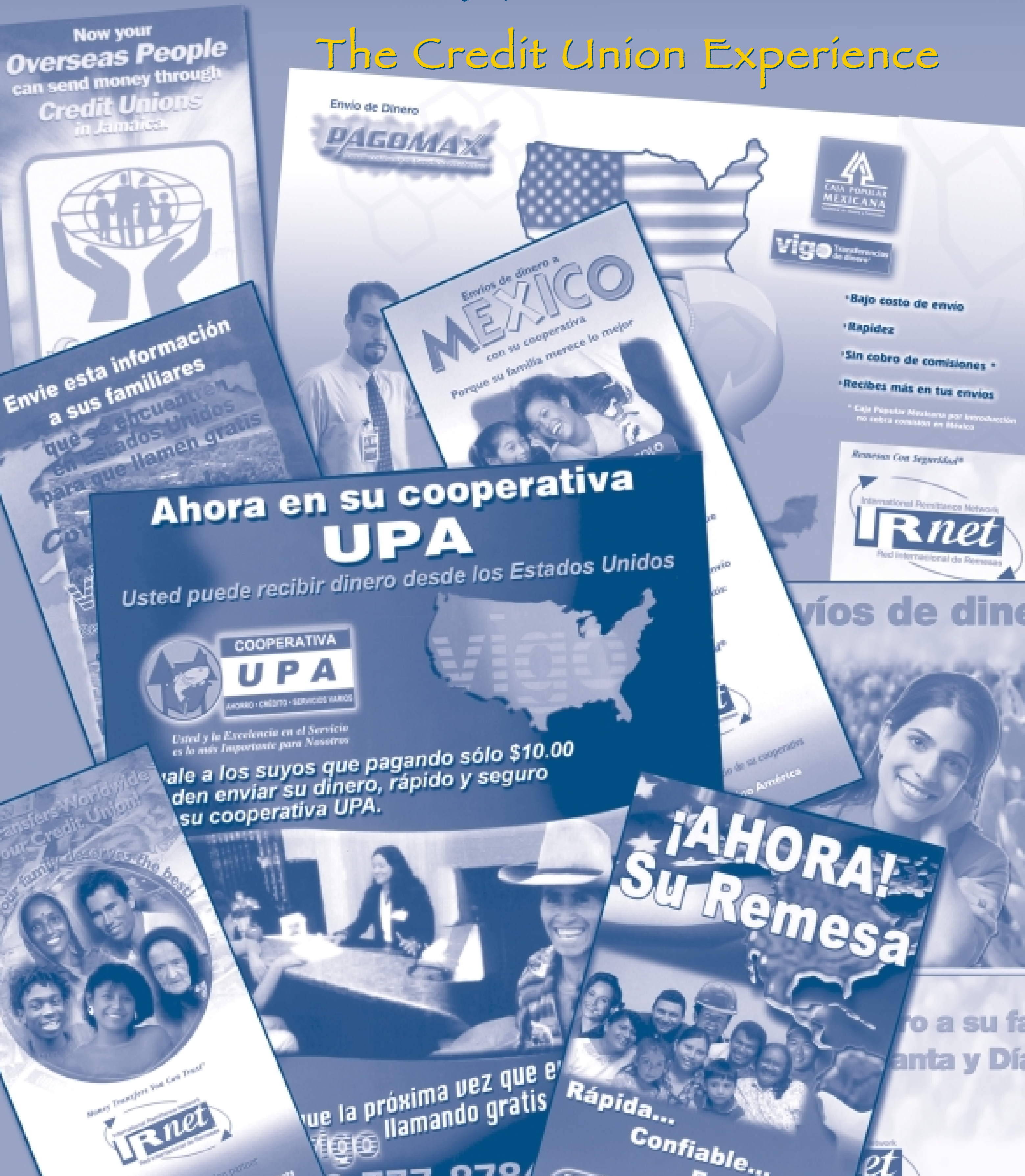
World Council of Credit Unions, Inc.

A Technical Guide to Remittances

The Credit Union Experience



Understanding Remittances

What Are Remittances?

A remittance is a small funds payment sent across borders from one person to another. In today's common usage, it is the portion of an immigrant worker's earnings sent back to family members in his or her country of origin.

As the scale of international migration has increased in recent years, remittances have taken on greater significance: they connect families across borders, increase standards of living and contribute to the growth of country economies. Nowhere is this phenomenon more apparent than in Latin America and the Caribbean (LAC), where the World Council of Credit Unions, Inc. (WOCCU), its member affiliates in the region and its money transfer partner VIGO Remittance Corp. (VIGO) are actively engaged in expanding the reach of remittance distribution and integrating unbanked receivers into the formal financial system.

Why Are Remittances Important?

The World Bank estimates that workers' remittances amounted to $88 billion dollars worldwide in 2002.[1] The Inter-American Development Bank (IDB) estimates that $32 billion in remittances was sent to the LAC region in 2002. Remittances are "the single most valuable source of new capital for Latin America and the Caribbean…more important for the region's economic and social development than foreign direct investment, portfolio investment, foreign aid or government and private borrowing."[2]

Remittances account for over 10% of gross domestic product (GDP) in six countries in the LAC region: Nicaragua (29.4%), Haiti (24.2%), Guyana (16.6%), El Salvador (15.1%), Jamaica (12.2%) and Honduras (11.5%).[3] Studies suggest that receiving remittances increases the economic well-being of poor people: "In Honduras, Nicaragua, El Salvador and a few other of Latin America's poorest nations, remittances may be more than doubling the income of the poorest 20% of the population. A large fraction of remittances is sent to rural areas, where incomes are far below national averages."[4]

Surveys in Central America[5] and Mexico[6] found that significant numbers of inhabitants of El Salvador (28%), Guatemala (24%), Honduras (16%) and Mexico (18%) receive remittances. These surveys also found that more than three-quarters of remittance receivers in Central America and two-thirds of remittance receivers in Mexico do not hold bank accounts.

What's Inside

This guide discusses the current operating environment for remittances, provides an overview of WOCCU's International Remittance Network (IR*net*®) and details how WOCCU has facilitated mass remittance distribution through credit unions by partnering with money transfer operators (MTOs).

What is a Credit Union?

Credit unions, or savings and credit cooperatives, are user-owned financial institutions that offer savings, credit, insurance and money transfer services to their members. Membership in a credit union is based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organizational, religious or employee affiliation. Depending on a country's legal framework, credit unions may be authorized to mobilize member savings by the Superintendency of Banks, the Central Bank, the Ministry of Finance, the Ministry of Cooperatives or a freestanding law. In countries where they have legal authority to do so, credit unions serve nonmembers with deposit and remittance services.

How Does Money Cross Borders?

The transfer of funds across international borders is not a new development. What is new is the volume of money being transferred, the demographics of the people originating the transfers and the increasing need for low-cost, secure transfer options. Various mechanisms exist to transfer funds across borders.

Cash-based Electronic Transfers

Cash-based electronic transfers represent the most common method for sending remittances. Supermarkets, travel agencies and corner stores connect with licensed MTOs to provide cash-based electronic transfers to consumers at large. An increasing number of formal financial institutions—banks and credit unions—have also begun transferring funds through this mechanism. Post offices in many countries also provide cash-based electronic transfers.

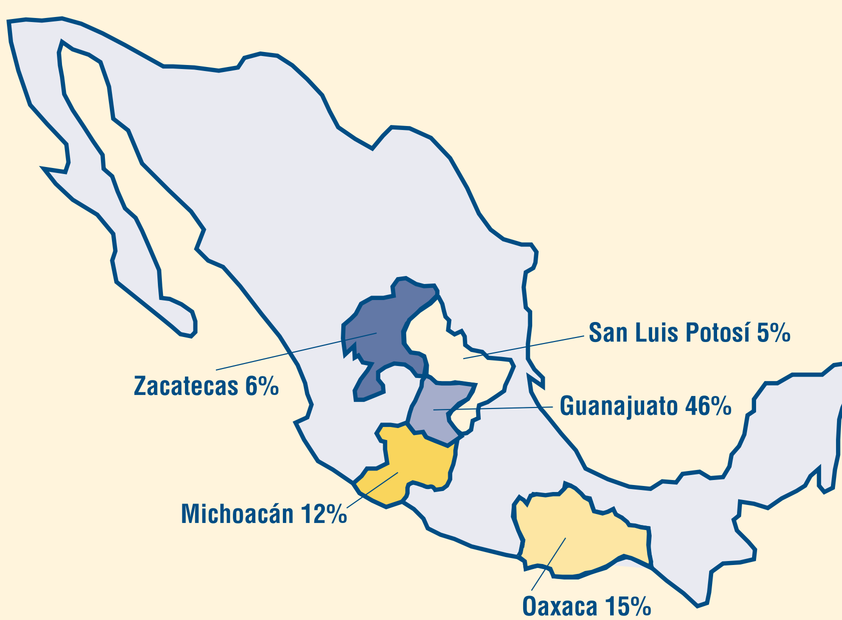
This type of transfer allows an individual to present cash or have an account debited at a sending institution and either have cash delivered to the receiver or an account in a financial institution credited in the receiver's name. The sending and receiving institutions 1) must be interconnected through a data communications network that processes the transaction data; and 2) have accounts in central finance facilities or banks with international correspondents for the daily settlement of transactions.

Members Receiving Remittances – *Caja Popular Mexicana*

During the five months of service from its pilot in August 2003 through year-end 2003, WOCCU member *Caja Popular Mexicana* (CPM) received $1.2 million in remittances. Virtually all (93%) of those remittances were received by women.

The remittances were received by 1,900 individuals, 82.5% by members and 17.5% by non-members. Five percent of the funds received by members were deposited in savings accounts. Fifteen percent of the funds received by members were used to pay off existing loans. Fifty-six percent of the non-member receivers joined CPM to access other financial services as a result of receiving remittances there—one of the key goals of remittance distribution through credit unions.

CPM tracks the U.S. states sending and Mexican states receiving remittances. In late 2003, 74% of remittances distributed through CPM originated in the five U.S. states of California, North Carolina, Illinois, Texas and Georgia. Eighty-three percent of the total remittances were received in the five Mexican states of Guanajuato, Oaxaca, Michoacán, Zacatecas and San Luis Potosí. Guanajuato, the state with the highest emigration from Mexico according to official studies, received 46% of remittances sent during this period.



Card-based Transfers

Increasingly, financial institutions on both the sending and receiving sides issue debit cards for use in automatic teller machines (ATMs) or at point of sale (POS) terminals connected to one of the major international networks. Although the technology is in place for this type of transfer and the potential to decrease costs is great, practical considerations have prevented the kind of growth experienced with cash-based electronic transfers. The primary inhibitor is that the sender must have an account in a formal financial institution connected to an international network, yet many immigrants in the U.S. remain unbanked. On the receiving side, while ATMs are ubiquitous in cities, they are rare in most rural areas and receivers are obligated to travel to get their funds. Daily withdrawal limits act as another constraint for easy access to funds sent via card-based transfers.

Money is also crossing borders through smart cards. A smart card is a stored value card, where the sender purchases value and the account balance is stored on a card linked to one of the major international card networks. The card may be used for withdrawals at some ATMs or for payment at POS terminals linked to the network. This card does not require the person in the U.S. to have a bank account.

Informal Mechanisms

Long-standing yet informal methods of sending money via hand-delivery or through regular mail remain in use today. Often individuals living in locations densely populated by immigrants launch into the business of carrying money from the U.S. to the country of origin. International courier companies also transport cash remittances. A 2003 study found that human couriers and mailing of cash, which can be intercepted at any point along the way, are methods used by 17% of all remittance senders from the U.S. to Latin America.[7]

Account-to-Account Wire Transfers

Financial intermediaries have been offering account-to-account wire transfers for decades. These transfers occur through established bank wire systems that were created for large commercial payments that originate through the U.S. Federal Reserve (Fed) System's Fedwire and are carried across the SWIFT messaging system. Both the sending and receiving parties must have accounts in financial institutions which have international correspondent relationships. The cost of these transfers is high relative to other mechanisms and information about exchange rate and the time at which payment will be made can be difficult to obtain.

The Fed extended its Automated Clearinghouse (ACH) system to Mexico through *Banco de México.* The Fed's Mexico service supports the origination of transfers in U.S. dollars destined for banked receivers in Mexico through U.S. financial institutions.[8] Account transfers made through ACH require that both the sender and the receiver have accounts in financial institutions with access to the clearing system.

WOCCU's Experience with IR*net*®

WOCCU first experimented with remittances in 1995, when it helped a credit union in California set up the communication channels and clearing account to send transfers to credit unions in El Salvador. WOCCU broadened the experiment in 1997 to include a few more California credit unions and credit unions in Guatemala. WOCCU next launched the IR*net*® brand with transfers directly from U.S. credit unions to credit unions in El Salvador and Guatemala.

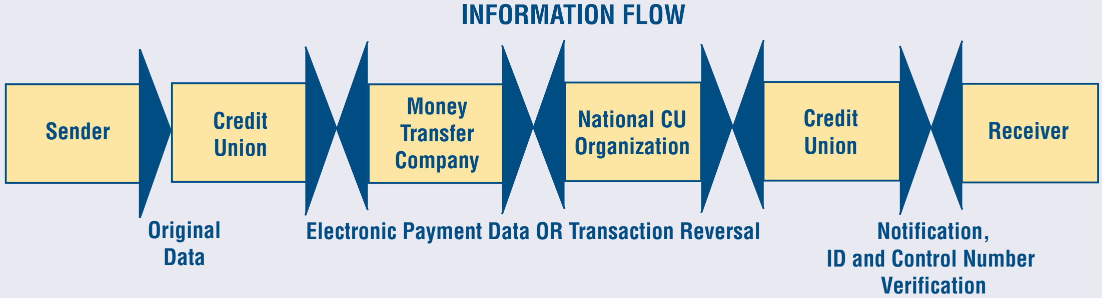
In 2000, WOCCU formed a strategic alliance with VIGO to access its substantial network infrastructure. As of March 2004, VIGO is the third-largest MTO worldwide, offering money transfers to 35 countries. It has the second largest market share in the U.S.-to-Mexico corridor. WOCCU links national credit union organizations in other countries together with VIGO so that senders in the U.S. can send funds from VIGO's 3,200 outlets in 38 U.S. states for distribution through credit unions. WOCCU also connects U.S. credit unions to VIGO as sending outlets. As of December 2003, 201 credit unions with 950+ points of service in 35 U.S. states offer IR*net*®. To date, VIGO has been the primary MTO partner of credit unions. WOCCU also works with Travelex, as of 2003, and added a third MTO partner in early 2004.

On the receiving side, the national credit union organizations have tri-partite contracts with WOCCU and participating MTOs. The national credit union organizations receive the electronic data transfers of the remittances from MTO partners and distribute them to their member credit unions that in turn distribute the funds to credit union member and non-member remittance receivers. After transferring the funds to the credit unions, the national credit union organizations are reimbursed by the MTO via deposits into a clearing account at an international bank.

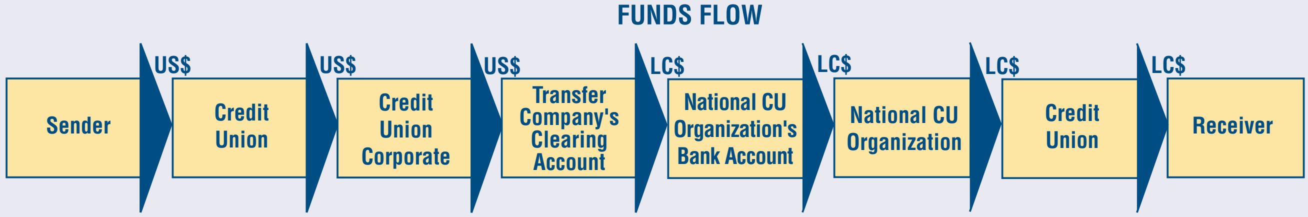
In order to guarantee the security and proper distribution of the remittance, once an MTO receives the transaction information from the sending agent, it sends the following information to the national credit union organization on the receiving side for distribution to the credit union in the location selected by the sender:

- Sender's name
- Name of the receiver
- Receiver's address
- Receiver's telephone number (if available)
- Receiver's account number and type of account (if funds are to be paid by bank draft)
- U.S. dollar amount of the order
- Control number
- Exchange rate (where applicable)

INFORMATION FLOW



FUNDS FLOW



Daily settlement is based on total remittances from previous business day.
Exchange rates are updated daily.

IR*net*® Remittance Distributors in Latin America and the Caribbean

As of February 2004, national credit union organizations distribute remittances through IR*net*® in six countries in the LAC region: El Salvador, Guatemala, Honduras, Jamaica, Mexico and Nicaragua. The IDB documented that of the total $32 billion remittances sent to the LAC region in 2002, Mexico received 32.7%, El Salvador received 6.9%, Guatemala received 5.3%, Jamaica received 4.0%, Honduras received 2.4% and Nicaragua received 2.4%.[9]

FENACOAC

In August 2001, 25 member credit unions of WOCCU affiliate *Federación Nacional de Cooperativas de Ahorro y Crédito* (FENACOAC) began distributing remittances in Guatemala. The FENACOAC system serves 508,000 member-clients as of December 2003. The FENACOAC credit unions have 121 points of service in the country's 22 departments with service in 96 of the country's 331 municipalities.

FEDECACES

In September 2001, 23 of 32 member credit unions of WOCCU affiliate *Federación de Asociaciones Cooperativas de Ahorro y Crédito de El Salvador* (FEDECACES) started remittance distribution. The FEDECACES system serves 71,000 member-clients as of December 2003. Remittances are distributed through 34 points of service with countrywide presence in the 14 departments.

FACACH

In November 2002, 16 of 24 member credit unions of *Federación de Cooperativas de Ahorro y Crédito Honduras* (FACACH) began distributing remittances. The 16 credit unions serve more than 180,000 members through 51 points of service in 15 of the country's 18 departments as of June 2003.

In March 2003, 18 of the 52 credit unions of the Jamaica Co-operative Credit Union League (JCCUL) joined as remittance distributors. These credit unions offer 35 points of service in 12 of the country's 14 parishes. Credit unions in the JCCUL system serve 728,000 members as of December 2003.

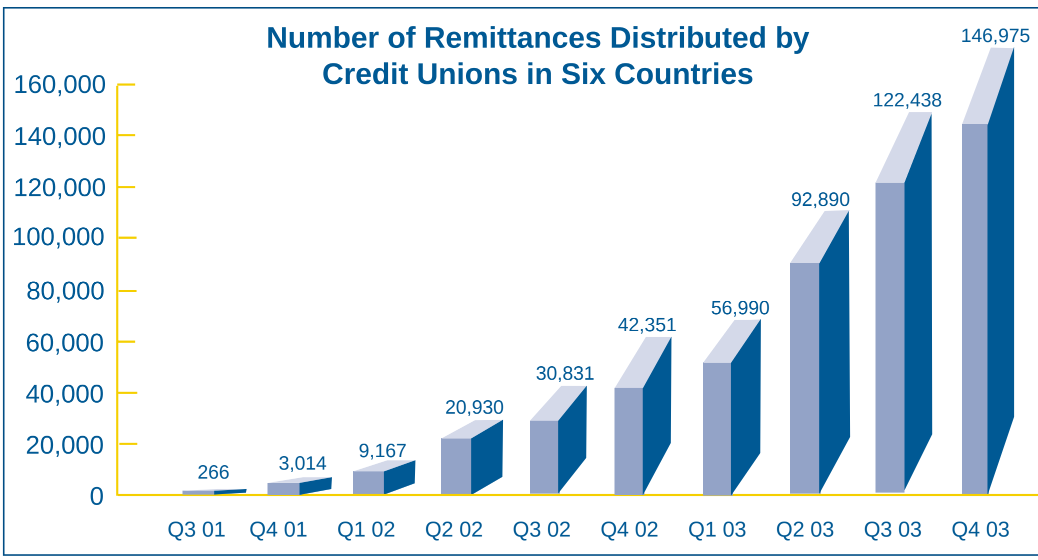
CAJA POPULAR MEXICANA

In August 2003, 134 branches of WOCCU affiliate *Caja Popular Mexicana* (CPM) launched remittance services during a pilot phase. An additional 166 branches began distributing remittances in November 2003. CPM serves over 700,000 member-clients as of December 2003 with a total of 326 points of service in 24 of the 31 Mexican states.

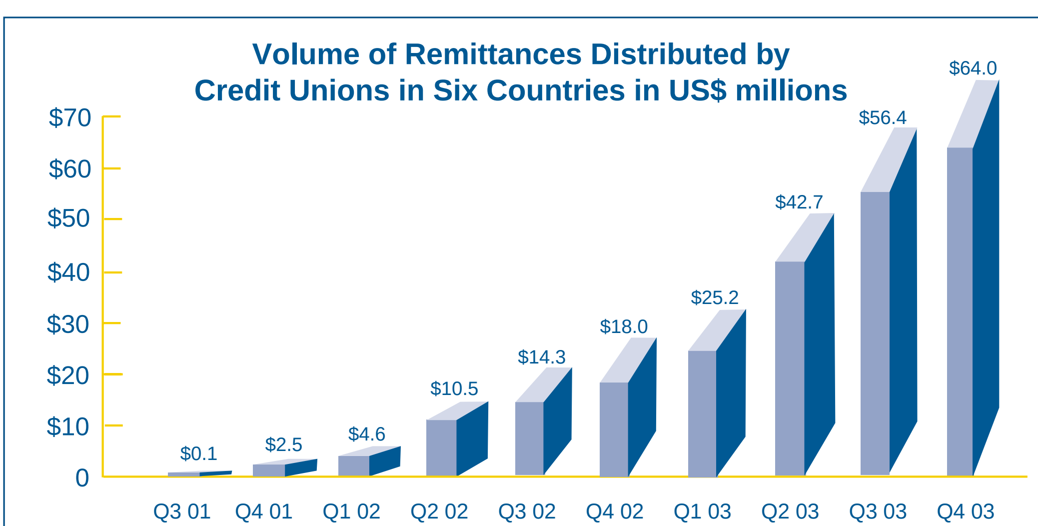
FINANCIERA

In October 2003, the 12 member credit unions of WOCCU affiliate *Central de Cooperativas de Ahorro y Crédito Financieras de Nicaragua* (CCACN) began distributing remittances. The credit unions affiliated to CCACN serve 28,000 member-clients through 23 points of service in 13 of 17 departments as of December 2003.

All of the credit unions currently distributing remittances through IR*net*® have benefited from WOCCU capacity building efforts funded by the U.S. Agency for International Development (USAID)—Guatemala (1987-94), El Salvador (1995-00), Nicaragua (1996-04), Honduras (2000-01), Mexico (2001-05)—and IDB—Jamaica (1996-00)—in order to reach the level of financial soundness and operational sophistication required to manage and market remittance distribution. Additionally, the IDB has provided direct support to national credit union organizations in El Salvador and Nicaragua to strengthen their information technology capabilities. The Consultative Group to Assist the Poor (CGAP) provided pilot funding to launch credit union remittance distribution in Jamaica.



From August 2001 through December 2003, credit unions in the six LAC IR*net*® countries distributed a total of 525,852 transactions with a cumulative volume of $238.8 million. After just two years of experience distributing remittances, the credit unions in El Salvador and Guatemala distributed 16,000 and 30,000 transfers per month, respectively, as of December 2003. Credit unions in these two countries distributed $173 million of the $188.5 million total distributed by credit unions in 2003.



Critical Factors for Success

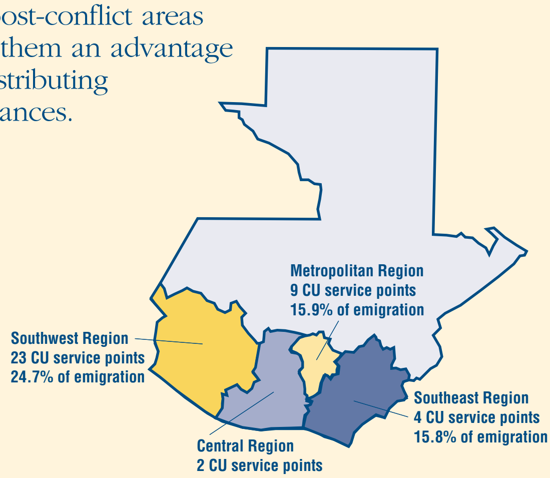
Location

The location of both the sending and receiving outlets factors highly in the costs of the transaction. If a person has to travel a long distance to send or receive a remittance, the cost of that remittance becomes higher than the fee paid. Most remitters work long hours and do not have time to search for low-cost transfer alternatives. At the same time, senders do not want their relatives to have to travel far to receive the money. As a result, they tend to seek out MTOs which have sending locations near their workplaces or residences and receiving locations in or close to their hometowns, regardless of price. WOCCU considers the number and geographical location of points of service in the sending country and in the receiving countries to be critical components of a distribution network.

Serving Areas of High Emigration – Guatemala

Fifty-five percent of remittances distributed by credit unions affiliated to *Federación Nacional de Cooperativas de Ahorro y Crédito* (FENACOAC) are concentrated in five of the 25 participating credit unions. It is no coincidence that these five credit unions and their 44 branches offer service in the four regions of Guatemala with the highest emigration levels. Guatemala's 22 departments are grouped into eight regions. According to a 2003 emigration survey conducted by the International Organization for Migration, 68.5% of emigrants from Guatemala departed from the four regions highlighted below (Southwest, Metropolitan, Southeast and Central).[10]

According to the survey, 67% of those who emigrated from Guatemala did so because of lack of employment opportunities. The fact that credit unions offer service in economically-depressed and post-conflict areas gives them an advantage for distributing remittances.



Creating Alliances to Increase Distribution – Nicaragua

In order to provide national coverage for distribution of remittances through IR*net*®, the *Central de Cooperativas de Ahorro y Crédito Financieras de Nicaragua* (CCACN) entered into an agreement with ACCION International-affiliate FAMA. The CCACN credit unions are located primarily in rural areas, and do not have a large presence in the capital city of Managua. The inclusion of FAMA outlets provides Nicaraguan remittance receivers with IR*net*® coverage in the urban areas. The combined remittance network of the 12 credit unions (23 points of service) and FAMA's 20 branches yields 43 points of service throughout the country, covering all major markets and many smaller ones in 13 of 17 states.

In the recently-launched service (mid-October 2003—mid-February 2004), the Nicaraguan IR*net*® institutions received a total of $201,327 in remittances. The average remittance size was approximately $300 with remittances ranging from $20 to $6,000. Seventy-three percent of the remittances were distributed in rural areas and 27% were received in urban areas.

Marketing

Marketing is essential to expand the outreach of a remittance network. Although some marketing on the receiving side is effective and necessary, credit unions have found through member surveys that marketing has the most impact on the sending side, near the point of sale. Agents find that handing out flyers on the street, posting flyers near workplaces and advertising in conjunction with other businesses, such as restaurants or travel agencies, are useful ways to market remittance services. Additionally, when remitters find agents with friendly and helpful staff in convenient locations, they will let others know by word of mouth about the quality services.

Market research is a key component of remittance marketing. Different remittance markets have different characteristics, depending largely on national preferences. On the receiving side, does the receiver prefer to go and pick up the remittance, to receive the remittance as a direct deposit into his or her savings account or to have the funds delivered to the home? On the sending side, is the remitter going to be serviced in his or her native language by someone from his or her own country or will he or she have to speak English to complete the transaction? Do speed of delivery and location matter more than price or vice versa?

Service Standards

With increasing competition, quality of service is all the more important in remittance distribution. In most U.S. cities with significant Hispanic populations, remitters have multiple options where they can feel safe and welcome in sending their money home. The safety refers to the knowledge that the full amount of the funds sent will be received by the family member in an acceptable time period and the welcome refers to feeling comfortable in the environment and valued as a customer.

In the case of IR*net*®, WOCCU requires that credit unions adopt service standards and institute operating policies and procedures. Common standards ensure that the clients of the IR*net*® service receive a uniform level of service across the IR*net*® network. The standards include that the credit union be open at least five days per week, have an external audit at least annually, have telephone and fax on site and maintain a clearing account with a central finance facility or international correspondent bank.

Marketing to Increase Credit Union Outreach – *Nuevo Siglo* Credit Union

Credit unions that distribute remittances see the service as a means to attract new members and mobilize savings. *Nuevo Siglo* credit union (ACAYCCOMAC de R.L.), located in the state of Chalatenango in El Salvador, is the only financial institution in the remote municipality of Aguas Calientes. It launched remittance distribution service in January 2002. The only other formal means of receiving remittances in this municipality is through the MTO *Gigante Express*. In 2003, the credit union sought to attract people to its remittance service by holding meetings with parents at the local primary school to inform them of the advantages of receiving remittances through the credit union. During the first quarter of 2003, the average number of remittances received was 368 per month. By September 2003, the third quarter average of number of remittances received was 483 per month. The staff estimates that 70% of the remittance receivers are members and 30% non-members. Through cross-selling financial services, they have encouraged some receivers to open 60-day fixed-term deposits with portions of their remittances.

Critical Factors for Success

Pricing

In order to price remittance transfers competitively, one must consider both the fee and the exchange rate. For dollarized countries such as El Salvador, the fee charged for sending the transaction is the financial cost to compare among providers. For the vast majority of countries where remittances are sent in U.S. dollars and exchanged into local currency during the process, the flat fee is only one component to consider. The other component, which is not transparently disclosed by all MTOs, is the exchange rate, on the sender's side as well as on the receiver's side. Some MTOs, including VIGO, fix the exchange rate to the rate the day the money is sent—if money is sent on Monday and the receiver picks it up on Wednesday, then he or she will receive the funds at Monday's exchange rate. The sender knows exactly how much the receiver will receive. Other MTOs do not guarantee the exchange rate—if a remittance is not received the same day that it was sent, then a different exchange rate may apply.

The IR*net*® fee structure for El Salvador, Guatemala and Honduras is as follows:

$10: $1-$1,500
$25: $1,501-$3,000
$50: $3,001-10,000

Comparing Pricing – The Dollarized Remittance Market in El Salvador

El Salvador received $1 billion dollars in remittances between January and September 2003. According to the *Banco Central de Reserva*, 31% of remittances are sent from the U.S. to El Salvador through banks. The majority of funds (69%) is sent via couriers and MTOs.[11]

Virtually all remittances received by the *Federación de Asociaciones Cooperativas de Ahorro y Crédito de El Salvador* (FEDECACES) for credit union distribution are sent through VIGO. The average remittance size received through FEDECACES in 2003 was $412. Receivers pick up the remittances at credit union branches.

Sending $400 from Washington, D.C. to El Salvador

Money Transfer Operator	Fee on Sender's Side	Percentage Cost of Amount Transferred
IR*net*®	$10	2.5%
Western Union[12]	$29	7.0%
Gigante Express[13]	$12*	3.0%
MoneyGram[14]	$21	5.3%

**Gigante Express* offers home delivery for a fee of $18 to a residence in a large city and $20 for a residence in a remote location—prices in table reflect retrieval of remittance at an outlet.

Performance Standards

Remitters place great trust in remittance networks. They walk into a retail outlet or financial institution and leave a sizeable amount of cash to be sent across borders. The institution that collects the remittance is responsible for making sure the cash is secure on location, the data is entered correctly for the electronic transaction and the funds are made available to the MTO.

On the receiving side, the responsibility is held at two levels: the national credit union organization and the individual credit union. The national credit union organization must 1) have processes in place to communicate quickly to credit unions and provide them with the transaction data; 2) be able to settle accounts according to the schedule set with the MTO (usually daily, by the next business day); 3) act as an intermediary where problems occur between the time the funds are sent and received and 4) provide liquidity to pay out remittances. Liquidity management at the level of the national credit union organization is essential, since the credit union system distributes remittances on "credit" and receives repayment from the international MTOs approximately 24 hours later.

The individual credit union that distributes remittances is responsible for making the funds available to receivers. The institution must have cash handling procedures and internal controls in place as well as sufficient liquidity to pay out funds at the moment receivers come in to collect. The credibility of a credit union would be severely compromised if it were not able to pay out all remittances on a daily basis.

Creating Policies and Procedures for Remittance Distribution – Jamaica

The Jamaica Co-operative Credit Union League (JCCUL) understood the need for protecting remitters' funds and issued a *Model Risk Analysis Checklist, Internal Control Policies for Remittances* and *Model Cash Handling Procedures for Remittances* for the 18 credit unions that receive remittances in Jamaica.

The risk analysis checklist is designed to assist management in controlling and minimizing any possible exposure as related to remittances. The checklist covers specific areas such as documentation, staff training, cash handling, internal audit procedures, reconciliation, insurance and physical security.

The internal control policies include basic safeguards such as rotation of duties, segregation of duties and compulsory vacations. The policies also set out instructions for employees conducting transactions with connected persons, guidelines for the direct deposit of remittances to credit union members' accounts, directions for monthly reconciliation as well as general procedures for handling each remittance transaction.

The cash handling procedures for remittances follow generally-accepted practices for cash management in a financial institution, including: printed payment receipts with sequential numbering, procedures for payment reversals, cash storage procedures, control of teller drawers, dual control of safes, minimum and maximum cash amounts per cash need analyses, procedures for teller changes, end-of-day balancing reports and instructions for end-of-day reconciliation by a third party.

Critical Factors for Success

Human Resources

In order to accommodate the exponential growth of remittance distribution in several of the receiving credit union systems, the national credit union organizations have hired full-time staff and created remittance departments. These departments receive information from MTOs, credit the accounts of the recipient credit unions, send the specific details to the credit unions so that they can contact the receivers, invoice the MTOs for the credit extended each day and inform the MTOs of cancelled transactions. At the credit union level, institutions that receive substantial numbers of transactions have assigned one or more teller's time to paying out remittances.

As remittance distribution has grown, national credit union organizations and individual credit unions have found it necessary to increase staff in existing departments as well, particularly in information technology. Both national credit union organizations and credit unions devote internal auditor staff time to monitor remittance operations and assist in compliance with financial and anti-money laundering regulations. At the credit union level, staff is assigned to marketing remittance services, cross-selling financial services and encouraging non-member receivers to become credit union members.

Information Technology

Speed and safety of remittance delivery is paramount for expanding market share. To receive remittances through IR*net*®, the national credit union organizations need to have the hardware and software required to interface with an MTO. Some national credit union organizations have opted to use their own management information systems; others have obtained software from an MTO partner. Several national credit union organizations have made substantial investments in information technology to establish secure connections, obtain software and hardware, improve web development and maintain servers.

Individual credit unions need to have reliable systems to receive and process the remittance information flow, contact the national credit union organizations regarding cancelled or transferred transactions and create receiver reports to comply with anti-money laundering legislation, where necessary.

Creditworthiness

Each day, MTOs send remittances from the U.S. to the participating national credit union organizations. These organizations, equipped with central finance facilities or clearing house capabilities connected to banks, credit the account of each credit union for the amount that it will pay out in remittances that day. To ensure the rapid delivery of remittances to recipients, credit unions pay remittances 12-24 business hours before settlement occurs between the national credit union organization and the MTO.

As the remittance market has gained new entrants, prices and profit margins have decreased to force some players out of the market. Given that the national credit union organizations are extending credit to the MTOs, it is imperative that WOCCU carry out due diligence on partner MTOs to prevent the national credit union organizations from assuming unduly high credit risk.

Compliance

Both the U.S. Government and national governments seek to control illicit money transfers and money laundering. Entities that wire funds from the U.S. must be licensed and comply with the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) and the Bank Secrecy Act. Through its MTO partners, the IR*net*® system monitors in real time remittance transactions against OFAC's Specially Designated Names (SDN) list. In the receiving countries, some national governments require distributing entities to monitor the transfers and report suspicious activities to government agencies.

Cost Considerations

In order to distribute remittances efficiently, both national credit union organizations and individual credit unions must 1) invest in and maintain information technology systems to manage and distribute remittance and receiver information; 2) assign and train staff to work in the operational areas of remittances; 3) implement internal controls that include checking credit union remittance activities against the national credit union organization's records and comparing billing with MTO records; 4) manage liquidity for the payment of remittances; 5) institute interfaced standard accounting and 6) market remittance services. All of these activities imply increased operating costs which should be carefully monitored.

Complying with National Anti-money Laundering Legislation – Guatemala

Guatemala's 2002 Law Against Money Laundering and Other Assets was applied to credit unions in January 2003. At the *Federación Nacional de Cooperativas de Ahorro y Crédito* (FENACOAC), the senior internal auditor serves as the federation's compliance officer. This person tallies an electronic report of all individuals who receive more than $3,000 per month in remittances and shares information on suspicious activities with the Independent Compliance Office within the Superintendency of Banks. This office shares information with the country's Special Verification Intendency (IVE).

Ultimately, per law, the individual credit union that delivers the remittance to the receiver is responsible for compliance with the anti-money laundering law. Each credit union must designate a compliance officer and report directly to IVE. Credit unions (as well as all banks) must require incoming members to complete a "start of relationship" form which provides the government with details about the individual: education level, profession and account details. The credit unions are also required to submit this form for any member from pre-2003 who conducts a transaction for an amount exceeding $10,000.

The Value Added by a Financial Institution

The entrance of financial institutions, primarily credit unions and commercial banks, into the remittance market has put pressure on MTOs to lower prices. Members of the Inter-American Dialogue Task Force on Remittances concur that the way to make remittance transfers less costly and more transparent is for remittance receivers to have accounts in financial institutions where they can not only receive their remittances, but also make deposits and apply for credit.[15]

Receiving Institutions

The national credit union organizations in Central America, Jamaica and Mexico are contributing to their cooperative social mission by offering affordably-priced remittance services to low-income people in remote areas. Recognizing the business potential of attracting unbanked clients as credit union members, the national credit union organizations and credit unions focus on non-member remittance receivers as future savers, borrowers and insurance policyholders. Initiatives are underway in both Mexico and Nicaragua to develop remittance-related savings and credit products that will provide receivers with additional financial service options.

For receiving institutions, IR*net*® provides a means to:

- Increase service offerings to existing members or clients
- Attract new members from the pool of non-member remittance recipients by cross-selling financial services
- Mobilize savings from incoming remittances
- Earn commission/fee income

Attracting New Members Through Remittances – *Parroquial Guadalupana* Credit Union

The *Parroquial Guadalupana* credit union, based in Guatemala City, seeks to attract new members by marketing to non-member remittance recipients. *Parroquial Guadalupana* receives high volumes of remittances. The credit union's service priority is to pay the remittances quickly and decrease wait times for customers. Particularly when lines are long with people seeking their remittances, the credit union needs to pay quickly. When tellers concentrate on reducing the wait times, they do not have time to cross-sell the credit union's services and encourage non-members to join.

Eager to attract new members, the credit union has launched two marketing initiatives. First, it began a telemarketing campaign. A staff person was assigned to phone all remittance receivers who had previously been called in to pick up a remittance. The staff person would ask them for feedback on the service and then promote the advantages of credit union membership with details on savings, credit and insurance services. Additionally, *Parroquial Guadalupana* sent letters to all those who had received remittances at the credit union to describe in detail the financial products and services available there.

Sending Institutions

On the sending side, financial institutions can provide remittance services to open the door to the unbanked. Instead of relying on MTOs, check cashers and payday lenders for their financial needs, remitters who send through financial institutions can access the financial services they need at lower costs. The IDB/MIF Central America and Mexico studies revealed that 96% of remittances to Central America and 95% of remittances to Mexico originate in the U.S.[16] The challenge for financial institutions in the U.S. is to provide services in an atmosphere that is inviting rather than threatening to the largely unbanked Hispanic immigrant community.

The demographics of Hispanic immigrants in the U.S. who are most likely to send money to their home countries are well correlated to the demographics of Hispanic immigrants who are most likely to be unbanked. The 2003 National Survey of Latinos conducted by the Pew Hispanic Center and Kaiser Family Foundation found that only 11% of senders used banks to send remittances, while 70% relied on MTOs.[17] Forty-six percent of remittance senders earn less than $30,000 per year. Only 19% of remitters earn more than $50,000 per year. The most common frequency of sending a remittance is on a monthly basis and the majority of transfers range between $100 and $300.[18]

Per regulatory opinion, federal credit unions are able to provide remittance services to both members and non-members who are in their fields of membership, provided the credit unions actively seek the non-members to join and access the full array of financial products.

For sending credit unions, IR*net*® provides a means to:

- Increase service offerings to existing members
- Attract and "bank" unbanked individuals who send remittances
- Serve the community by reaching out to low-income and traditionally unbanked individuals
- Earn commission/fee income

Sending Remittances – "Greater El Paso's Credit Union"

For U.S. credit unions, the provision of remittance services through IR*net*® provides a vehicle to tap into Hispanic markets, return to their roots of providing financial services to the underserved and earn fee income. Government Employees Credit Union (GECU), popularly known as "Greater El Paso's Credit Union" serves a nearly 80% Hispanic community on the border of Ciudad Juarez, Mexico. GECU has more than $950 million in assets, offers seven points of service and serves 233,000 members.

GECU conducted its first IR*net*® transaction in October 2000. Ninety-five percent of the remittances are sent to Mexico.

GECU's IR*net*® operations are centralized at one branch, with one computer devoted to processing remittance transactions. Sixty percent of the credit union's staff is bilingual and trained to provide answers to the various questions of remittance senders.[19]

Looking to the Future

The Next Step: International Shared Branching

WOCCU has taken the next step in the journey to facilitate the low-cost transfer of funds across borders by building on the foundation of the existing shared branching network among credit unions in the U.S. to create an international network that links U.S. credit unions to credit unions all over the world. This linkage dramatically decreases the costs of sending funds across borders. International migrant workers will be able to access their own accounts or the accounts of their family members in credit unions in their home countries from credit unions in the U.S.

Shared branching allows networked credit unions and their branches to conduct transactions for members of other credit unions. Members of one credit union can access and service their accounts at other credit unions. Just a vision ten years ago, shared branching functions among approximately 900 U.S. credit unions today. WOCCU has formed a strategic alliance with the Credit Union Service Corporation (CUSC) to connect a shared branching network that WOCCU is helping to form among credit unions in Ecuador to the U.S. system in 2004. WOCCU will extend this service to other countries as their technological capabilities and communications infrastructures permit.

Continued Growth

WOCCU will continue to grow IR*net*® on both the sending and receiving sides of the transaction so that people will continue to have greater access to low-cost remittance services. On the receiving side, WOCCU plans to expand *IRnet*® to other countries in Latin America, Eastern Europe, Asia and Africa. Also, WOCCU will develop ways to offer receivers remittance-related savings and credit products in countries where it provides technical assistance to credit unions.

On the sending side, WOCCU will continue to work with U.S. credit unions to bring more of the 10,000+ institutions into *IRnet*® so that they can achieve a greater outreach and increase their memberships to include the unbanked immigrant population.

Examining the Uses of Remittances – Central America and Mexico

There is limited knowledge within the international development community and national governments of countries that receive substantial inflows of remittances about what remittance receivers do with the money they receive.

An IDB/MIF Central America survey found that in Honduras, 77% of remittance receivers use the money for general expenditures while 4% save it, 4% invest it in businesses and 10% invest it in education. Similarly, the survey found that 84% of remittance receivers in El Salvador use the funds for general expenditures while 4% save a portion, 4% invest proceeds in businesses and 4% invest in education.[20] In Guatemala, the survey revealed a higher productivity of remittances, where 68% of recipients spend the remittances on general expenditures, 11% save a portion, 10% invest in businesses and 7% invest in education.[21]

In Mexico, IDB/MIF survey findings indicated that 78% of recipients spend their remittances on basic needs including rent, food and medicine. One-tenth of the receivers either save a portion of the remittance (8%), invest it in business (1%) or purchase land (1%), while another 7% use the money for education expenses.[22]

With knowledge generation funding from USAID's Office of Microenterprise Development through the Accelerating Microenterprise Advancement Project (AMAP) IBM consortium, WOCCU is conducting an in-depth survey of member and non-member remittance receivers at five credit unions in Guatemala in 2004. In 2006, WOCCU will conduct a follow-up survey to learn about the socio-economic profile of receivers at rural and urban credit unions and the purposes for which they use remittances.

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World Council of Credit Unions, Inc. (WOCCU) has credit union affiliates and programs in Africa, Asia, the Caribbean, Central Asia, Central and Eastern Europe, Latin America, North America and the South Pacific. WOCCU affiliates commit to International Credit Union Principles and to International Standards of Safety and Soundness. WOCCU manages long-term technical assistance programs to develop, strengthen and modernize credit unions around the world. WOCCU also works to create appropriate regulatory environments for safe and sound credit union operation.

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