

Challenges and Opportunities of Transforming Remittance Clients into Bank Clients: Comments to Remittances and Banking Panel¹

Considerations about the papers and issues raised

The three papers presented here offer an important contribution to the discussion of the relationship between immigrants, financial intermediation, and remittance sending. The first paper addresses the problem of the lack of access among immigrants to financial institutions and points to several trends, such as their low propensity to own accounts and to retain them over time. The second paper seeks to move closer to the problems of access by paying attention to immigrant remittance senders and identifies problems such as language, culture, and lack of identification as typical constraints to joining financial institutions. This paper also discusses the relevance of the ACH model between Mexico and the United States as an important alternative to link remittance transfers and access to banking. Finally, the third paper follows from the second by discussing the advantages of stored-value cards in remittance transfers and other financial services for which immigrants have a demand.

Each paper posits important questions. Moreover, they also invite discussion of issues such as the challenges of regulatory environments, outreach, and knowledge of the functioning marketplace for immigrants.

Some areas that also merit attention or follow-up in these papers relate to problems with assimilation efforts by government institutions and the private sector. That is, are there well-defined policies to expand financial assimilation for immigrants? Moreover, in thinking about access to these institutions, it is important to distinguish between endogenous and exogenous factors affecting access.

It is also important to look at the supply side. Is it worth exploring what are the experiences that suggest positive performance among banks in catering to immigrant remittance senders?

Within the analysis of remittances it is also important to consider one major difficulty that bankers, policymakers, and advocates encounter in recruiting immigrants into financial institutions: immigrants see remittances as a good, a commodity that is a valuable in itself and not a financial instrument that can create value as an asset. This issue is particularly important when considering technology applications and marketing techniques that can be attractive to immigrants and gradually educate and transform them into bank clients. Finally, is important to consider that remittance senders are not a monolithic group with similar economic and financial preferences. Thus, market segmentation is important.

Finally, the key factor immigrants share is the amount they send: remittances are relatively inelastic. The average amount sent by immigrants with high or low incomes, by those who have been here one or 10 years, is relatively the same and has a low variation.

¹ Manuel Orozco, Inter-American Dialogue, comments to the Federal Reserve Bank research conference on Pitfalls and Promises, 2005.

However, as immigrants' incomes increase and their length of time in the United States grows, their access to banking institutions grows, too.

Given the demand for remittance transfers, financial institutions need to further explore tools to accelerate immigrants' access to their institutions. Immigrants have a relatively constant demand for services, such as remittance transfers, and sooner or later will join these institutions. Therefore, attracting immigrants earlier will improve banks' and credit unions' opportunities to retain them as clients over an extended period of time.

Policy considerations

Some recommendations may help financial institutions get a head start on attracting immigrants as customers. These include establishing goals to access a target group over a given period, implementing methodologies to accelerate banking rates, increasing a critical mass of policy networks, improving understanding of immigrants' financial preferences, and treating the problem of financial access as both a market challenge and a social challenge brought on by poverty and the marginality of immigrant minorities.

1. Targeted goals and standards to increase access to financial services and access (who would be benefited)

Commitment to integrating migrants into the financial system has to be accompanied by specific goals and standards or benchmarks of success. In the first case, players in the financial intermediation field should consider specific objectives, such as working with banks to train them to increase outreach to immigrants, developing financial education programs targeted to migrant populations that fit concrete preferences and needs, and establishing a relationship between financial institutions and grass roots community-based organizations. These objectives, however, must be accompanied by standards that measure the level of accomplishment attained in immigrant financial intermediation. These standards should include aspects such as an annual number of immigrants transformed into bank or credit union clients, number of consumer and mortgage loans, increased retention rates of already banked immigrants, policy considerations of existing legislation that can improve immigrants' financial condition, and identification requirements. Identifying the standards is a significant task that will require understanding the specific needs of immigrants.

2. Develop methodologies to accelerate banking rates

In addition to goals and standards, methodologies to enhance immigrants' financial intermediation are the critical link to success. To that effect financial institutions need to work with government and nonprofit organizations in order to design and market financial products. Product design is especially important because immigrants do not necessarily share the same interests and needs of financial products. A critical tool for designing such products is market research about immigrants' financial and economic preferences. Nonprofit organizations that work with immigrants are an important asset for banks and credit unions that can help inform these institutions about conducting research and identifying products.

In addition to product design there is marketing. Providing a good sale of financial products is very important. Immigrants respond to marketing tools, though not necessarily to those similar to the mainstream population. Working with civil society organizations will help improve the marketing clout of banks and other players.

3. Increase a critical mass of the policy network

The current debate about banking the unbanked is still circumscribed to a small number of institutions. It is an even smaller group when discussing banking unbanked immigrants. At most, the Federal Reserve Banks, some regional offices of the Federal Deposit Insurance Corporation, and other institutions have emerged to support strategies, but there are many more officials, private-sector groups, and, most important, immigrant organizations that have yet to get involved in this debate. Discussing these issues is of critical importance because it will allow these groups to develop an agenda, proposed goals, as well as an exchange among the various players.

This is also an opportunity to give immigrant groups a space to voice their needs on financial issues and to learn the range of other activities. A first step toward increasing a critical mass of players is to begin a discussion and inquiry about what immigrants understand about financial issues and what their financial preferences look like. A second step is to consider the range of solutions available to address the limitations in banking unbanked immigrants. This includes aspects of transnational financial services, the opportunities of IT, marketplace competition, and access to information about products and services.

4. Underserved vs. marginality

Finally, it is very important to distinguish between underserved markets and the marginality of migrants. Immigrants operate often in the context of underserved markets, such as that of access to financial institutions. However, there is a social context that can be neglected: the marginalization of immigrants. There exist structural constraints that have prevented migrants from inserting themselves into the polity. Societal perceptions of migration and immigrants have contributed to immigrants' marginality. In fact, the majority of migrants live near poverty or in poverty and results from the perception, albeit silent and unacknowledged, of migrants as invisible and disposable.

Keeping a critical perspective on migrants as marginalized minorities will help better address the problem of underserved markets in financial sectors, for example.

The interplay among these four policy considerations will contribute to the achievement of greater success in drawing immigrants into financial institutions and thus achieving financial democracy.