Remittances: Background and Issues for Congress

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Summary

This report focuses on remittances, transfers of money and capital sent by migrants and foreign immigrant communities to their home country. At over $400 billion globally in 2012, up from $75 billion in 1990, remittances are the second largest resource flow to developing countries and are expected to exceed $500 billion by 2015. The United States is the largest destination for international migrants and by far the largest source of global remittances. The World Bank records $51.6 billion in official remittance outflows from the United States in 2011. As the market for remittances has ballooned, banks, traditional money transfer companies, and entrepreneurs have responded to increased demand by increasing the amount of remittance channels available to migrants, including mobile, Internet, and card-based options.

The dramatic rise in the importance of remittances to global capital flows has led Congress and other policymakers to take a greater interest in these flows. Key issues for Congress include:

Regulation of Remittances. Members may want to review the regulatory landscape for remittance providers. Effective and proportional regulation of remittances reduces corruption, enhances transparency, and facilitates a more robust business environment. At the same time, additional regulatory requirements, such as recent consumer protection requirements included in the *Dodd-Frank Wall Street Consumer Protection Act*, may raise concerns about the compliance costs for remittance providers and consumers.

Congress may also want to consider whether current federal and state regulation are appropriate for new and emerging payments systems such as mobile and card options, which are starting to capture part of the remittance market. Members may also want to review recent efforts to improve foreign regulatory and supervisory mechanisms. Remittances are often sent to recipients in developing countries with weak regulatory systems, increasing the risk of money laundering and possible financing of terrorism.

Impact on U.S. Development Policy. Remittances represent a substantial percentage of gross domestic product (GDP) in several developing countries. Whether remittances can be leveraged to support U.S. foreign development policy is another issue of concern to some Members of Congress. Some analysts argue that since remittances are comprised of private transfers between family members and friends, U.S. efforts should be directed to reducing the transaction costs involved in remittance transactions. Others note the potential beneficial development aspects of remittances, including promoting investment and access to financial services, and encouraging government programs to help stimulate these positive effects.

Remittances and U.S. Immigration Policy. Members may want to consider the interplay of U.S. remittance policy and U.S. immigration policy. A major goal of U.S. policy on remittances is increasing the attractiveness of regulated remittance systems to potential remittance customers, without regard to their legal status. Thus, U.S. Treasury officials allow remittance providers to accept certain foreign-issued means of identification to meet their customer identification requirements. Some Members argue that policies like these may undermine U.S. immigration laws and advocate restricting remittances to those with legal status under U.S. immigration laws. Others argue that more restrictive identification measures would only push remittance flows toward high-risk, unregulated and underground channels.

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Introduction

This report focuses on remittances, transfers of money and capital sent by migrants and foreign immigrant communities to their home county. Increasing migration is a defining feature of the current global economy. Migrants account for around 3% of the global population and the number of foreign-born residents in the United States is at its highest level in U.S. history, reaching 40 million in 2010.[1] Foreign-born residents of the United States made up 12.9% of the U.S. population in 2010, approaching levels not seen since 1910.[2] As migrants have become increasingly integrated into the global economy, their involvement in the economic activities of their home countries has also increased.[3] At over $400 billion globally in 2012, up from $75 billion in 1990, remittances are now the second largest resource flow to developing countries and are expected to exceed $500 billion by 2015. More than three times official development assistance (ODA), only foreign direct investment (FDI) is a larger source of foreign capital for the world's developing countries than remittances.[4] The United States is the largest source country of remittances.[5] Foreign migrants and their communities in the United States sent $51.6 billion in 2011, around 14% of total worldwide remittances.[6]

The dramatic rise in the importance of remittances to global capital flows has led Congress and other policymakers to take a greater interest in these flows and how they are covered under U.S. and state regulation. Recent financial reform legislation, for example, the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, provided federal consumer protections on remittance transactions. Remittances are also subject to federal regulation to prevent money laundering and terrorist financing.

This report provides general background on remittances, analyzes global and U.S. remittance flows, examines the remittance marketplace and the regulatory regime for sending remittances from the United States, and discusses key issues for Congress.

Background

Remittances are cross-border migrant financial transfers. A remittance transaction typically involves a sender, a recipient, intermediaries in both countries, and a payment system used by the intermediaries (**Figure 1**).[7] Remittances can be sent through informal or formal channels. Informal channels have been labeled by various terms, including "alternative remittance

[1] CRS Report R42988, *U.S. Immigration Policy: Chart Book of Key Trends*, by Ruth Ellen Wasem.

[2] Ibid.

[3] Orozco, Manuel, "Transnational Engagement, Remittances and Their Relationship to Development in Latin America and the Caribbean," *Institute for the Study of International Migration, Georgetown University*, July 1, 2005.

[4] Foreign Direct Investment (FDI) can be defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy.

[5] World Bank Remittances Database, April 2013.

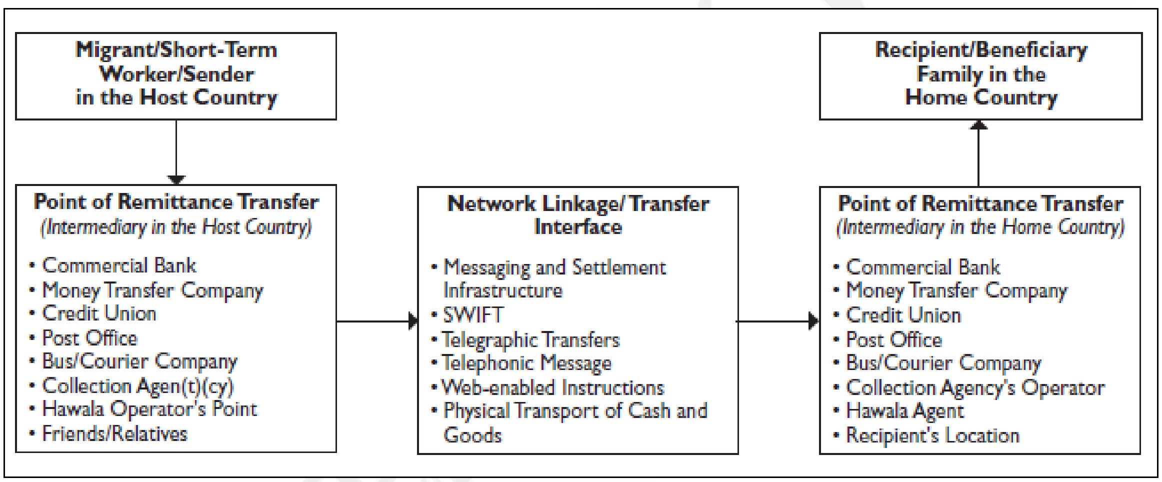
[6] Ibid.

[7] *International Transactions in Remittances: Guide for Compilers and Users.* Washington, DC: International Monetary Fund, 2009.

systems," "underground banks," and "informal value transfer systems." The most well-known is *hawala* (hawala means "transfer" in Arabic), which originated in India and has been in use in South Asia and the Middle East for several hundred years.[8] These services are less expensive than formal banking or money transfer arrangements, can provide anonymity for all parties involved, and can reach countries where there is no formal banking sector, in some cases even arranging for hand delivery of the cash. While most use these systems for legitimate purposes, their lack of documentation and anonymous, informal nature may make them attractive for money laundering and/or terrorist financing purposes.

Formal channels involve intermediaries that are officially licensed to operate money transfer businesses. These consist of banks, non-bank financial institutions, such as credit unions, savings and loan institutions, and post-offices, and money service businesses such as Western Union or MoneyGram. Increased use of technology in developing countries has also facilitated the use of mobile and other alternative payment options.

Figure 1. Overview of Remittance Channels



Source: International Transactions in Remittances: Guide for Compilers and Users, *International Monetary Fund*, 2009.

Notes: Not all transactions sent through these channels are remittances.

Sending money overseas is not free and the price of sending a remittance can vary significantly. A number of factors affect the transfer fee charged, including the regulatory and administrative costs, the volume sent, the transfer mechanism, the receiving country's financial infrastructure, and the level of market competition (in both the sending and receiving country). In addition, the exchange rate used in the transaction can significantly affect the amount actually delivered to the recipient. For the most part, the cost of sending remittances has declined slightly in recent years, but substantial progress would need to be made to meet the G8 target of 5% of total cost. According to World Bank analysis, the global average remittance cost has declined from 9.81% of the total transaction in 2008 to 9.05% during the first quarter of 2013. Among the major economies, the United States is among the least costly from which to send money. For the first

[8] Often regionally-based, alternative remittance systems, date back hundreds of years and were originally used to finance trade in regions where traveling with gold or other forms of payment was not safe. These systems go by various names including *Hue* (Vietnam), *Fei-Ch'ien* (China) *Phei Kwan* (Thailand) *Hundi* (South Asia), or *Hui Kuan* (Hong Kong).

quarter of 2013, the average cost to send a remittance from the United States was 6.75% of the transaction. Among G20 countries, only South Korea (6.49%), and Russia and Saudi Arabia (3.93%) were less expensive than the United States.[9]

The primary source for international remittances data is the International Monetary Fund (IMF), which compiles statistics submitted by its member countries. Using IMF statistics, the World Bank publishes an annual *Migration and Remittances Factbook,* and monthly and annual remittances data on its website.[10] There are ongoing efforts to improve remittance data.

Remittances are currently defined as the sum of three entries in the IMF's annual Balance of Payments Statistics Yearbook: workers remittances; compensation of employees; and migrants' transfers.[11]

- **Workers' remittances** are defined by the IMF as transfers (cash or in kind) by migrants who are employed and considered resident in another country. If the migrants live in the host country for one year or longer, they are considered residents, regardless of their immigration status.
- **Compensation of employees** includes wages, salaries, and other benefits of border, seasonal, and other nonresident workers (such as local staff of embassies) away from their home country for less than a year.
- **Migrants' transfers** are the net worth of migrants' assets that are transfers from one country to another at the time of migration (for a period of at least one year), such as in the case of temporary workers.

Global and U.S. Remittance Flows

Remittances have increased steadily over the past three decades (**Figure 2**). In 1990, remittances to developing countries totaled about $75 billion. At the time, remittances were a larger source of foreign capital to developing countries than both foreign direct investment and private capital flows (debt and equity). Since then, remittances increased by 434%, totaling $401 billion in 2012. The World Bank estimates that remittances are expected to exceed $500 billion by 2015. Official remittance figures do not include informal remittance flows, which may account for an additional 35% to 75% of total remittance flows.[12]

Migrant workers appear to have absorbed the 2008 global financial crisis and the Eurozone crisis, with remittances showing a much smaller decline than other flows. In 2009, remittances fell by only 5.2%, while private flows (debt and equity) fell by 27% (**Figure 1**). Foreign direct investment fell 40%, the sharpest drop in 20 years. Remittances are also growing at a faster rate

[9] Remittance Prices Worldwide," *World Bank*, March 2013

[10] The most recent official data on remittances and other resources are available at http://www.worldbank.org/migration.

[11] The IMF's Balance of Payments Yearbook includes annual aggregate and detailed time series for balance of payments and international investment position for countries.

[12] Freund, Caroline and Spatafora, Nikola, "Remittances: Transaction Costs, Determinants and Informal Flows," World Bank Policy Research Working Paper 3704, 2005.

than GDP. Migrants increased remittances in 2012 by 5.3% compared to world GDP growth of around 3%.[13]

As **Figure 2** illustrates, remittances are more stable than other capital flows to developing countries. Private capital flows tend to be sharply "pro-cyclical," rising during booms and falling during downturns. Remittances, in contrast, are more stable. One reason is that the major recipient-receiving countries, such as China, India, and the Philippines, have diaspora populations spread among many different countries and in multiple labor markets.[14] For example, one fifth of Indian migrants are in North America; two-fifths are in Gulf Cooperation Council (GCC) countries; and the remaining two-fifths are spread out between Europe, Australia, Bangladesh, Nepal, and other regions.[15]

Another explanation for the resilience of remittances is that they represent contributions of all migrants, both new migrants and those who are established in the host-country. The sending of remittances by migrant populations actually increases as migrants become more settled in their host countries.[16] Migrants tend to remit small percentages of their income but with a great deal of regularity. There is also substantial evidence that remittances increase in the event of crises, regardless of whether they are economic, political, or natural.[17] For example, one study found that in the poorest developing countries, international remittances increased following hurricane damage, amounting to 20% of the damages.[18]

[13] The Conference Board, *Global Economic Outlook 2013*, May 2013.

[14] Ratha, Dilip. "Workers' Remittances: An Important and Stable Source of External Development Finance," *Global Development Finance 2003: Striving for Stability in Development Finance*, Washington, DC: International Monetary Fund.

[15] Ibid.

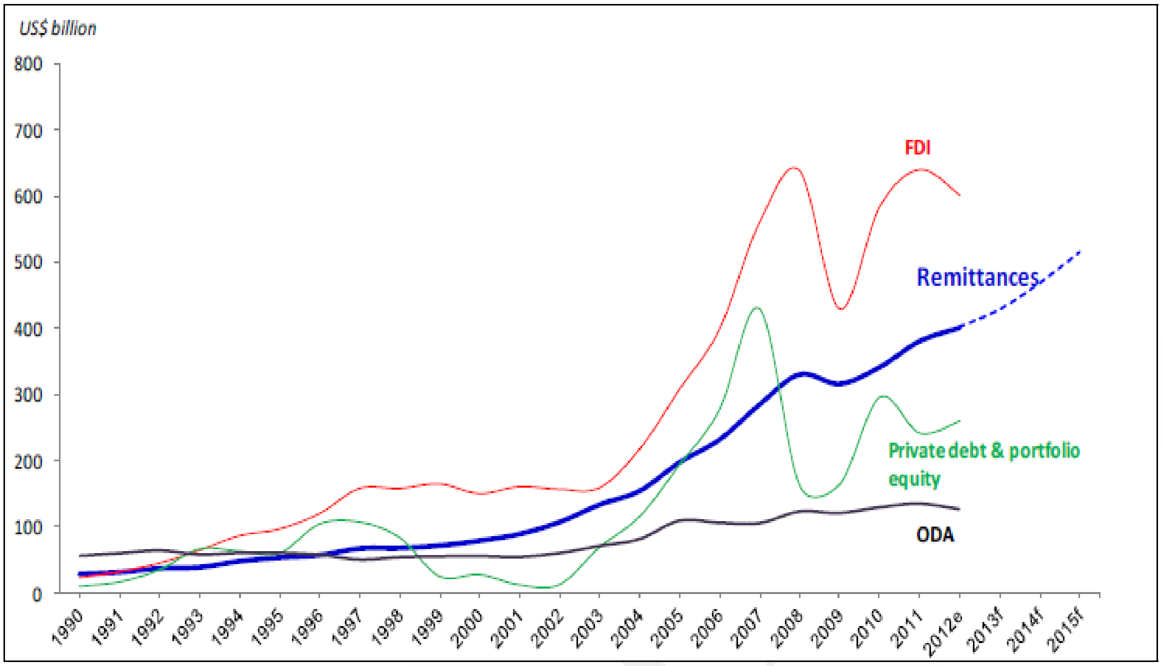
[16] Ibrahim Sirkeci, Jeffrey H. Cohen, and Dilip Ratha, "Introduction: Remittance Flows and Practices During the Crisis," in: Sirkeci, I., Cohen, J., and Ratha, D. (eds.) Migration and Remittances During the Global Financial Crisis and Beyond, The World Bank, Washington, DC., pp. 1-20.

[17] Mohapatra, Sanket, George Joseph, and Dilip Ratha, "Remittances and Natural Disasters: Ex-Post Response and Contribution to Ex-Ante Preparedness." *Environment, Development and Sustainability* 14, no. 3, 2012, 365-387.

[18] Yang, Dean. "Coping with disaster: The Impact of Hurricanes on International Financial Flows, 1970-2002." *The B.E. Journal of Economic Analysis & Policy 8*, no. 1, 2008.

Figure 2. Remittances and Other Capital Flows to Developing Countries, 1990-2015

(Billions of U.S. Dollars)



Source: World Bank.

Notes: Foreign Direct Investment (FDI); Official Development Assistance (ODA); "e" is estimated; "f" is forecasted.

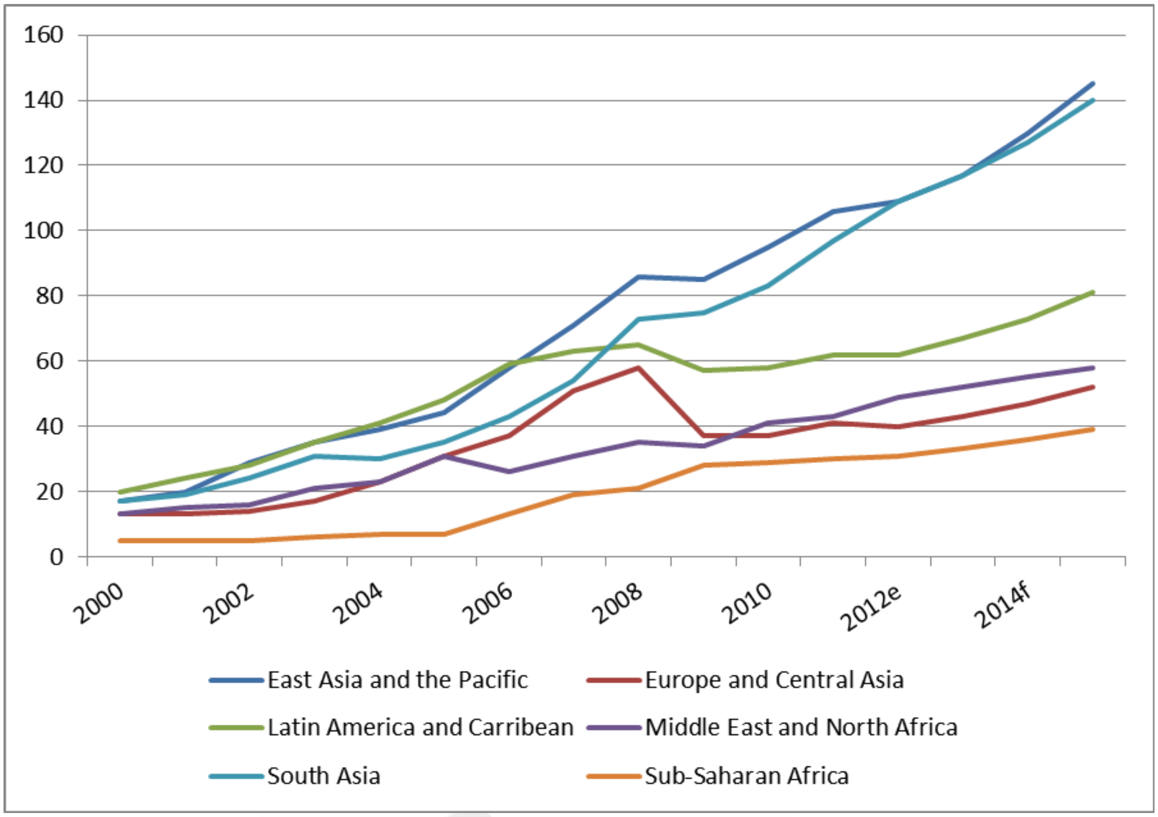
Figure 3 shows the geographical distribution of remittances since 2000. Changing migration patterns over the decade saw remittances to the Latin America and Caribbean region overtaken by remittances to East Asia and the Pacific in 2007 and by South Asia in 2008.

The emergence of large Indian, Chinese, and Philippine diaspora populations led to the explosive growth of remittances over the decade. Between 2000 and 2011, remittances to developing countries in East Asia and Pacific increased by 524%, growing from $17 billion in 2000 to $106 billion in 2011. In South Asia, remittances increased by 471% over the time period, growing from $17 billion in 2000 to $97 billion in 2011. Despite accounting for a much smaller amount of global remittances, flows to Africa increased by 500% from 2000 ($5 billion) to 2011 ($30 billion). One trend that holds for all regions is that one or two countries account for over half of remittances to the region. China, for example, accounted for 55% of the remittances to the East Asia and Pacific region in 2011. Others include: India, 65% of flows to South Asia; Mexico, 56% of flows to Latin America and the Caribbean; Egypt, 40% of flows to the Middle East and North Africa (MENA); and Nigeria, which accounted for 67% of remittance flows to sub-Saharan Africa in 2011. In 2012, regions closely linked to Eurozone economies, such as Eastern Europe and Latin America are estimated to have seen the sharpest decline in annual remittance flows. The MENA region saw the largest increase, growing by 14.3% in 2012, largely due to increased demand for labor in the oil-exporting Gulf economies, whose economies are benefiting from high-oil prices.[19]

[19] World Bank, *Migration and Development Brief 19*, November 20, 2012.

Figure 3. Remittances to Developing Countries by Region, 2000-2015

(Billions of U.S. Dollars)



Source: World Bank.

Note: "e" is estimated; "f" is forecasted.

Table 1 presents the 40 largest recipients of remittances ranked by the total amount of remittances received and by the percentage share of GDP. India is the largest individual recipient of remittances followed by China, Mexico, Philippines, and Nigeria. The poorest countries, as opposed to the large developing economies, tend to rely most on remittances for their livelihood. According to data compiled by the United Nations, recorded remittances exceeded FDI in 17 low-income countries, during 2008-2010.[20] In nine of the countries, remittances also exceeded foreign aid.[21] While remittances serve as an important component of a diversified mix of external finance in emerging market and middle-income countries, for the low-income countries (see second column of **Table 1**), remittances are an essential anti-poverty tool, comprising a significant share of national economic activity. Tajikistan, for example, has been dependent on remittances since an armed conflict between 1992 and 1998 claimed over 100,000 lives, destroying the economic infrastructure.[22] Almost 15 years after the end of the conflict, remittances account for around 47% of national GDP.

[20] Bangladesh, Benin, Burundi, Comoros, Ethiopia, Gambia, Guinea-Bissau, Haiti, Kiribati, Lesotho, Nepal, Samoa, Senegal, Sudan, Togo, Uganda, and Yemen. "The Least Developed Countries Report 2012," *United Nations Conference on Trade and Development,* 2012.

[21] Bangladesh, Haiti, Lesotho, Nepal, Samoa, Senegal, Sudan, Togo and Yemen.

[22] CRS Report 98-594, *Tajikistan: Recent Developments and U.S. Interests*, by Jim Nichol.

In eight countries, the total value of remittances exceeds 20% of their total GDP. Following Tajikistan are the Krygyz Republic, Lesotho, Liberia, Moldova, Nepal, Samoa, and Haiti. Of the top five recipients by volume, only the Philippines is among the top 40 recipients of remittances as a percentage of GDP, ranked at 23rd. There are nine countries on both lists, having large total volumes of remittances that also comprise a substantial share of GDP: the Philippines; Bangladesh; Lebanon; Guatemala; El Salvador; the Dominican Republic; Jordan; Serbia; and Tajikistan.

Table 1. Largest Recipients of Remittance, 2011

(Highlighted countries are on both lists)

	Billions of USD		Percentage of GDP
India	63.82	Tajikistan	46.91
China	40.48	Kyrgyz Republic	27.57
Mexico	23.59	Lesotho	26.76
Philippines	22.97	Liberia	23.29
Nigeria	20.62	Moldova	22.86
France	19.31	Nepal	22.33
Egypt, Arab Rep.	14.32	Samoa	21.71
Germany	13.16	Haiti	21.12
Pakistan	12.26	Armenia	19.45
Bangladesh	12.07	Lebanon	18.26
Belgium	10.91	Kosovo	17.38
Spain	9.91	Tonga	16.48
Vietnam	8.60	Honduras	16.13
Korea, Rep.	8.49	El Salvador	15.90
Ukraine	7.82	Jamaica	14.58
Poland	7.64	Guyana	14.48
Lebanon	7.32	Timor-Leste	12.41
Morocco	7.26	Jordan	11.97
Italy	7.03	Bosnia and Herzegovina	10.83
Indonesia	6.92	Bangladesh	10.79
United States	5.81	Georgia	10.70
Sri Lanka	5.15	Senegal	10.34
Russian Federation	4.95	Philippines	10.22
Thailand	4.55	Gambia, The	10.09
Guatemala	4.51	Nicaragua	9.81
Nepal	4.22	Guatemala	9.61
Colombia	4.20	Togo	9.30
Romania	3.89	Cape Verde	9.28
Portugal	3.78	Albania	8.96

	Billions of USD		Percentage of GDP
El Salvador	3.67	Sri Lanka	8.71
Dominican Republic	3.65	Nigeria	8.45
Jordan	3.45	Montenegro	7.63
Switzerland	3.31	Morocco	7.24
Serbia	3.27	Serbia	7.14
Tajikistan	3.06	Vietnam	6.96
Honduras	2.81	St. Kitts and Nevis	6.81
Brazil	2.80	Dominican Republic	6.56
Peru	2.70	Egypt, Arab Rep.	6.24
Ecuador	2.68	Pakistan	5.83
Austria	2.67	Uganda	5.64

Source: World Bank.

The United States is the largest destination for international migrants and by far the largest source of global remittances. The World Bank records $51.6 billion in official remittance outflows from the United States in 2011. After the United States, the next largest sources of remittances in 2011 were: Switzerland ($30.8 billion); Saudi Arabia ($28.5 billion); Russia ($22.7 billion); and Germany ($16.7 billion) and other advanced European economies.[23]

The IMF, World Bank, and the U.S. government do not publicly publish remittance flows from the United States to individual countries or regions. However, this information is available for a slightly broader category of transactions defined by the Department of Commerce's Bureau of Economic Analysis (BEA) as "private remittances and other transfers." In addition to U.S. immigrants' personal transfers to households abroad, the BEA category includes U.S. religious, charitable, and other nonprofit institutions' gifts and donations to foreigners; taxes withheld by foreign governments on the earnings of U.S. residents on holdings of foreign securities; and several other minor transactions.[24]

Figure 4 provides the sum of net outflows of private remittances and other transfers and compensation of migrant employees. This figure is called net private remittances and related flows from the United States. Although this figure is larger than remittances alone, it is worth considering since regional data are available as well as statistics for many individual countries.

The data suggest that the total value of net private remittances and related flows has grown more slowly since 2008 than in prior years. In 2012, $22.6 billion went to Asia and Pacific countries, the largest recipient due to increasing remittances to China and India. The Asia-Pacific region has been the largest destination for U.S. flows since 2011, when it replaced, at least in the short run, Latin America and Western Hemisphere. Despite Latin America receiving the second largest share of U.S. net private remittances and related flows, the amounts grew relatively slowly compared to other regions. Between 2000 and 2012, while annual net private remittances and

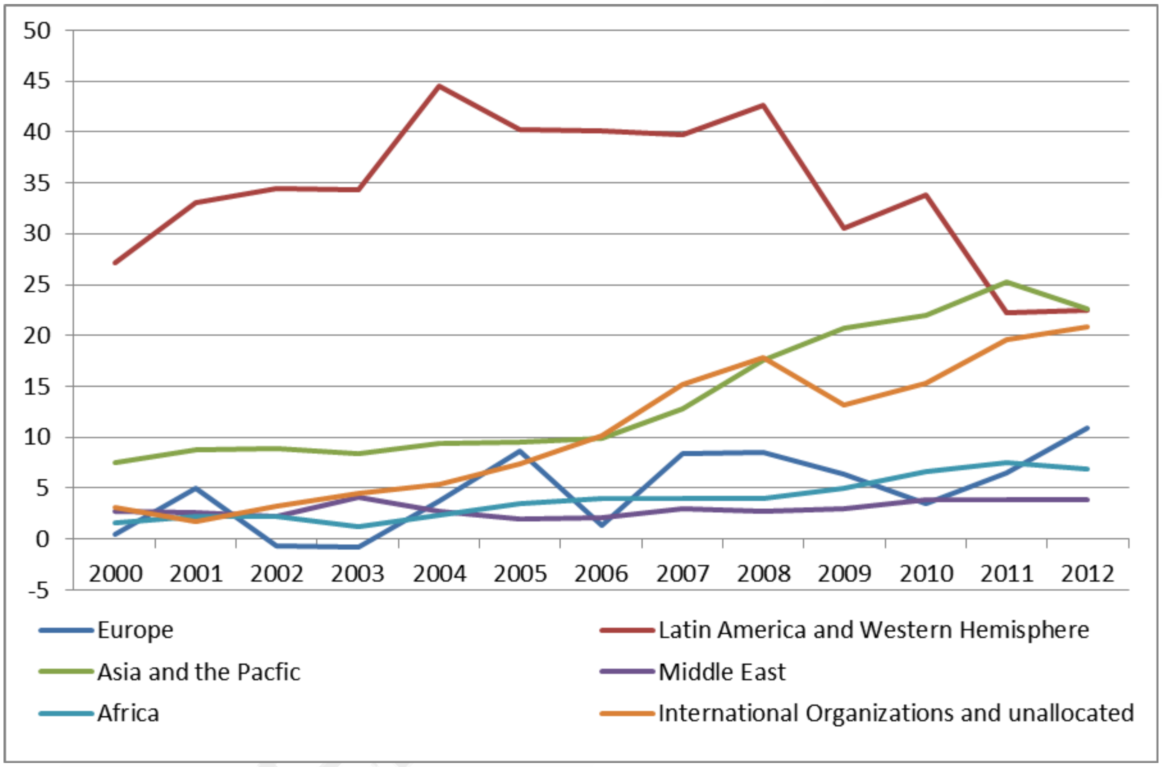
[23] World Bank Remittances Database, April 2013.

[24] Department of Commerce, *U.S. International Transactions Accounts: Concepts and Estimation Methods*, June 2011, pg. 59.

related flows doubled from $43 billion in 2000 to $87 billion in 2012, the average annual growth rate of U.S. net private remittances and related flows to Latin America and the Western Hemisphere was less than 0.1%. Growth in U.S. remittances to Africa has also been strong, averaging 17.62% per year since 2000, although some of this growth may be due to decreased use of informal channels because of increased regulation and decreasing remittance costs.

Figure 4. Net Private Remittances and Related Flows from the United States, Various Regions, 2000-2012

(Billions of U.S. Dollars)



Source: Department of Commerce.

Mexico remains the largest recipient of net private remittances and related flows from the United States, receiving $22 billion in 2012, around 25% of the total sent from the United States of $87.4 billion in 2012 (**Table 2**).[25] Recipients in India and China received around $12.8 billion, approximately 15% of the total. Both of these countries experienced rapid growth in flows from the United States. In India, net private remittances increased from $1.1 billion in 2000 to $8.82 in 2012, growing on average 21.04% a year. While increased demand for Indian high-skilled labor in the U.S. tech sector is a major reason for the rise in flows to India, there has also been a steady depreciation of the Indian Rupee against the dollar in recent years, making remittances a more attractive option to Indians working in the United States.

[25] This figure substantially exceeds the $51.6 billion in remittances from the United States in 2011 because, as noted on pg. 8, data for the U.S. reported by the Department of Commerce in "Net Private Remittances and Related Flows" include flows not captured in the figures reported by the World Bank, such as U.S. religious, charitable, and other nonprofit institutions' gifts and donations to foreigners; taxes withheld by foreign governments on the earnings of U.S. residents on holdings of foreign securities; and several other minor transactions.

Table 2. Net Private Remittances and Related Flows from the United States, Major Recipients

(Billions of U.S. Dollars)

	2000	2005	2006	2007	2008	2009	2010	2011	2012
Mexico	15.97	21.20	22.10	22.43	23.76	22.01	22.50	22.21	22.09
India	1.11	1.97	2.28	3.02	4.36	8.49	9.20	8.97	8.82
China	1.51	2.58	2.62	3.10	3.09	2.56	3.12	3.30	3.98
Brazil	0.40	0.79	0.99	1.10	0.85	0.50	0.31	0.40	-0.30
Total	18.99	26.55	27.99	29.65	32.06	33.56	35.13	34.88	34.59

Source: Department of Commerce.

The U.S. Remittance Marketplace

Money Service Businesses (MSBs)

Currently, the U.S. foreign remittance market is dominated by MSBs, a category of non-bank financial institutions that generally own proprietary, so-called "closed-loop" payment systems and operate largely outside of conventional banks.[26] The capacities of MSBs include money orders, traveler's checks, money transmission, check cashing, currency exchange, currency dealing, and stored value.[27] MSBs cover a broad variety of enterprises ranging from the small and simple to large firms with numerous branches or outlets. MSBs include the U.S. Postal Service, because it issues money orders. Western Union and MoneyGram are the two largest money transmitter companies and their agents are often located in a wide variety of other businesses, including supermarkets, check cashing agents, gas stations, liquor stores, convenience stores, and currency exchange offices. The main reason foreign remittance customers use MSBs is that they are often "unbanked;" that is, they do not have an account with a depository financial institution. In addition, money transmission services may be an ancillary service: the foreign remittance customer may be able to cash a paycheck, send money to family in his home country, and shop for groceries at the same location. In general, MSBs tend to be more expensive than traditional financial institutions.

Traditional Financial Institutions

Remittance transactions are not a service traditionally provided by banks. International money transfer services provided by banks are expensive, and have thus been marketed primarily to corporate clients who send larger amounts than a typical migrant remitter. According to the Federal Reserve, the median amount of a consumer-initiated wire transfer processed by financial institutions is about $6,500 in domestic and foreign transfers, much larger than most remittance

[26] For example, a remittance-sender goes to a Western Union agent in Chicago to send money to her uncle in Brazil, who collects the funds from one of the more that 10,000 Western Union agents in Brazil. Since there are Western Union agents on both ends of the transaction, the transaction occurs outside the conventional banking system.

[27] Stored value is funds or monetary value represented in digital electronic format and stored or capable of storage on electronic media in such a way as to be retrievable and transferable electronically, such as a prepaid Visa gift card.

transactions, which are typically a few hundred dollars.[28] Another constraint for bank-provision of remittances is underdeveloped financial systems in many of the largest remittance-receiving countries. Since many recipients lack a bank account, they prefer to collect remittances money in cash. International wire transfer, however, is only an option when both the sender and receiver have access to deposit accounts at depository institutions. Unlike the "closed loop" payment system used by MSBs, banks and credit unions generally use "open loop" payment systems such as wire transfer systems and correspondent banking channels. MSBs, by acting through retail store locations such as grocery stores, often have more extensive distribution networks in the countries in which they operate than do traditional financial institutions.

As consumer demand for remittances has grown over the past two decades, banks and credit unions have shown a greater interest in directly providing remittances services to consumers. Remittance services can be a way to bring low-income migrants into the financial mainstream and introduce them to other financial products and services, such as interest-bearing savings accounts, checking accounts for paying bills (a replacement for money orders), free and secure check cashing services, and small dollar loans, among other services. Credit union participation has also been encouraged by the development of the World Council of Credit Unions' International Remittance Network, a credit union network for international money transfers.

To generate more remittances business, since 1998, U.S. depository institutions have had the option of transmitting remittance transfers through the Automated Clearing House (ACH) system. The ACH system is a system that clears and settles batched electronic transfers for participating depository institutions. Since financial transfers are batched together and sent on a fixed schedule, banks can charge a lower price than for traditional international wire transfers, which are sent individually. The originating institution combines the payment instructions from its various customers and sends them in a batch to an ACH operator—the U.S. Federal Reserve Banks' FedGlobal Payments Service or the Clearing House's Electronic Payments Network for processing. In addition to remittances, international ACH transfers are used for a range of small, recurring, cross-border payments such as social security and other benefit payments, business transactions such as vendor payments, and consumer transactions such as bill payments and remittance transfers.

Since 2001, the U.S. Federal Reserve has provided so-called "account-to-receiver" FedGlobal services that allow funds from accounts at a U.S. depository financial institution to be sent to unbanked receivers for retrieval at either a bank location or at a trusted, third-party provider. As of 2013, FedGlobal services are available to Europe, Mexico, Panama, and Latin America, covering 34 countries in total.[29]

Participation in the remittance market by banks and credit unions, while growing, is still limited. The U.S. Federal Reserve does not collect precise statistics on remittance transfers, but reports

[28] Board of Governors of the Federal Reserve System, *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries,* April 2013.

[29] The European service includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, and United Kingdom. The Latin American service includes Argentina, Brazil, Columbia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, and Uruguay. The Latin American service, which only involves account-to-receiver ACH transfers, is in addition to the account-to-account service for Mexico.

that in 2012, the two U.S. ACH operators handled 16.8 billion ACH transactions, of which 42.4 million (or 0.3%) were initiated by a business or a consumer, but not by the U.S. government.[30]

Mobile and other Emerging Payment Systems

In addition to remittance services provided by MSBs and traditional financial institutions, there has been a proliferation of new companies utilizing new technologies to provide remittances in recent years. Options include computer and mobile-based payments,[31] pre-paid cards, which can be cashed out at an ATM or spent at retail stores,[32] directed transfer options where the sender transmits funds directly to payments on behalf of the recipient,[33] and money transfers through social media.[34] A study conducted in July 2013 by the World Bank's Consultative Group to Assist the Poor (CGAP) found that there are 41 so-called "branchless" remittance providers in 2013, up from 10 in 2010.[35] CGAP also found that traditional remittance providers are introducing flat fees and transparent foreign exchange rates in response to the increased competition.

Regulation of Remittance Providers

At the international level, international standards and principles governing remittances have been set by the Financial Action Task Force (FATF) and the Bank for International Settlements (BIS). In the United States, the operations of U.S. banks and credit unions are closely regulated and supervised at both the state and federal level. Foreign bank branches and agencies are also governed by a combination of state and federal statutes, provisions of which include licensing requirements and permissible activities. The primary focus of federal regulation is on anti-money laundering (AML) and combating the financing of terrorism (CFT). Individual state regulators, on the other hand, regulate the operations of federally-chartered banks and MSBs. As of October 2013, the U.S. Consumer Financial Protection Bureau (CFPB) will enforce various consumer protection measures included by Congress in the *Dodd-Frank Wall Street Consumer Protection Act* (Dodd-Frank).

International Standards and Principles

Global standards on remittances emerged over the past decade, largely due to concerns raised about unregulated money transfer services and their use in planning the September 11, 2001 terrorist attacks. International efforts have been negotiated at the FATF, an inter-governmental body comprising 34 countries and two regional organizations, including the United States, that develops and promotes policies and standards to combat money laundering and terrorist financing.[36] FATF was established in 1989 by the G-7 countries to implement the Vienna

[30] Board of Governors of the Federal Reserve System, *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries,* April 2013.

[31] Examples include Xoom (Global), Globe GCASH (Philippines) and Safaricom M-PESA (Kenya and Tanzania).

[32] Examples include iRemit Visa (Asia) and mPower Yap Card (Global).

[33] Examples include Regalo Pay (Central and South America) and WillStream (Africa).

[34] Examples include Azimo and Fastacash, which allow transfer between Facebook users.

[35] World Bank Consultative Group on the Poor (CGAP), *CGAP Landscape Study on International Remittances through Branchless Banking*, February 2012.

[36] Members of FATF are Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, the European (continued...)

Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the first international agreement to criminalize money laundering. It is housed at the Organization for Economic Cooperation and Development (OECD) in Paris.

The FATF sets minimum standards and makes recommendations for its member countries. Each country must implement the recommendations according to its particular laws and constitutional frameworks. In 2001, FATF issued nine special recommendations to counter terrorist financing. For example, FATF Special Recommendation VI required FATF member countries to regulate all MSBs. In 2012, FATF revised its recommendations and Special Recommendation VI became FATF Recommendation 14 on Money or Value Transfer Services.[37] Several other recommendations are relevant for remittance providers, including recommendation 10 on wire transfers, recommendation 11 on record keeping, recommendation 16 on wire transfers, recommendation 18 on internal controls and foreign branches and subsidiaries, and recommendation 20 on suspicious transaction reporting.[38]

International efforts have also focused on improving the operational aspects of remittance transfers. In 2007, the BIS and the World Bank jointly issued *General Principles for International Remittance Services*, to "help to achieve the public policy objectives of having safe and efficient international remittance services, which require the markets for the services to be contestable, transparent, accessible and sound."[39] General Principle 3 states that "Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions," and affirms the FATF recommendations, advocating that remittance providers comply with all relevant FATF recommendations. FATF maintains a mutual evaluation system and also provides oversight of non-member countries' AML/CFT regimes.

U.S. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Efforts

In the United States, remittance providers, both banks and MSBs, are required to identify, assess and take steps to design and implement controls in compliance with their obligations under the U.S. Bank Secrecy Act (BSA). The BSA has been amended a number of times, most notably by Title III of the USA PATRIOT Act in 2001.[40] Among other things, Title III expanded the BSA framework beyond AML to also fight terrorist financing. The main purpose of the BSA is to require financial institutions to maintain appropriate records and file reports that can be used in criminal, tax, or regulatory investigations or proceedings. The Treasury Department's Financial

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Commission, Finland, France, Germany, Greece, the Gulf Cooperation Council, Hong Kong, Iceland, India, Ireland, Italy, Japan, Korea, the Netherlands, Luxembourg, Mexico, New Zealand, Norway, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. See CRS Report RS21904, *The Financial Action Task Force: An Overview*, by James K. Jackson.

[37] The Financial Action Task Force, *The FATF Recommendations: International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*, February 2012.

[38] Ibid.

[39] Bank for International Settlements and the World Bank, *General Principles for International Remittance Services*, January 2007.

[40] CRS Report RL31208, *International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, Title III of P.L. 107-56 (USA PATRIOT Act)*, by M. Maureen Murphy.

Crimes Enforcement Network (FinCEN) administers the BSA on behalf of Treasury. With limited exceptions, MSBs are subject to the full range of BSA regulatory controls.

Remittance providers must conduct customer identification procedures for certain transactions, and maintain financial records. All MSBs must obtain and verify customer identity as well as record beneficiary information for funds transfers of more than $3,000. They must file Currency Transaction Reports (CTRs), for customer transactions of $10,000 or more in a day, and Suspicious Activities Reports (SARs) for dubious transactions of generally more than $2,000, that the remittance provider "knows, suspects, or has reason to suspect involves funds from illegal activity or is designed to conceal their origin, is designed to evade BSA obligations, or has no apparent business or law purpose."[41]

Remittances to certain foreign countries may also be subject to sanctions under various federal statutes administered by the Treasury Department's Office of Foreign Assets Control (OFAC). The U.S. Government only restricts remittances on countries, individuals, or companies that are subject to U.S. sanctions and embargoes. Furthermore, the Treasury Department does not have the authority to direct any financial institution to open or maintain a particular account or relationship. The decision to maintain any financial relationship is made by each financial institution itself, while complying with U.S. laws.

Given the relatively small percentage of financial crimes associated with terrorist financing (at this point in time), some analysts argue that regulations are excessively burdensome on the remittance providers, leading many to stop providing services completely. This is of greatest concern for customers sending money to low-income and post-conflict countries, many of which lack a formal financial sector.[42] For example, Minnesota is home to the largest Somali-American population in the United States. Somalis in the United States send an estimated $100 million in remittances every year to Somalia. Over the past several years, U.S. and international financial institutions have refused to process payments to Somalia, in fear that they could not certify, to the government's satisfaction, whether funds transferred by them might eventually end up in the hands of terrorists, specifically the al-Qaeda affiliate Al-Shabaab. In December 2011, Minnesota-based Sunrise Community Banks, the last remaining financial institution willing to provide banking services to Somali-owned money brokers stopped providing banking services.

Consumer Protection

State-Licensing of Remittance Providers

Regulatory efforts at the state level are focused primarily on consumer protection. Most states have laws requiring money transmitters to be licensed by the state banking agency. Some of these states (usually those with significant immigrant populations) have specific licensing requirements for transmitters sending money to foreign countries. Of the 50 states, only Montana, New Mexico, and South Carolina do not require state licenses for MSBs.[43]

[41] *Treasury/FinCEN Report to Congress in Accordance with Section 359 of the USA PATRIOT Act*, Department of the Treasury, November 2002.

[42] Natter, Raymond, "Dodd-Frank Act and Remittances to Post-Conflict Countries: The Law of Unintended Consequences Strikes Again," *Loyola Consumer Law Review*, Vol. 25, 2013.

[43] Taylor, Jennifer R. and Emre N. Ilter, "Domestic and Foreign Money Transmitters Face Complex Hazardous Web of (continued...)

"Dodd-Frank" Measures

In response to concerns from U.S. immigrant communities raised during the 110th and 111th Congresses over inadequate disclosure of remittance fees and insufficient consumer protection for remittance transactions, Congress created new consumer protections as part of the *Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank)*.[44] The Consumer Financial Protection Bureau (CFPB) released on April 30, 2013, a final rule implementing the Dodd-Frank remittance provisions. The effective date of the Final Rule is October 28, 2013.

Under the new law (Section 1073 of Dodd-Frank), a remittance transfer provider must provide consistent, reliable disclosure of the price of a transfer, the amount of currency to be delivered to the recipient, and the date of availability prior to the consumer making any payment. The new requirements also increase consumer protections by requiring remittance providers to investigate disputes and remedy errors related to the transaction.

During the rulemaking process, remittance providers raised concerns about the feasibility of disclosing third-party fees and taxes, which are often unknown prior to the transaction taking place, and the "error-resolution" provisions, given remittance providers' risk of loss and fraud due to remittance customers' providing incorrect information. To address industry concerns, the CFPB's Final Rule provides greater flexibility for remittance providers on the disclosure of third-party fees and taxes and exempts remittance providers from error remedy procedures due to errors made by the remittance customer, such as providing an incorrect account number for the recipient.[45]

While the new protections may decrease the cost of remittances over the long-run by improving transparency and potentially increasing competition, short-run cost increases may be significant. The increased cost to remittance providers for maintaining up-to-date information on exchange and tax rates of receiving countries and fees charged by third parties may likely be passed on to their customers. The error remedy requirement may also expose remittance transfer providers to potential litigation from fraudulent transactions.[46] At the same time, costs for remittance transactions may increase since bank fee income is capped elsewhere.[47]

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Federal and State Laws and Regulations," *Financial Fraud Law Report*, February 2013.

[44] For example, see: *Remittances: Access, Transparency, and Market Efficiency: A Progress Report: Hearing before the House Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology*., 110th Congress, May 17, 2007; and *Remittances: Regulation and Disclosure in a New Economic Environment*, Hearing before the House Committee on Financial Services, Subcommittee on Financial Institutions and Consumer Credit, 111th Congress, June 3, 2009.

[45] Habib, Azba, "A Summary of the Final Remittance Transfer Rule (Section 1073)," *Retail Payments Risk Forum*, May 2013.

[46] World Bank, *Migration and Development Brief No. 19*, November 20, 2012.

[47] For example, see CRS Report R41913, *Regulation of Debit Interchange Fees*, by Darryl E. Getter and CRS Report R42744, *U.S. Implementation of the Basel Capital Regulatory Framework*, by Darryl E. Getter.

Remittances and U.S. Development Policy

Various U.S. efforts in the past have attempted to harness remittances to promote foreign economic development by channeling remittances toward investment and by using remittances to bring a larger percentage of the remitting population into the formal financial sector.

Promoting Economic Development

For those in the developing and least developed countries, monthly remittances of just a few hundred dollars are enough to lift many out of poverty. For example, a 2011 study by the United Nations Conference on Trade and Development (UNCTAD), looking at 77 countries between 1970 and 2008, found that, on average, a 10% increase in remittances significantly reduces poverty in recipient countries.[48]

Despite many studies, it remains unclear whether remittances directly impact economic growth. There is, however, substantial evidence of the use of remittances to provide for food, shelter, and the provision of other goods. Given their role as an anti-poverty measure, most remittances are spent on consumable goods. An influential 2004 study by the Inter-American Development Bank found that in Mexico, for example, 78% of remittances were spent on household goods, 8% on savings, 7% on education, and 6% on the purchase of luxury goods, real estate, or for investment purposes.[49]

In 2011, the United States Agency for International Development (USAID) launched a public-private initiative called the Diaspora Networks Alliance, and intends to take a "leadership role in the development community by innovating and fostering partnership models to deepen and scale diasporas' engagement in home country development."[50] In September of 2010, then-Secretary of State Hillary Clinton announced a U.S. program partnering with El Salvador and Honduras called the Building Remittance Investment for Development Growth and Entrepreneurship (BRIDGE) Initiative. Under the BRIDGE Initiative, strong in-country financial institutions in Honduras and El Salvador can partner with the United States and multilateral partners to help explore options, such as securitizing remittance flows, to use their remittance flows safely and soundly as an asset to raise lower-cost and longer-term financing for infrastructure, public works, and commercial development initiatives. USAID-supported market assessments confirmed the feasibility of BRIDGE's goals in Honduras and El Salvador; however, barriers to securitizing remittance flows remain significant. These include underdeveloped financial sectors in many remittance receiving countries and the relatively small size of developing country securitized debt.

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[48] According to the study, holding all else equal, a 10% increase in remittances was found to reduce the poverty gap by about 3–5% depending on how the poverty gap is measured ($1.25 a day or $2.00 a day). "Impact of Remittances on Poverty in Developing Countries," *United Nations Conference on Trade and Development*, 2011.

[49] Inter-American Development Bank, *Sending Money Home: Remittance to Latin America and the Caribbean*, May 2004.

[50] USAID, *Diaspora Networks Alliance: Framework for Leveraging Migrant Resources for Effective Development and Diplomacy*, 2012.

Increased Access to Financial Services

Remittances can also promote "financial inclusion" – improving access and use of financial services in both the host and home countries. Between 50% and 100% of banks in developing countries provide remittance services, yet the number of remittance recipients in developing countries with access to other financial services (such as checking accounts or credit) remains low. At the same time, remittances can increase financial development by paving the way for recipients to demand and gain access to financial services.

The U.S. government has supported, in Mexico, a remittance service that allows U.S. financial institutions to pre-open an account for a third-party beneficiary in Mexico at one of over 2,100 banks, micro finance institutions, and credit unions. A 2011 study found that receiving remittances increases the likelihood of having an account by at least 11%. In the United States, as a larger number of banks provide remittance services, remittance senders are also becoming more familiar with traditional financial services and products, fostering the use of deposit accounts, insurance, and facilitating access to credit.

Regarding U.S. remittance customers' access to financial services and remittance, given the focus on capturing all remittance transactions in the formal financial sector, U.S. law creates no citizenship requirements for opening a bank account or using a remittance service. U.S. financial institutions and MSBs can accept foreign government issued identification cards, such as Mexico's *Matricula Consular* or Guatemala's *Tarjeta de Identification Consular*, as customer identification if they meet certain minimum information requirements.

Issues for Congress

Key issues on remittances that Members of Congress may want to consider include the following:

Regulation of Remittances

Members may wish to explore the current federal and state regulatory regime for remittance providers and customers. Effective and proportional regulation of remittances reduces corruption, enhances transparency, and facilitates a more robust business environment. Other observers, however, raise concerns about the costs for remittance providers (and subsequently consumers) of navigating the patchwork of banking and anti-money laundering regulation.[51]

Regarding licensing and supervision of remittance providers, recent reform proposals include assigning a single national regulator with responsibility for regulating the entire money transmission business or at a minimum, increasing coordination and harmonization of state and federal rules on MSBs.[52] There have been recent congressional efforts in this direction. For example, Representative Spencer Bachus introduced legislation in the 111th Congress, H.R. 4331, *The Money Services Business Compliance Facilitation Act of 2009*, that would have established

[51] Passas, Nikos, "Fighting Terror with Error: The Counter-Productive Regulation of Informal Value Transfers," *Crime, law and social change*, 45, no. 4-5, 2006.

[52] Watterson, Collin, "More Flies with Honey: Encouraging Formal Channel to Combat Money Laundering," *Texas Law Review*, Vol. 91, 2013.

an office of MSB compliance in the U.S. Department of the Treasury, charged with ensuring that state and federal regulators coordinate standards for MSB licensing and registration.

Other legislation has been introduced that aims to facilitate remittances services by making it easier for MSBs to comply with federal and state regulations. For example, the *Money Remittances Improvement Act of 2013* (H.R. 1694), introduced by Representatives Duffy, Ellison, and Paulsen would, they argue, facilitate the sending of remittances, especially to war-torn regions, by improving coordination between state financial regulators and federal agencies. If enacted, the legislation would allow federal regulators, including FinCEN and the IRS, to rely on examinations conducted by state financial supervisory agencies. The proposed legislation would also increase information sharing between FinCEN and counterpart AML/CFT regulators domestically and abroad.

Others propose that U.S. policymakers should prioritize access to remittance services for highly impacted communities such as Somali-Americans. This may mean more money for technical assistance to boost the capacity of poorly regulated jurisdictions, such as Somalia. For example, the U.S. Treasury Department could help integrate Somali-American MSBs into an ACH payment system; help improve training of MSBs to improve monitoring of their agents; and/or help Somalia regulate its payment systems.[53]

Members of Congress may also explore the impact of the current regulatory regime on the development of emerging payments systems for sending remittances, such as mobile, card, or Internet-based models. Some observers argue that current federal and state money transmission laws may be inappropriate for new and emerging payments systems.[54] Remittance payments already touch many multiple regulatory agencies, and as mobile remittances services increase, the Federal Communications Commission (FCC) and the Federal Trade Commission (FTC) will likely play an increasing role. Mobile carriers and other alternative providers are less familiar than MSBs with U.S. and international banking laws and, the lack of U.S. guidance or framework for mobile payments creates coverage, liability, and AML/CFT concerns that Congress may move to explore.[55]

Members may also pay special attention to the implementation of the "Dodd-Frank" consumer protections following their October 2013 implementation. On one hand, some argue that the new protections will drive down the cost of remitting by requiring greater transparency of fees associating with money transfers. Others argue that the costs of new systems and increased liability for transaction problems will raise costs and deter MSBs and financial institutions from providing remittance services.[56]

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[53] Orozco, Manuel and Julia Yansura, "Keeping the Lifeline Open: Remittances and Markets in Somalia," *Oxfam America, African Development Solutions, and the Inter-American Dialogue*, July 2013.

[54] Tu, Kevin, "From Bike Messengers to App Stores: Regulating the New Cashless World," *Alabama Law Review*, Forthcoming.

[55] Kober, Emery S., "The Role of Anti-Money Laundering Law in Mobile Money Systems in Developing Countries," *Washington Journal of Law, Technology & Arts*, Vol. 8, Issue 3, 2013.

[56] Witkowski, Rachel, "How CPFB's Remittance Rule Will Reshape Global Money Transfers," *American Banker*, May 20, 2013.

Promoting Remittances as a Development Tool

Members of Congress may consider whether the U.S. government efforts on remittances should extend to influencing how they are spent. There are multiple viewpoints on the extent the U.S. government should promote remittances as a development tool. Many U.S. development aid officials, for example, are interested in understanding the economic impact of remittances on sending and receiving communities and developing policies to help channel remittances to their most productive use. Others argue that the remittances are foremost an anti-poverty tool, and that policymakers should be cautious about placing too much emphasis on remittances as a development tool or possibly confusing remittances with foreign aid. Importantly, remittances are a private transaction, and thus any official policy efforts, they argue, should be narrowly focused on reducing the cost of remittance transactions and creating additional opportunities for labor migration.[57]

Remittances and U.S. Immigration Policy

Members may consider the interplay of U.S. remittance policy efforts and U.S. immigration policy. Some Members of Congress, however, have raised concerns that current customer identification policies, which do not require a remittance customer to provide documentation of legal U.S. immigration status, may undermine efforts to enforce U.S. immigration laws. In light of this concern, on June 18, 2013, Senator David Vitter introduced S. 1776, *Remittance Status Verification Act of 2013,* that would require remittance providers to impose a 7% fine on any sender of remittances that is unable to provide documentation of their legal status under U.S. immigration laws. Other efforts to restrict the ability of migrants to send remittances have been passed at the state-level.[58]

Some analysts argue, however, that restricting remittances through taxes or additional customer identification rules would not deter migration to the United States and would only drive remittances underground to informal methods of money transfer.[59] In addition to increased AML/CFT risk related to informal money transfer systems, shifting remittance flows to informal channels may impede policy efforts to use remittances as a means to promote access to financial services.

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[57] Rosser, Ezra. "Immigrant Remittances," *Connecticut Law Review*, Vol. 41, No. 1, November 2008. See also, Feibelman, Adam, "The Very Uneasy Case Against Remittances: An Ex Ante Perspective," *North Carolina Law Review*, Vol. 88, 2010.

[58] In 2009, Oklahoma introduced a $5 tax on remittances plus an additional 1% charge on amounts of $500. The drafter of Oklahoma's remittance tax provision law justified it because the law "burdens mostly illegal immigrants and drug traffickers from Mexico who wire illegal proceeds back to their home country." Murphy, Sean. "Oklahoma Lawmaker Defends Wire Money Transfer Tax," *Salon.com*, April 12, 2010.

[59] Mohaptra, Sanket, "Taxing Remittances is not a good idea," *World Bank,* December 18, 2012.