplicar. Se requiere tener una cuenta bancaria en EEUU para tener acceso a este servicio. La cuota mensual de $5.99 incluye poder escribir cheques gratis, cobrar cheques, depósito directo, pago de cuentas y cuenta de ahorros.

English:

COUNTRY: **Mexico**
SERVICE: **Latin America Express**

						Sending $300	Sending $200	Sending $100
Pick up Location	Fee for sending $1-$300	Exchange Rate	Available for Pick Up	Type of Transfer	Pick up Fee (Pesos)	Pesos received	Pesos received	Pesos received
Bancomer	$10	10.96	Same Day	Account*	0	3178	2081	986
Banamex	$9	10.90	Next Business Day	Cash	0	3172	2082	992
FAMSA	$8	10.95	One Hour	Cash	25	3172	2079	982

* NOTE: Monthly fee may apply. An account in the US is required to access this service, the monthly fee is $5.99, which also includes free check writing, check cashing, direct deposit, bill payment, and savings account.

Table 4

Spanish:

PAÍS: **México**
SERVICIO: **Latin America Express**

			Pago de $300	Pago de $200	Pago de $100
Lugar de entrega	Tarifa por envío de $1-$300	Tipo de cambio	Pesos recibidos	Pesos recibidos	Pesos recibidos
Bancomer	$10	10.96	3178	2081	986
Banamex	$9	10.90	3172	2082	992
FAMSA	$8	10.95	3172	2079	982

English:

COUNTRY: **Mexico**
SERVICE: **Latin America Express**

			Sending $300	Sending $200	Sending $100
Pick up Location	Fee for sending $1-$300	Exchange Rate	Pesos received	Pesos received	Pesos received
Bancomer	$10	10.96	3178	2081	986
Banamex	$9	10.90	3172	2082	992
FAMSA	$8	10.95	3172	2079	982

Appendix B: Focus Group Discussion Questions

English Questions

Focus Group Discussion Questions
Fair Exchange Disclosure

Section One—Choosing Services

1. How do you choose the service(s) you use to send remittances? [Prompts: Suggestions from a friend or relative, close to your home, friendly staff, convenience for you or your family you are sending money to?]

2. What kind of information do you use to select the services you currently use? Are you satisfied with the information you get – is it complete, easy to get, accurate?

3. Is the sending fee and exchange rate important in your decision? Do you feel like you're getting a fair price/are you satisfied with the service you receive?

4. How do you obtain information about remittances and costs?

5. Is it easy to get the information you need? What other information sources might be easier or you (newspaper, phone, teller, etc.)

6. What other information do you wish you had?

7. Do you shop around to find a good way to transfer money? [if yes, how; if no, why not]

8. Whom do you rely on for information or advice about sending money? [family, friends, church, bank, employer etc.]

Section Two—Fair Exchange Chart Information
"The following charts include information about sending money. The charts use Mexico as an example country, but the chart could apply to any country."

9. How does this chart make you feel? (confusing, interesting, intimidating, helpful?)

10. What do you understand from the chart?

11. Do you find the information useful? What information in this chart is most useful to you?

12. What information is not useful?

13. Would a chart like this help in choosing the best option for you to send money home? [ask participants to explain answers]

14. If a business displayed a chart like this, would it make you want to use their service? Not want to use their service? Depends? (explain answer)

15. Which of the options listed in the chart is the cheapest option? Why?

16. Is there any other information about the transaction that would be helpful for you to know?

17. Where would you like to view this information? When you enter a business to send money? In the shop window? While waiting in line, before approaching the teller? On a sheet of paper your can pick up? Posted in the store?

18. Where else would you like to see this information (newspaper, radio, telephone hotline)?

Spanish Questions

Preguntas A Discutir En Los Grupos Sobre Las tasas De Cambio.

Primera Sección—Escogiendo los Servicios

1. ¿Cómo escoge los servicios que utiliza? [Puntos para discusión: Sugerencias de una amistad o familiar, que este cerca de su hogar, un personal amable, que sea conveniente para usted o a la persona quien recibirá el envío]

2. ¿Que tipo de información usa para seleccionar los servicios que actualmente esta utilizando? ¿Esta satisfecho/a con la información que usted recibe – esta completa, fácil de obtener, correcta?

3. ¿La tarifa de envío y la tasa de cambio son importantes en su decisión? ¿Siente usted que esta recibiendo un precio justo/que esta satisfecho/a con el servicio que recibe?

4. ¿Cómo obtiene información acerca de los envíos y los costos?

5. ¿Es fácil para usted, obtener la información que necesita/busca? ¿Qué otra fuente de información sería más fácil y útil para usted? (periódico, teléfono, cajero, etc.)

6. ¿Qué otra información desea obtener?

7. ¿Busca el mejor precio entre diversos lugares para enviar dinero? [Si la respuesta es sí o no, ¿porqué?]

8. ¿Con quién cuenta usted para información o consejo sobre envíos de dinero? [familiares, amistades, la iglesia, el banco, el trabajo, etc.]

Segunda Sección—Cambio Justo: Información del Gráfico
"Las siguientes gráficas incluyen información sobre enviar dinero. Las gráficas usan a México como un ejemplo, pero la gráfica podrá demostrar cualquier país."

9. ¿Que siente al ver esta gráfica? (confusión, interés, ayuda útil, temor, etc.)

10. ¿Qué entiende de esta gráfica?

11. ¿Se le hace útil esta información? ¿Qué información de la gráfica se le hace más útil?

12. ¿Qué información no le es útil?

13. ¿Le sería útil una gráfica como esta para escoger la mejor opción para enviar dinero? [Pida que los participantes expliquen sus respuestas]

14. ¿Si un negocio exhibiera una gráfica como esta, le motivaría para usar su servicio? ¿No le gustaría usar su servicio? ¿Depende? (Explique su respuesta)

15. ¿Cuál de estas opciones es la más económica? ¿Porque?

16. ¿Hay otro tipo de información sobre la transacción del envío que le sería útil saber?

17. ¿Dónde le gustaría ver esta información? ¿Al entrar a un negocio para enviar dinero? ¿En la ventana? ¿Mientras espera en la línea, antes de acercarse al cajero? ¿En un volante, en un panfleto que puede recoger del negocio? ¿Exhibido en el negocio?

18. ¿Dónde más le gustaría ver esta información? (En el periódico, la radio, por teléfono)

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Center for Financial Privacy and Human Rights
Free markets are a necessary condition of liberty, prosperity and tolerance.

Written testimony of

J. Bradley Jansen

Submitted for the record to the

U.S. House Committee on Financial Services

Subcommittee on Domestic and International Monetary

Policy, Trade, and Technology

Hearing on

Remittances:

Access, Transparency, and Market Efficiency-

A Progress Report

May 17, 2007

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Chairman Gutierrez, Ranking Member Paul, members of the subcommittee, thank you for allowing me the opportunity to submit testimony on this important question. My name is Brad Jansen, and I am the director of the Center for Financial Privacy and Human Rights. CFPHR was founded in 2005 to defend privacy, civil liberties and market economics and is part of the Liberty and Privacy Network, a Washington, DC-based 501(c)(3) organization.

The *Christian Science Monitor*[1] explains well how remittances from Mexicans working in the United States help students and others in Mexico. At the same time, *The Washington Post* reports[2] on Salvadoran immigrants sending some of their earnings back home as remittances. However, the United Nations looks at estimated $2.8 billion that the Salvadoran immigrants in the United States send back home to support their families (cutting extreme poverty to only 6 percent from the 37 percent it would otherwise be) and sees a "vicious circle" that's "only going to get worse."[3] The United Nations and its leftist allies support poverty and starvation over income inequality.[4]

This statement addresses the lack of access to financial services of the "unbanked" especially in light of the post-September 11th, 2001 anti-money laundering laws and their implication for monetary policy. Remittances are an integral part of the unbanked discussion.

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[1] http://www.csmonitor.com/2006/0515/p01s03-woam.html?s=hns

[2] http://www.washingtonpost.com/wp-dyn/content/article/2006/05/13/AR2006051300879.html?referrer=email

[3] http://www.lewrockwell.com/orig7/rallo2.html

[4] http://www.fff.org/freedom/0691b.asp

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Governmental policies regulating remittances, even indirectly, raise several areas of concern regarding monetary, trade and other public policies. Regarding monetary policy, regulations and other taxes on remittances have the effect of re-instituting capital controls to a degree. The Unites States started relaxing capital controls in the 1960s and abandoned them after the breakdown of the Bretton Woods system and the short-lived Smithsonian Agreement period immediately following it. The liberalization of the foreign exchange (forex) and other financial markets more broadly ushered in great productivity and economic utility gains. These gains alleviated poverty and raised living standards. We should not emulate North Korea and other command economies with "successful" capital controls.

Monetary and trade policy concerns

The forex liberalization enabled increased global trade in goods and services. This additional trade increased marginal specialization of production which added to global economic well-being and an alleviation of global poverty. This forex liberalization illustrates a trend toward greater economic prosperity and less national governmental control.

The academic and philosophical underpinnings of these developments is strong and growing. Nobel laureate[5] economist F. A. Hayek's "Denationalization of Money" in 1976[6] (and his other writings[7] over the previous few decades) explored the proposition of greatly reducing national governmental control over

[5] http://nobelprize.org/nobel_prizes/economics/laureates/1974/hayek-lecture.html

[6] http://www.amazon.com/exec/obidos/ASIN/0255362390/cryptix/002-0000930-9601433

[7] Hayek wrote about these and other topics frequently with Ludwig von Mises and later independently; some of these writings have been compiled http://www.press.uchicago.edu/cgi-bin/hfs.cgi/00/13796.ctl and discussed and put into context here http://www.fff.org/freedom/0899b.asp.

money flows in order to increase worldwide economic welfare. His ideas are the topic of current Federal Reserve policy.[8] Nobel laureate[9] economist Robert Mundell[10] continued with this line of reasoning that established the theoretical foundation of the establishment of the euro and the demise of European national currencies.

In the May/June 2007 issue of Foreign Affairs, Benn Steil, the director of International Economics at the Council on Foreign Relations and a co-author of Financial Statecraft, writes "The End of National Currency[11]" which is summarized, "Global financial instability has sparked a surge in 'monetary nationalism' -- the idea that countries must make and control their own currencies. But globalization and monetary nationalism are a dangerous combination, a cause of financial crises and geopolitical tension. The world needs to abandon unwanted currencies, replacing them with dollars, euros, and multinational currencies as yet unborn."

Effective reintroduction of capital controls

Different public policy goals often conflict. One the one hand, liberal trade policies and liberalized financial markets have created a sophisticated, globalized economy creating unprecedented wealth and poverty reduction. On the other hand, more limited and parochial concerns threaten to undermine those gains. In

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[8] http://www.federalreserve.gov/BoardDocs/Speeches/2007/20070516/default.htm

[9] http://nobelprize.org/nobel_prizes/economics/laureates/1999/index.html

[10] http://www.robertmundell.net/Menu/Main.asp?Type=5&Cat=03&ThemeName=International%20Monetary%20Reform

[11] http://www.foreignaffairs.org/20070501faessay86308/benn-steil/the-end-of-national-currency.html

this case, our anti-money laundering (AML) laws and state government policies on remittances risk re-instituting harmful capital controls.

The "unbanked" are those without established formal relationships with financial institutions. They are disproportionately poor, minority and especially immigrant. In the immigrant communities, many people may come from cultures with good reason to be suspicious of banks. Since the marginal returns for services for most institutions for the unbanked are very small, the significant increase in the regulatory burden--especially for the immigrant populations--renders these markets unprofitable; therefore, the formal financial sector increasingly cuts off services to those who need them most.

Financial institutions are increasingly subject to regulations imposed by local, state, and national governments; and by many international organizations. The International Monetary Fund, the World Bank, Organization for Economic Co-operation and Development, Financial Action Task Force and the Bank for International Settlements all claim regulatory powers. As a result, some international financial institutions are now regulated by more than four hundred regulatory bodies. While financial regulations aim to protect consumers and investors, safeguard the stability of the financial system, and prevent money laundering, these regulations all too often become means to protect financial special interests from competition.

Many financial regulations affect poor households in the U.S. and around the globe. According to Federal Reserve estimates in 2000[12], nearly ten percent of American families do not hold a bank account. The unbanked in the U.S. are

[12] http://www.tawpi.org/documents/FRB_Boston_consumer_behavior.pdf

disproportionately poor, minorities, less educated, and with younger heads of household and immigrants. Access to the formal banking sector benefits consumers, law enforcement and the financial sector.

Extending bank services to the masses is central to development in developing countries. The Federal Reserve sponsors a "Directo a Mexico" service allowing customers without Social Security numbers through participating banks and credit unions to sent money to Mexico's central bank.[13] Private banks are offering similar services.[14]

Anti-money laundering policies target those without established relationships with formal financial institutions, again disproportionately poor and especially immigrant communities, e.g., with Suspicious Activity Reports filings. Since our policies aim to identify "suspicious" activities, bank tellers and others must resort to a subjective test of what is suspicious.

AML policies implemented as a result of the introduction of the USA PATRIOT Act impact financial markets in several ways that threaten to effectively re-institute capital controls. Those provisions targeting informal banking systems (hawalas, etc.) (Sec. 359) and "illegal money transmitting businesses" (Sec. 373) are almost exclusively used by immigrants where most of those transactions are international and cross currency.

The AML policies in the USA PATRIOT Act targeting gold dealers (Sec. 352) disproportionately affect the unbanked. Many immigrant cultures use a "clunky jewelry" gold standard in the absence of a formal (or uncorrupt and af-

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[13] http://www.sun-sentinel.com/business/local/la-na-remit26feb26%2C0%2C4184125.story?coll=sfla-business-headlines

[14] http://www.csmonitor.com/2007/0313/p02s01-usec.html?s=hus

fordable) banking sector. Many travelers from countries with capital controls convert their local, controlled currency into gold, precious stones or other hard currencies for us in trade and commerce abroad (to the great benefit of the U.S. economy). About two weeks ago, the U.S. Department of Justice issued two dozen seizure warrants exceeding the equivalent of US$11 million against E-Gold alleging money laundering. E-Gold is one of the oldest and most successful gold-backed currencies in use to day, and founder Douglas Jackson claims to have previously and voluntarily closed accounts with suspicions of criminal activity.

The over-reach and impracticality of the AML policies in the USA PATRIOT Act target Money Service Businesses (Sec. 328, 352) forced many to start to close under the new rules which then had to be rewritten. These businesses are often the only financial services option to the unbanked.

The pattern-analysis approach of the use of our data from our AML policies unfairly targets immigrants. AML policies in the USA PATRIOT which target "bulk cash smuggling" (Sec. 371) unfairly catches legal remittances in its net. In practice, they are searching for drug money, but since nearly all US currency has trace amounts of cocaine (and is therefore selected by the dogs inspecting mail) it is subject to civil asset forfeiture (Sec. 372).

The disproportionate regulatory burden on financial institutions--now much more broadly defined under the USA PATRIOT Act (Sec. 352)--limits access to the formal financial sector by marginal communities, especially the immigrant communities. Since smaller institutions bear a greater cost, there is both a mar-

ginal incentive to consolidate industry operators and raise the barrier to new entrants. This effect limits consumer choice and raises consumer cost.

Compounding the disproportionate regulatory burden problem of our other AML policies, new provisions in the USA PATRIOT Act targeting smaller and informal businesses (Sec. 365) include civil asset forfeiture (Sec. 372).

The USA PATRIOT Act's AML policies on verification and identification (Sec. 326), like the REAL ID debate, have been much more complicated, costly and problematic in practice than in theory. Similarly, increasing penalties (Sec. 363) increases financial institution scrutiny (especially of immigrants) which highlights our concerns. Many other sections of the USA PATRIOT Act, Title III, target international and foreign jurisdictions more likely to affect internationally-oriented businesses and individuals, disproportionately affecting the unbanked and especially the immigrant communities.

In addition to the federal rules, laws and regulations addressed here, there are several state initiatives (mostly tied to the immigration debate) that affect the remittances issue. Some of these are direct such as fees and other taxes on the remittances themselves. Other regulatory, state and local initiatives concerning identification policies, etc., are related more indirectly.

Solutions

As I testified before the Eminent Jurists Panel[15]:

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[15] http://ejp.icj.org/IMG/Jansen.pdf

Written statement of J. Bradley Jansen, CFPHR Director, Eminent Jurists Panel, "Terrorism, Counter-Terrorism and Human Rights" "The Impact on Privacy in the United States" International Commission of Jurists, American University, Washington, DC, September 8, 2006.

"It is my belief that we need to scrap our current AML policies and start over. Instead of policies attempting to vacuum up as much data as possible to look for 'profiles' based on incomplete, outdated and often inaccurate data, we should aim to reduce greatly the amount of reports filed.

"By scraping our Currency Transaction Reporting requirements of $10,000 or more and replacing them with reporting of aggregate capital flows, we would give law enforcement the information they are trying to glean from our CTRs, reduce the regulatory burden bringing more people into the formal financial services sector, and protect consumer financial privacy.

"Similarly, the burden should be on law enforcement to identify more specifically what it considers suspicious behavior or trust the financial institutions to do their jobs. Our current policies are too often doing more harm than good."

Conclusion

CFPHR aims to address the legitimate security concerns of our anti-money laundering laws while protecting consumer financial privacy, improving effectiveness of policies and protecting access to financial services (especially for the unbanked) by addressing disproportionate regulatory burden, identification verification programs, and other policies that limit the poor, minorities' and immigrants' access to financial services.

Many of the regulations imposed on financial institutions do not meet reasonable cost-benefit tests and have the potentially perverse effect of leading to more criminality—and less effective law enforcement—by inadvertently forcing more people into the cash economy. The added cost to them for using Money

Service Businesses and other alternatives amounts to a "ghetto tax" according to a recent Brookings Institution report[16]. The post-September 11th, 2001 rules significantly increased the regulatory burden and forced the closure of many MSBs and other legal avenues for the unbanked.

Our proposal focuses on protecting the access to financial services of the unbanked segment of the US population crucial to the future of democracy and the economy of our country. We seek to make it possible for them to become active participants and consumers in the US economy. We think that helping public policy makers more aware of the effects of current and proposed regulations would better protect the unbanked's access to financial services which will make them become more active participants to the US economy and more engaged in the democratization process of their host country.

As more potential customers drop out of the formal sector, law enforcement fails to gain any benefit from the loss of reporting. The effect is to increase the opportunities for terrorists and others seeking to skirt the law since it increases the market for informal--and often illegal--money services.

In the wake of September 11, 2001, the federal government enacted new rules to protect the country against terrorists and the illegal funding of their activities. While some of those rules adequately address the threat of terrorism, others have had a detrimental impact on the unbanked and immigrant communities.

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[16] See also the Brookings Institution report "From Poverty, Opportunity: Putting the Market to work for Lower Income Families" which would characterize the proposal as increasing the "ghetto tax" on the poor (July 2006), http://www.brookings.edu/metro/pubs/20060718_PovOp.htm, and "Financial Access for Immigrants: Lessons from Diverse Perspectives" (May 2006), http://www.brookings.edu/metro/pubs/20060504_financialaccess.pdf.

New rules regulating financial data and money transfers to prevent money laundering and illegal fundraising by terrorist organizations have had the unintended consequence of preventing many immigrants from participating fully in the economy as consumers by, e.g., denying them access to credit or making it very difficult to send money back home to help their families in need. In response to the new rules many businesses offering services to the unbanked closed their doors while other depository institutions ceased offering services vital to the unbanked.

Despite these challenges, the poor, minorities and immigrants still are eager to engage themselves in political debates and become actors of the US economy in their own rights. The reality is that they are a legitimate and vital force of that economy and in the political landscape: businesses need them because they constitute a substantial part of its labor force, and politicians seek their votes. Businesses, state and federal governments, and others have shown an interest in helping immigrants integrate at a social, economical and political level.

Financial institutions have an incentive to "overfile" BSA forms in order to protect themselves during regulatory exams. This problem is well established with law enforcement repeatedly calling for policymakers to address the "defensive filing" problem.[17] Flooding law enforcement with thousands of forms of Americans going about their law-abiding ways merely adds to the haystack making the search for the needle that much harder.

In short, I recommend examining these issues from a cost/benefit analysis. If rules are not meeting explicit and measurable goals, they need to be

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[17] http://www.federalreserve.gov/boarddocs/Speeches/2005/20050331/default.htm

amended or repealed. Law enforcement is ill-served by the deluge of "defensive filings" of AML reports. It remains important to respect consumer financial privacy. The unjustifiably high regulatory burden on the private sector harms the economy and limits consumer choice. In addition, the monetary and broader economic aspects of remittances need to remain foremost in the discussion.

If you have any questions or need additional information, please do not hesitate to contact me at 202-742-5949 ext. 101 or by email at bjansen@financialprivacy.org.

Respectfully submitted,

s/
J. Bradley Jansen, Director

J. Bradley Jansen is the director of the Washington, D.C.-based Center for Financial Privacy and Human Rights. Previously at the Free Congress Foundation, Brad testified before Congress on the USA PATRIOT Act proposal, National ID and other issues, and works safeguarding privacy and other Constitutional liberties. While working for U.S. Rep. Ron Paul, he initiated and lead the opposition to the "Know Your Customer" proposal. Brad's experience in Peru under then-President Alan Garcia sparked his interest in the human effects of monetary and financial policies before he went on to edit a newsletter forecasting foreign exchange rates.

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CFPHR comments on FinCEN rule to lower reporting requirements on wire transfers:

August 21, 2006

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FinCEN
P.O. Box 39
Vienna, VA 22183
Attn: Regulatory Identification Number (RIN) 1506-AA86

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Attn: Regulation S, Docket No. R-1258

Re: Comments of the Center for Financial Privacy and Human Rights on Regulatory Identification Number (RIN) 1506-AA86 and Docket No. R-1258 concerning the Threshold for the Requirement to Collect, Retain, and Transmit Information on Funds Transfers and Transmittals of Funds

To Whom It May Concern:

The Center for Financial Privacy and Human Rights is a public interest research center in Washington, D.C. Established in 2005, CFPHR is part of the Liberty and Privacy Network, a 501(c)(3) organization, and focuses on privacy, civil liberties and human rights including economic rights.

We submit the comments below on the review by the Financial Crimes Enforcement Network (FinCEN) and the Federal Reserve to determine whether to lower or eliminate the threshold for collecting and retaining information on funds transfers and transmittals of funds. Currently, the threshold is $3,000, but FinCEN and the Federal Reserve are considering decreasing that amount to $1,000 or less.

The lowering or elimination of the reporting threshold must meet the "high degree of usefulness" standard set out by the Bank Secrecy Act. This proposal outlines no metrics to justify the presumption that it meets that standard. CFPHR suggests that proposal must explain the metrics used to determine how, or if, the proposal would meet the high

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degree of usefulness standard.[18] Explicit benchmarks must be established, and that the proposal should be abandoned within a predetermined time period if those benchmarks were not realized.

Additionally, the proposal provides insufficient information about the usefulness of the current reporting system. How many reports initiate law enforcement or regulatory investigations? What percentage of the reports are used in criminal convictions, etc.? What successes can be identified by the ten years of wire transfer reporting requirements? The lack of basic usefulness information renders impossible an analysis and recommendations of the considered marginal benefits of lowering or eliminating the reporting threshold compared to the marginal costs.

Given that the current $3,000 reporting threshold was established ten years ago and never adjusted for inflation, there has already been a substantial reduction in the real value reporting threshold. What marginal benefits--and marginal costs--have already been realized over the course of the decade? The dearth of information itself to justify the high degree of usefulness standard of the Bank Secrecy Act requires that the proposal be resubmitted for public comment with appropriate information to evaluate the proposal.

A great deal of personally-identifiable information is collected, retained and transmitted to third parties of law-abiding customers going about their legal financial transactions. Given the legitimate concerns of identity fraud, the selling and sharing of information without their true informed consent and other issues, efforts should be made to minimize the required amount of information collected, retained and transmitted--not to increase it unjustifiably.

CFPHR shares the view of the Independent Community Bankers of America (and that of most financial institutions and most other observers) that the unintended consequences of the regulation would add an increased incentive for potential customers of the formal financial sector covered by this rule to migrate their business to the informal sector (which would suffer not suffer the increased intrusiveness or regulatory burden).[19] In truth, lowering--or worse eliminating--the reporting threshold would jeopardize access to financial services to those with the fewest options since they are usually the least profitable customers. [20] Thus, in this way, law enforcement would be relatively worse off than

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[18] See "Fighting Terror and Defending Freedom: The Role of Cost-Benefit Analysis," by Daniel J. Mitchell, *Pace Law Review,* Vol. 25, (2005), www.library.law.pace.edu/PLR/25-2/Mitchell.pdf.

[19] 2 "ICBA Cautions Against Lowering Threshold for Wire Transfers," August 10, 2006, http://www.icba.org/files/ICBASites/PDFs/cl081006.pdf.

[20] See also the Brookings Institution report "From Poverty, Opportunity: Putting the Market to work for Lower Income Families" which would characterize the proposal as increasing the "ghetto tax" on the poor (July 2006), http://www.brookings.edu/metro/pubs/20060718_PovOp.htm, and "Financial Access for Immigrants: Lessons from Diverse Perspectives" (May 2006), http://www.brookings.edu/metro/pubs/20060504_financialaccess.pdf.

under the current reporting regime if more transactions took place in the informal sector without reporting regimes.

The increased reporting requirements would dramatically increase the problems associated with law enforcement complaints of the current "defensive filing" problem of the Suspicious Activity Report requirements.[21] Making the haystack bigger makes the needle harder to find. The increase in reports would, nearly certainly, increase the delay of the input of the information from all of the reports thus postponing the potential benefits to law enforcement of the possibly time-sensitive information.

Other ways could (and should) be employed to address important law enforcement concerns without the negative unintended consequences of this proposal. Such efforts should stem from clearly--and narrowly--identified law enforcement concerns. How to address those concerns should be left to the individual financial institutions covered by the rule as much as possible in order to avoid the "fatal conceit" explained by Nobel laureate economist F.A. Hayek.[22]

Eliminating the reports altogether should be considered. Substituting different reports tailored to the specific needs of law enforcement might provide a win, win, win situation for law enforcement, financial institutions and consumers. Consider having covered financial institutions report only aggregate capital flow information coupled with expanded safe harbor to report violations of specified important laws or suspicious transactions. The aggregated capital flow reports would offer law enforcement the information used to track marginal changes in capital flows useful for investigations such the Colombian Black Market Peso Exchange case. At the same time, it would better protect sensitive consumer financial privacy concerns. This proposal would reduce the regulatory burden on covered institutions and likely increase the share of transactions in the formal banking sector reporting information useful to law enforcement. Reporting of aggregate capital flow information would ameliorate the concerns of law enforcement that

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[21] Then-FinCEN Director William J. Fox spoke to the American Bankers Association and American Bar Association in October 2004 and addressed defensive filing of SARs: "We all know this phenomenon is occurring – we have both empirical and anecdotal evidence we can cite. We have seen financial institutions file reports in ever increasing numbers – often upon the recommendation of their lawyers or risk management teams – when the facts as presented do not meet this standard. I suspect that this over compliance is occurring for a reason. It is occurring because financial institutions are – justifiably in my view – unwilling to accept the regulatory or reputational risk associated with an action by the government that would make it appear that the institution is soft on anti-money laundering or, even worse, on terrorist financing."

[22] "The Fatal Conceit Always Fails" by Ralph Reiland explains, "In The Fatal Conceit, the Nobel laureate economist F.A. Hayek writes of the key ideological conflict in economics. On the one hand are 'the advocates of the spontaneous extended human order created by a competitive market,' and on the other hand, 'those who demand a deliberate arrangement of human interaction by central authority based on collective command over available resources.' What has failed is the latter, collectivism--the 'fatal conceit' that says that a single mind, a single committee, can somehow do things better than the spontaneous, unstructured, complex, and creative forces of the market," http://www.taemag.com/issues/articleID.17894/article_detail.asp.

money launderers and terrorist financiers of their "structuring" transactions to avoid reporting requirements.

Again, CPFHR shares the view outlined by the Independent Community Bankers of America concerning the burden to the public. Some geographic and other populations would be disproportionately adversely affected by the lowering, or elimination, of the reporting threshold.

The "unbanked," who are disproportionately poor, minority and immigrant, would likely suffer most by this proposed change. Such harms contradict other public policy concerns.[23] The marginal effect of increasing the cost of sending remittances abroad increases the marginal benefit of bringing family along for immigrants (legal or otherwise) working in this country.[24]

Conclusion

The negative effects to law enforcement, the increased cost of the regulatory burden, and the increased loss of consumer financial privacy and access to formal financial services for the unbanked would likely outweigh any alleged benefit to law enforcement by lowering, or eliminating, the reporting requirement threshold. The termination of the BSA Direct Retrieval and Sharing Project by FinCEN for exceeding costs and failing to meet expectations augurs well for a long-overdue consideration by the regulatory agencies of the "high degree of usefulness" standard mandated by the Bank Secrecy Act.[25]

The regulatory agencies cannot legitimately consider the alleged marginal benefits of lowering, or eliminating, the wire transfer reporting threshold without first outlining the means of evaluating the current requirements and analyzing its costs and benefits. The failures of the current system at the root of the concern for this proposal indicate that scraping and replacing the failed system with one designed to address current needs, concerns and capabilities would be better.

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[23] For one example, please see U.S. House Judiciary Committee Report, "FINANCIAL SERVICES REGULATORY RELIEF ACT OF 2005," http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_reports&docid=f:hr356p2.109.pdf.

[24] See the United States Government Accountability Office Report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate "INTERNATIONAL REMITTANCES: Information on Products, Costs, and Consumer Disclosures," (November 2005) www.gao.gov/new.items/d06204.pdf.

[25] "FinCEN Halts BSA Direct Retrieval and Sharing Project," July 13, 2006, http://www.fincen.gov/bsa_direct_nr.html.

The current system was designed to stop illegal drug use, among other things, but has failed: no one believes it is now impossible to obtain illicit drugs nearly everywhere in this country. The current reporting requirements were designed to report "bad money" such as profits from illegal drug sales. Instead of expanding the reporting regime to find legitimate money that may in the future be used for bad purposes (such as terrorism financing), we should design a system for current goals balanced with current expectations of regulatory burden and consumer issues including financial privacy and access to financial services--especially for the unbanked. In short, the Center for Financial Privacy and Human Rights opposes lowering or eliminating the threshold for reporting wire transfers.

Thank you for the opportunity to comment. If you have any questions or need additional information, please do not hesitate to contact me at 202-742-5949 ext. 101 or by email at bjansen@financialprivacy.org.

Respectfully submitted,

s/
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