

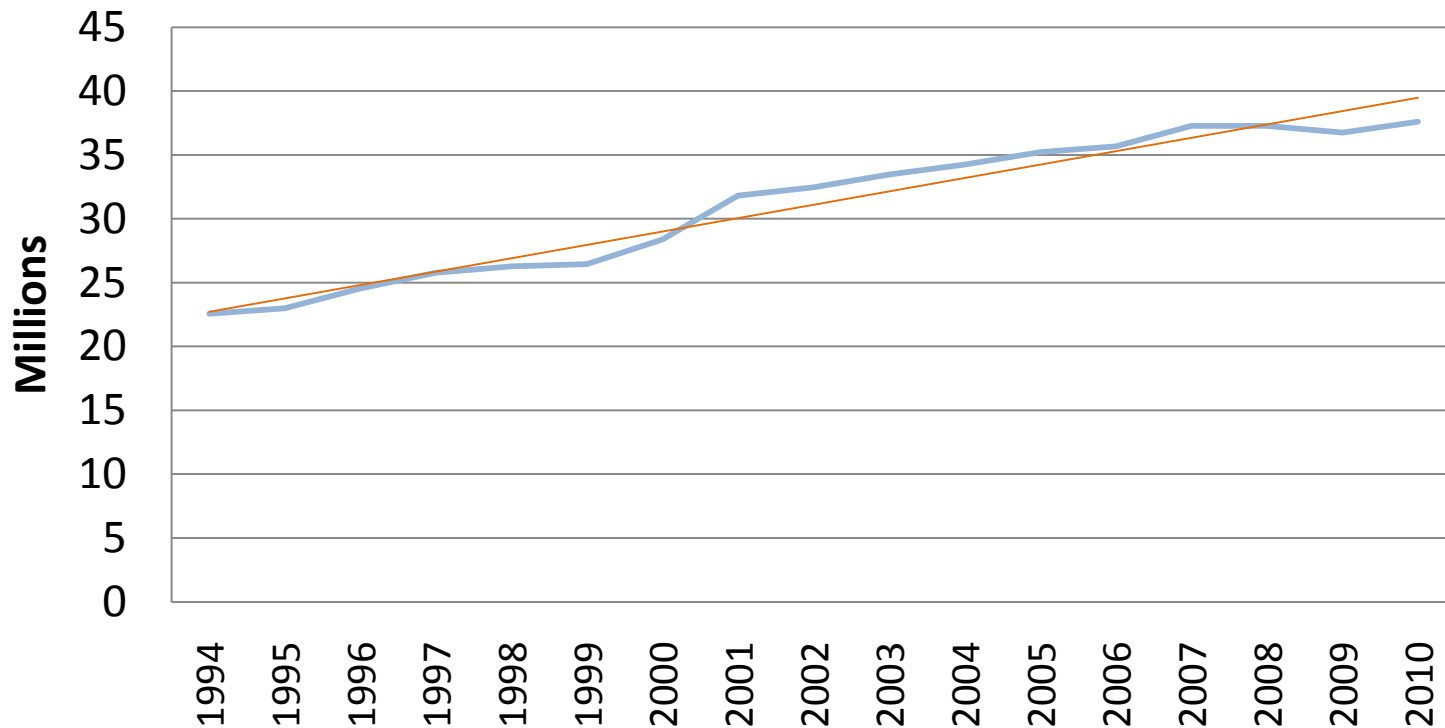
World Bank Presentation on Remittances
Wednesday March 16, 2011
Aaron Klein, Deputy Assistant Secretary
Office of Economic Policy



UNITED STATES
**DEPARTMENT of
THE TREASURY**

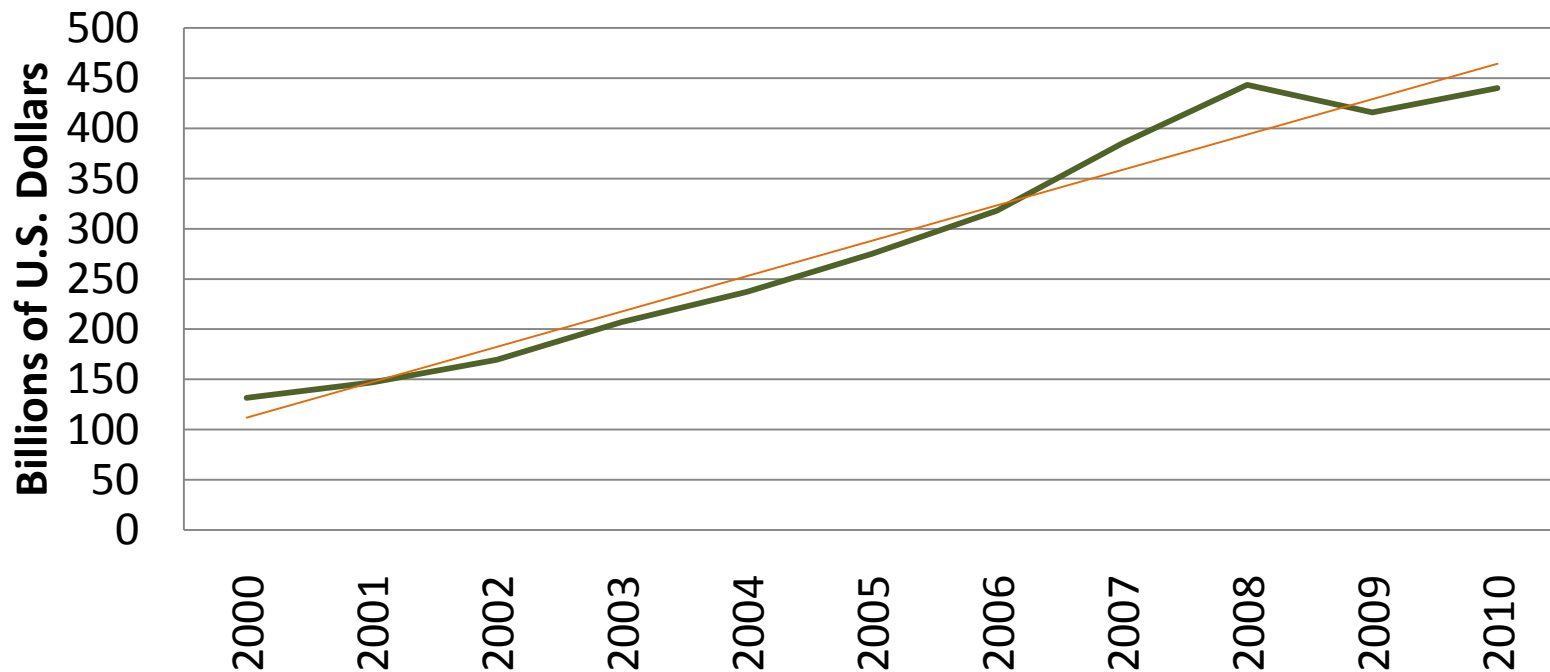


Immigrants Residing in the U.S.



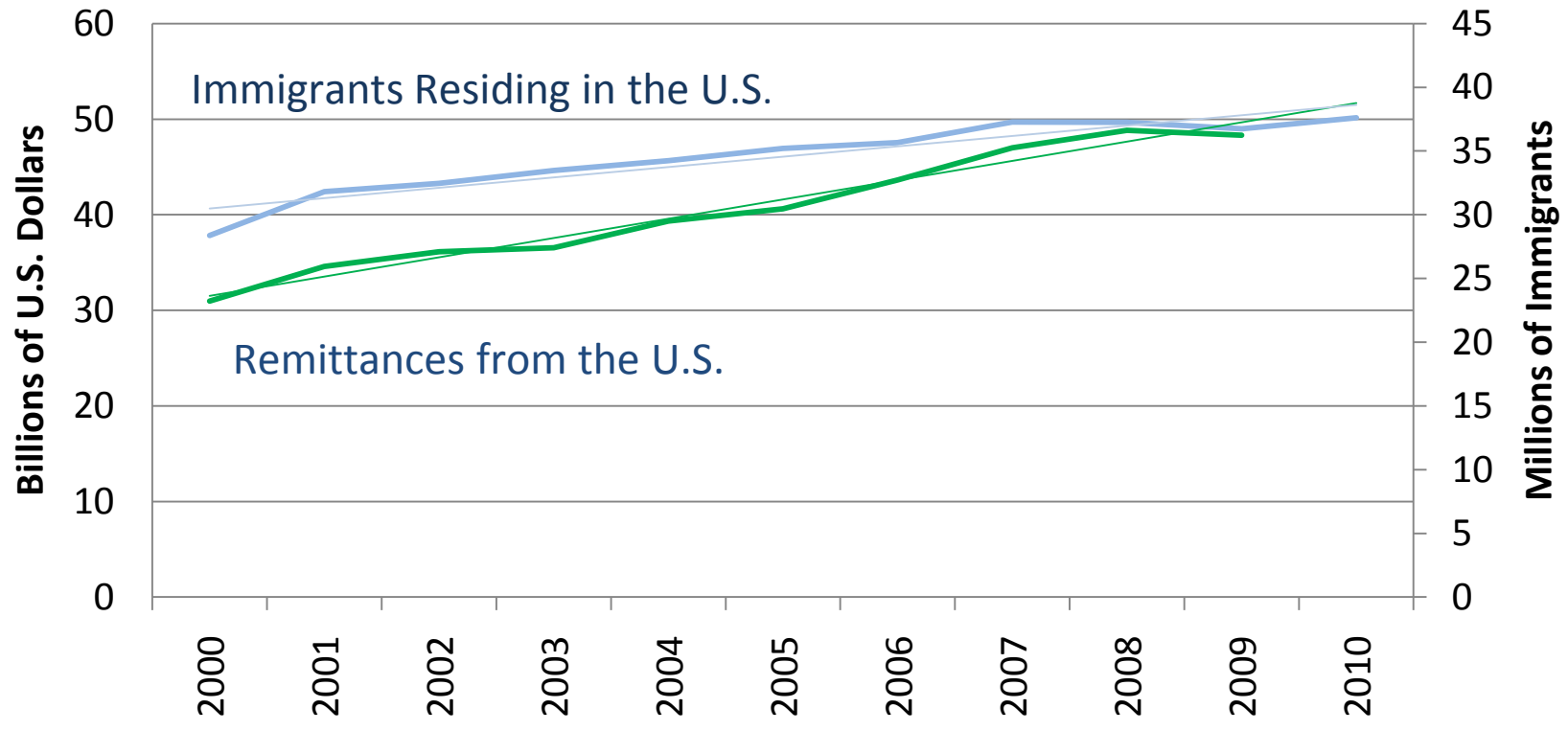
Source: U.S. Current Population Survey
University of Minnesota IPUMS USA

Total World-Wide Remittances



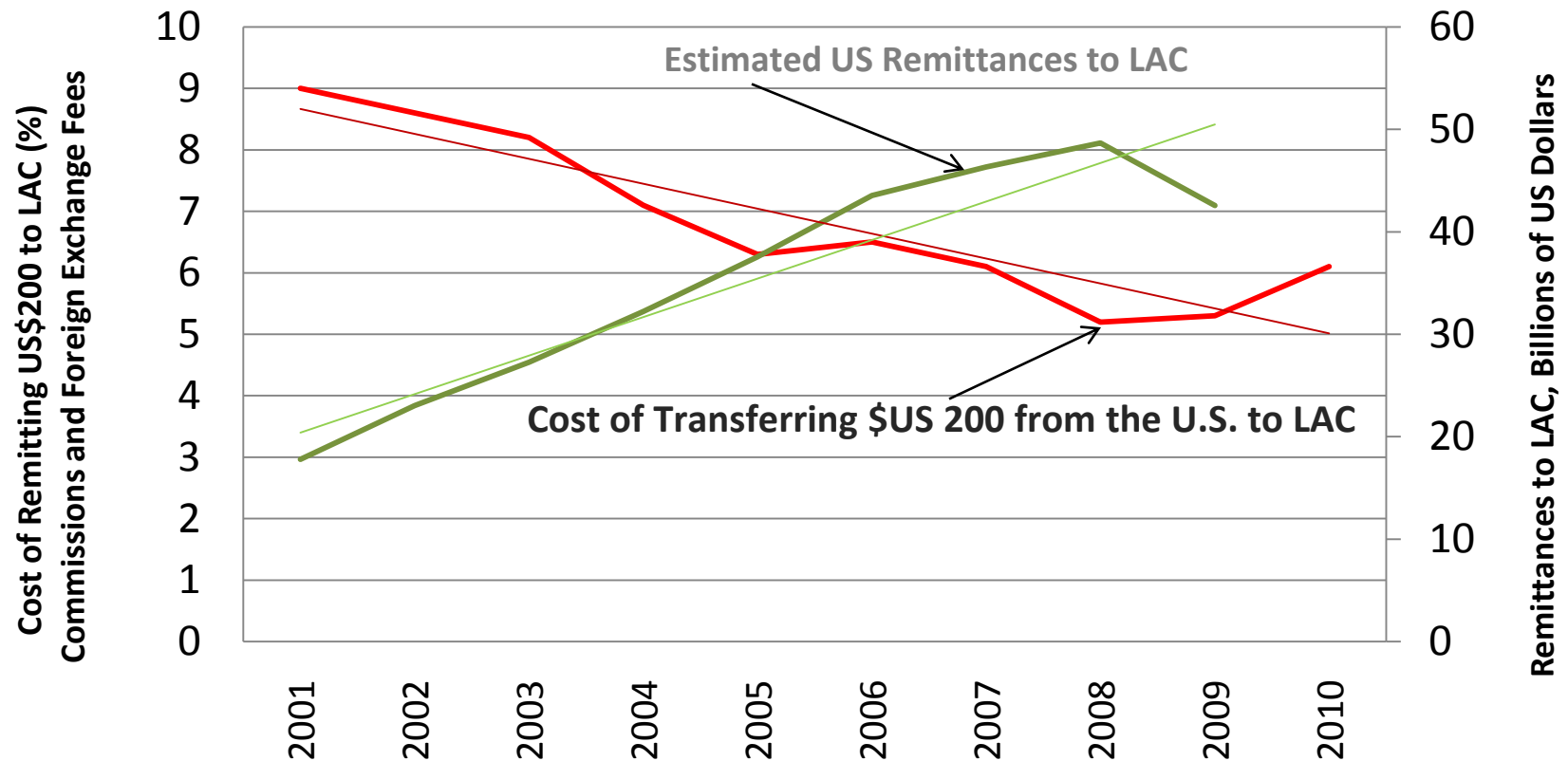
Source: World Bank Migration and Remittances Factbooks
2008 and 2011

Immigrants Residing in the U.S. Remittances from the U.S.



Sources: Immigrant estimates from U.S. Current Population Survey IPUMS USA
Remittance estimates from World Bank Migration and Remittances Factbooks, 2008 and 2011

Estimated U.S. Remittances to Latin American and Caribbean Countries (LAC), and Cost of Remitting From U.S. to LAC



Sources: Cost estimates from Orozco, Burgess and Romei (2010) "Scorecard"
Remittances are unofficial Treasury staff estimates based on expert advice and data sources

Leaders Take Note

- 1998-Inter American Development Bank Multilateral Investment Fund Conference
- 2002-First Congressional Hearings
 - “Immigrants to the United States have traditionally sent financial assistance in the form of remittances to family members who remained in their country of origin. Until recently, however, the phenomenon has not been systematically studied and its implications have not been fully realized.” – Senator Paul Sarbanes
 - “Immigrants nationwide often send a portion of their hard earned wages to relatives and their communities abroad. In many cases, the total cost of remittances can be ten to twenty percent of the value of the transaction. People who send remittances are often unaware that the fees and exchange rates used in the transaction reduce the amount to the recipient. “ –Senator Daniel Akaka
 - “For those living abroad, [remittance] money is vital to help pay for food, housing, education, to start businesses and save for the future. But a sizeable portion of these savings never make it from the U.S. to these countries.” –Congressman Luis Gutierrez
- 2003 - World Bank report “Global Development Finance: Striving for Stability in Development Finance”
 - “Workers’ remittances ... now rank second in importance only to FDI [foreign direct investment] in the overall external financing of developing countries.... remittances ...showed a remarkably steady growth through the 1990s. The strong U.S. labor market was especially important in fueling the growth of remittances, and the United States is now by far the largest source of remittance flows.”

Leaders Take Note

- 2004-Federal Reserve Board Governor Bernanke speech on remittances
 - “The challenge, for regulators, researchers, and immigrant advocates, is to ensure that remitters can send funds to their home countries conveniently, safely, and at a reasonable cost. “
- 2007-Bank for International Settlements Report on Payment Systems Best Practices (Submitted by Timothy F. Geithner, then Chairman of the Committee on Payment and Settlement Systems and President of the Federal Reserve Bank of New York)
 - The flow of funds from migrant workers back to their families in their home country is an important source of income in many developing economies. The recipients often depend on remittances to cover day-to-day living expenses, to provide a cushion against emergencies or, in some cases, as funding for small investments.
 - National regulations should aim to create a level playing field between equivalent remittance services
- 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act Passes, Creating Federal Consumer Protection for Remittances

Regulation of Remittances

U.S. Regulation of Remittances Before Dodd-Frank Wall Street Reform and Consumer Protection Act

- No Federal consumer regulation of remittances
- State laws regulate “money transmitters” or “money service businesses” (MSBs)
 - Tremendous variation between state MSB laws:
 - In general, many states have no requirements for price disclosure or error resolution and among those that do, the rules vary substantially.
 - State MSB laws may apply to a wide variety of products and services, such as check cashing, gift cards, and domestic or foreign electronic transfers
 - Generally do not apply to banks or thrifts

Section 1073 of the Dodd-Frank Act Establishes Consumer Protection and Disclosure Regulation for Remittances

- Incorporates remittances into the basic framework that covers electronic transactions for consumer accounts: the Electronic Fund Transfer Act of 1974 (EFTA)
 - Applies to wide range of electronic fund transfers: Any transfer of funds (other than originated by check) “through an electronic terminal . . . [to] authorize a financial institution to debit or credit an account.”
- Defines a remittance transfer as any electronic transfer of funds to a recipient in a foreign country.
 - Applies regardless of whether consumer holds an account
- Broadly defines remittance transfer providers as any person who provides remittance transfer in the ordinary course of business

Specific Remittance Disclosures

- Requires that all remittance senders be provided, before a transfer is initiated, in writing and in a form they can keep, the amount in local currency that will be made available to the recipient
 - Requires disclosure of the amount of transfer and fees, and the exchange rate used
- After the transaction is initiated a written receipt is required that contains:
 - all of the information on costs, as stated above
 - promised date of delivery
 - name and contact information of recipient
 - statement of error-resolution rights
 - contact information for the remittance transfer provider, the state regulator, and the Consumer Financial Protection Bureau
- Potential requirement for internet and storefront disclosure subject to findings from a mandated study

Error Resolution Process

- Section 1073 of the Dodd-Frank Act establishes uniform error resolution
 - Similar framework to the EFTA, which has proven to be successful for consumer accounts
- Consumer may provide oral or written notice of error within 180 days of transfer
 - A response is required within 90 days of notice
 - Remittance transfer provider obligated to resolve error or respond to consumer in one of four ways—
 - 1) Refund to sender total amount of funds tendered
 - 2) Written notice explaining that no error occurred
 - 3) Make appropriate amount available to recipient at no charge to sender
 - 4) Provide other remedy as permitted by Bureau rules

Timeline for Implementation

- Remittance provision in Section 1073 of the Consumer Financial Protection Act (CFPA) is effective as of July 22, 2010
- Disclosure requirements under Section 1073 apply subject to final rules prescribed by the Federal Reserve Board or the Consumer Financial Protection Bureau
- Error resolution rules must be issued by January 21, 2012
- Rules for internet and storefront signage may be specified after a required study is performed.

Expected Results

- Increased Competition in Remittances
 - Allow for greater comparison shopping by consumers
 - Should promote greater competition among industry providers
 - Should drive down costs to consumers
- Errors being resolved more fairly for consumers
 - Hopefully in the longer run this will reduce the number of errors
- More competition as banks and credit unions expand participation in the remittance market