

**Remittances, prepaid cards and financial
opportunities for migrants and businesses**

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Introduction¹

The purpose of this study is to investigate whether there exists a correspondence between remittance based prepaid card products and remittance senders' demands for financial products, including prepaid cards. One rationale informing this project lies in the fact that the increasing relevance of remittance transfers as an industry for financial payment companies, and the recent emergence of electronic prepaid products, are somewhat converging patterns on the supply and demand for international payment systems.

These two activities, though independent of one another, share important characteristics and opportunities. Remitters represent a wide array of people with interests in value-added international payments. Many of them have scarce financial access of any kind, and most are underbanked people, with well defined financial needs including cash transfers, payroll deposits, check cashing, bill payment, and basic retail and grocery purchases. All these services are central to the interests and services informing prepaid card companies. That is, they provide flexible payment instruments to underbanked individuals that on balance are easier and more affordable than owning bank accounts.

We find that there are challenges to penetrating the remitter market with prepaid cards due to supply and demand dynamics associated with issues of scale, consumer purchasing power and financial prowess. However, we also identify strategies and opportunities worth exploring. As the remittance market expands and firms realize the revenue and customer generation potential that these products bring, new product types and experiments with different forms of payment are emerging. In particular, the rise in the prominence of the remittance market has grown alongside the rise in the prepaid card industry. Though the remittance market is in no way new, the prepaid industry is still in its infancy, and using these instruments as a way to help consumers send money abroad is an emerging phenomenon that is mainly taking place among relatively unknown players in the card space.

Many underbanked consumers lack access to banks or credit unions and often pay high fees to remit money. Based on the 2000 Survey of Income Program Participation (SIPP), 20.9 million families, or 17% of households, do not have bank accounts. Among immigrants, 32% are unbanked, including 53% of the immigrant Mexican population. And according to a study conducted by BearingPoint for Visa, as many as 22 million additional U.S. families are underbanked, meaning that they have limited transactional relationships and/or credit scores. Moreover, according to a 2004 survey of residents of

¹ The authors respectfully acknowledge the assistance of Rachel Schneider and Rebecca Rouse in the creation of this report.

low- and moderate-income neighborhoods in Los Angeles, Chicago and Washington, D.C., two-thirds of banked households also use non-bank services, such as check cashing or money transfer; and half of those who are currently unbanked formerly had bank accounts.²

These data points are strong indicators that the market for services such as prepaid card-based remittances is both broad and complex. A recent study by global consulting firm BearingPoint and Visa posited a \$1.1 trillion market of people who either do not use banks or do not have the credit to hold accounts. The study estimated that underbanked consumers spend between \$300- \$400 per year in bill payment fees, including check cashing, money orders and other fees. The market for prepaid cards includes not only underbanked consumers, but also the teens and young adults who are large users of similar products such as prepaid wireless phones. The Yankee Group reports that as many as 65% of prepaid debit card users are under 35 years old.³ Other key demographic segments include the 50 million U.S. adults who do not have credit cards and the 30-50 million U.S. individuals who have either no credit score or a poor credit score.⁴

1. Remittances, the marketplace and prepaid cards

While there is a large segment of the underbanked population that utilizes remittance services, usually at non-bank locations, it is unclear to what extent card-based solutions are utilized by, or attractive for, remitters on both sides of the border. While technology has enabled banks and nonbank firms alike to utilize card strategies to provide remittance services, this paper seeks to discern the extent to which there is market correspondence between supply and demand for these products.

The purpose of this paper is to explore the extent to which prepaid card-based remittances are emerging as an alternative solution in the international marketplace of money transfers, one that could provide a more robust linkage to other financial products and services than do cash-based transfers. The paper is based on empirical analysis including company interviews and a nationwide U.S. survey of migrant remittance senders. The results presented in this paper will shed light on the

² For more information about the financial behavior and attitudes of low and moderate income consumers, see Seidman, Hababou and Kramer, 2005.

³ Green Dot and Yankee Group cited by Tefisto Partners. According to the Yankee Group, over 20% of the U.S. wireless market was expected to consist of prepaid customers by 2005 and over 40 million cell phone users are between the ages of 10 and 24.

⁴ Morgan Stanley (cited by Tefisto Partners) identifies 30 million U.S. individuals with either no credit score or a poor credit score. Fair Isaac estimates that of the 215 million credit eligible adults in the U.S., around 50 million are unable to receive a traditional FICO risk score, of which 32 million have too little credit history to be given a FICO score and 22 million have no credit history. For more information on the value of alternative data in credit reports and thin file consumers, see Jacob 2006. [Reaching Deeper: Using Alternative Data Sources to Increase the Efficacy of Credit Scoring](#). Chicago, IL: The Center for Financial Services Innovation.

policy and business opportunities presented between the intersection of prepaid cards and remittance transfers for low-income, underbanked migrants.

Another important aspect of this research seeks to discover whether or not card-based remittances offer underbanked consumers access to other financial products, including asset-building products, and if so, which models work best for that purpose. As Jacob, Su, Rhine and Tescher (2005) discuss, one of the hidden benefits to prepaid cards for underbanked consumers is that the products have the potential to offer consumers access to saving and investing products. The same could be true for remittance products as well. Orozco and Fedewa (2005) studied nine financial institutions in Latin America in order to assess the relationship between remittances and financial intermediation. The authors found that although a number of institutions have succeeded in converting remittance recipients into mainstream clients, most lack a systematic strategy for marketing non-remittance products to this segment.

In order to explore the possible dynamics related to offering remittances using card products, CFSI and the Inter-American Dialogue have conducted detailed interviews with 15 companies on how their card-based remittance programs (current and planned) are structured and how they evaluate success. These interviews highlight opportunities and challenges related to offering remittances using various prepaid card structures, and also provide insight into future potential for using card-based remittances as a tool to give consumers access to other financial products and services that may have been previously unavailable to them.

Moreover, a survey of 2000 migrant remittance senders has been conducted to identify the demand side for card based payments, including remittance transfers. The survey is a random sample conducted in six cities (Chicago, Los Angeles, Miami, Union City, New York City and Washington, DC.) using typical outlets visited by migrants to send money.

a. A snapshot of the remittance market

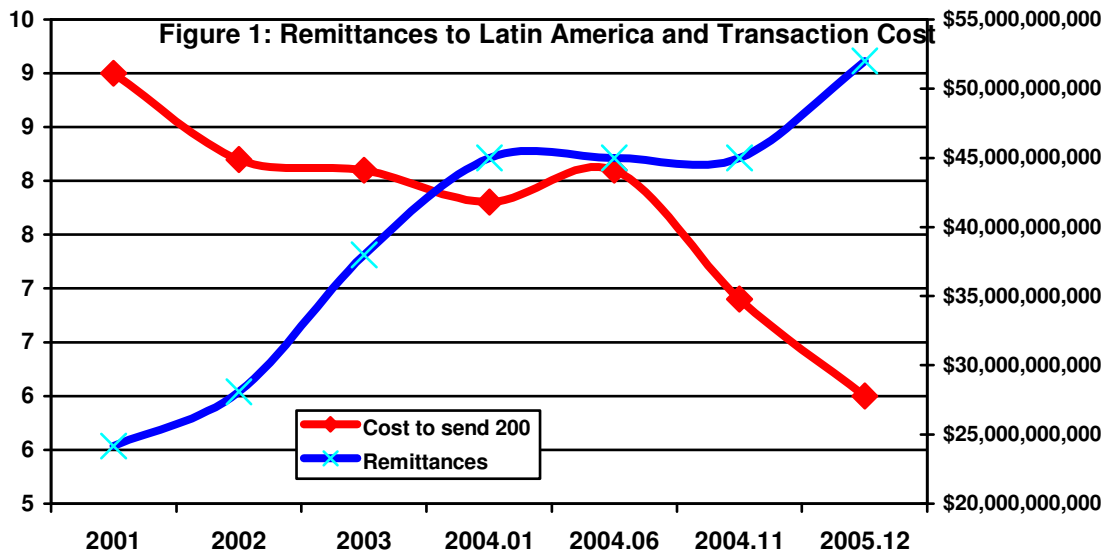
Migration to the United States is not a new phenomenon. In the last ten years, in absolute numbers, the migrant population has reached nearly forty million people. However, relative to the total U.S. population, the migrant population has not grown highly over time, and rather represents a smaller share of the overall U.S. population than foreign born people from previous periods.

The number of people remitting, however, is significantly important in terms of their purchasing power and the volume of international remittance transactions. An accurate understanding of the

people sending money and their personal and aggregate volumes are important considerations as it reduces speculation of how many people are actually remitting.

In fact, remittance transfers are growing and rapidly transforming into a global, \$300 billion industry (25% of which may occur in the United States). In 2005, remittances to Latin America and the Caribbean reached over \$53.6 billion, making the region the largest remittance market in the world (Inter-American Development Bank 2006). Latinos living in the United States sent more than \$40 billion home in 2005, including \$20 billion to Mexico alone. The Inter-American Development Bank has found that more than 60% of Latin American born adults – approximately 10 million people - send remittances from the U.S. at least four times a year (De Vasconcelos, 2004).

The intermediation for these transfers is critically important and its market is facing an increasingly competitive space, where money transfer operators (MTOs), banks and credit unions compete, though the MTOs still dominate. One resulting outcome of competition has been a gradual decline of transaction costs, as well as increasing investor interest in acquiring MTOs. Moreover, banks and credit unions, large and small have tried to penetrate the market. Despite strong efforts in recent years, banks and credit unions have not managed to claim a large share of the remittance market, though they have had greater success in opening accounts for Latino and other immigrant customers in the U.S. Within this framework, the remittance industry is only just begun to offer prepaid card platforms and there is little information on how these products fit into the overall marketplace.



b. Who remits, how much and how

Because current immigration includes undocumented migrants, estimating how many people are sending money is difficult. Some experts argue that there are as many as twelve million undocumented people currently residing in the United States (Pew Hispanic 2005). We estimate that the number of Latinos sending remittances is nearly fourteen million, and could actually be closer to sixteen million people at most. Using census data, Central Bank data from Latin American countries, as well as survey data and MTO company data, we are able to estimate the actual number of immigrants.

The table below provides descriptive numbers on migrants from Latin America sending money from many parts of the world in 2005, with some 70% sending from the United States. The list is not comprehensive but shows the most active remittance recipient countries, particularly for migrants living in the United States.

Table 1: Average estimates of remittance senders and undocumented migrants

Pais de origen	Average sent	Av. Freq.	Volume	Senders	% US	Undoc.	Undoc rem.	All undoc
Brazil	330	12	6,000,000,000	1,515,152	50%	60%	454,545.45	590,909.09
Colombia	218	12	4,126,000,000	1,580,014	70%	32%	353,923.13	460,100.07
Cuba	155	12	1,000,000,000	537,337	90%	9.30%	44,975.13	58,467.67
Ecuador	222	12	1,800,000,000	676,437	70%	60%	284,103.72	369,334.84
El Salvador	265	14	2,830,200,000	763,698	90%	37%	254,311.53	330,604.99
Guatemala	252	12	2,992,770,000	989,430	90%	60%	534,292.07	694,579.69
Guyana	333	12	270,000,000	67,635	80%	30%	16,232.33	21,102.03
Honduras	151	12	1,762,980,000	971,232	90%	51%	445,795.41	579,534.03
Mexico	315	14	20,034,000,000	4,545,936	95%	56%	2,418,437.71	3,143,969.02
Nicaragua	292	12	850,000,000	242,871	60%	15%	21,858.39	28,415.91
Dom. Rep.	177	14	2,410,800,000	972,881	80%	8%	62,264.41	80,943.73
Bolivia	254	12	860,000,000	282,557	80%	58%	131,106.33	170,438.23
Jamaica	200	11	1,651,000,000	750,455	70%	30%	157,595.45	204,874.09
	300	12	46,587,750,000	13,895,634			5,179,441.06	6,733,273.38

Source: Table calculated by author

These immigrants remit an average of three hundred dollars a month to their families in the majority of cases. The preferred method of sending is typically of the use of a money transfer company or, to a much smaller extent, the use of banks or card based transfers.⁵

⁵ This study includes a survey conducted in order to gauge the extent of the use of stored value cards or pre-paid cards, and also offers information about the profile of the remitters. Here we provide a description of these individuals. The survey is not representative of all Latinos but has an important representation of seven nationalities: Salvadoran, Mexican, Jamaican, Dominican, Nicaraguan and

The table below shows the demographic characteristics of these remitters, which demonstrate a varied representation of groups by income, age and education. Caribbean migrants, for example, show higher levels of educational attainment than Central Americans and Mexicans. Similarly, they exhibit a higher likelihood to hold citizenship status. Except for Nicaraguans, most immigrants are relatively younger cohorts under 40 years of age, and, with the exception of Guatemala, the male to female ratio distribution is relatively even, with El Salvador having more women than men. These are the people who remit an average of three hundred dollars a month to immediate relatives.

Table 2: Demographics of remittance senders: Age, gender, income, education and citizenship.

	Mexico	Dominican Republic	Jamaica	El Salvador	Guatemala	Bolivia	Nicaragua
Over 40	18	16	17	15	26	24	51
Women	40	55	43	64	33	52	41
Some college or college degree	14	60	75	19	12	42	36
More than 35,000	3	3	4	3	3	18	8
Citizenship	13	43	56	17	12	16	14

Source: survey conducted by the authors managed by Protectora Holdings, March-July 2006

Internet use is an important proxy for their relationship to the financial world and the world at large. The results show that on average, forty percent of migrants use the internet, but that only 24% of Mexicans, who represent half of the Hispanic population, use the internet. Dominicans and Jamaicans are among those with the highest regular use of the internet.

Table 3: Internet use among migrants

	Mexico	Dominican Republic	Jamaica	El Salvador	Guatemala	Bolivia	Nicaragua
Internet use . . .	24.17	63.33	76.50	31.00	23.00	36.00	24.00
Daily	45.52	40.00	44.44	29.84	56.52	36.11	41.18
Monday through Friday	16.55	17.89	27.45	20.16	8.70	13.89	14.71
Weekends	11.72	18.95	18.95	25.00	8.70	9.72	14.71
I use it very little	26.21	23.16	9.15	25.00	26.09	40.28	29.41

Source: survey conducted by the authors managed by Protectora Holdings, March-July 2006

Transnational engagement

Bolivian, which in turn represent seventy percent of all remittances from the United States. The surveys were conducted in Los Angeles, New York City, Union City, Miami, Washington DC, and Chicago, with a sample of 2,000 respondents.

While Levitt (2004) cites Portes et al. (1999), who argues that possibly only 10 percent or less of US migrants participate in regular transnational economic and political activities, it has recently been discovered that immigrants are more connected than previously understood. In addition to remittances, migrants maintain a broader range of relationships with their home country that translate into a dense transnational engagement. Orozco (2005) found that the level of transnational engagement, while varying across nationalities, was significant in terms of the kinds of economic relationships that remitters hold with their home country. These economic activities reflect individual and group exercises of a migrant's transnational identity through symbolic and material commitments to the homeland. For example, Salvadorans and Ghanaians established for more than thirty years in the U.S. have maintained links with their homeland at different levels. The tables below show estimates of the number of transnational activities that keep migrants connected with their home country. The highest amount of money spent is on remittances (which earn companies revenues of 10%).

Table 4: Percent of Salvadorans who . . .

	(%)	Number	Annual Cost /expense (US\$)	Volume (US\$)
Call on average 120 minutes	41	340300	288	98,006,400
Send over \$300	32	265600	4200	1,115,520,000
Buy home country goods	66	547800	200	109,560,000
Travel once a year	24	199200	700	139,440,000
(& Spend over S\$1,000)	61	506300	1000	506,300,000
Have a mortgage Loan	13	107900	7000	755,300,000
Own a small bus.	3	24900	7500	186,750,000
Helps family w/ mort.	13	107900	2000	215,800,000
Belong to an HTA	5	41500	200	1,500,000

Note: Number of Salvadorans remitting from the U.S. is 830,000. Source: Orozco, June 2006.

Table 5: Percent of Ghanaians who . . .

	(%)	Number	Annual Cost /expense (US\$)	Volume (US\$)
Call on average 80 minutes	50	100000	432	43,200,000
Send over \$300	60	120000	4800	576,000,000
Buy home country goods	80	160000	200	32,000,000
Travel once a year	50	100000	1200	120,000,000
(& Spend over S\$1,000)	80	160000	1000	160,000,000
Have a mortgage Loan	20	40000	7500	300,000,000
Belong to an HTA	20	40000	200	8,000,000

Note: Number of Ghanaians remitting from the U.S. is 200,000. Source: Orozco, 2005.

Additionally, in a series of projections done for the Pew Hispanic Center, Lowell stressed that as remittance costs continue to decline in an increasingly competitive market, it is likely that per capita remittances will continue to grow. He projects that the market will “shake out” in the next five years, after which the level of per capita remittances reached will remain fixed into the future. The author has predicted an annual increase in remittances of more than 8 percent (Lowell, 2002). This growing market represents a large profit potential for the numerous players involved. Paulsen (2006) found that in 2004, U.S.-based remitters to LAC spent more than \$2 billion in remittance fees.

c. Prepaid cards as nascent financial services

Prepaid cards are one promising product emerging to serve underbanked consumers.⁶ Prepaid cards utilize magnetic stripe technology to store information and track funds, similarly to traditional debit cards. Non-branded cards use PIN-based technology through point of sale (POS) and ATM networks. Branded cards carry the Visa, MasterCard, American Express or Discover logo and allow for both PIN- and signature-based purchases.

The rise in the prepaid card industry in recent years has been dramatic and expectations are high for future growth. Visa (2006) estimates that on a global basis, \$3 trillion in payments can be handled best using prepaid payment products. No publicly available data source on prepaid cards exists, but commonly cited estimates are that the prepaid card market experienced 27% growth from 2003 to 2004, with almost \$160 billion loaded onto prepaid instruments in 2003 (Sloane, 2004). Another source estimates that 15 million prepaid debit cards were issued in 2003, excluding store gift cards, and projects that that number will grow to 34 million in 2005 (Miezejeski, 2004).

While payroll cards and general spending cards are smaller segments of the prepaid card market than store gift cards and government benefits cards, they come closest to mirroring bank accounts for underbanked consumers as they provide for a wider variety of financial transactions; this report focuses on these more sophisticated products. In 2003, Frumkin, Reeves and Wides of the Office of the Comptroller of the Currency identified payroll cards as an innovative product for reaching unbanked and underbanked markets and conducted a survey of financial institutions in the payroll card market. The possibility of using prepaid cards for asset- and credit-building purposes was first raised by Tescher and Seidman (2003) in a paper discussing the convergence of the interests of the

⁶ Visa estimates that on a global basis, \$3 trillion in payments can be handled best using prepaid payment products (Visa.com 2006).

financial services sector and low-income consumers. These issues were further discussed by Jacob (2004) and Jacob, Su, Rhine and Tescher (2005), who focused on saving and credit-building possibilities through prepaid platforms.

Jacob (2004) discusses why prepaid cards are an attractive financial tool for underbanked consumers. First, they have low barriers to entry, generally lacking the identification and credit requirements that effectively bar millions of individuals from opening traditional bank accounts. Second, they are convenient, and can be purchased and reloaded at a growing number of retail channels. Third, they offer immediate liquidity, with funds available quickly and often at a lower cost than other alternatives for unbanked consumers. And, finally, many prepaid card products offer fee transparency with low likelihood of overdraft.

As the prepaid card industry matures, firms have been adding functionality and polishing distribution and marketing efforts.⁷ For example, Visa announced in March, 2006, the rollout of its reload network, providing banks with the turnkey technology needed to begin offering general spend prepaid cards in the bank lobby. A significant number of prepaid card companies also now offer a bill pay option, which is particularly important for those consumers who do not have bank accounts. And, some prepaid cards are beginning to explore rewards programs similar to those long offered to loyal credit card users.

Of particular importance to prepaid card users who are using the cards to substitute for traditional bank accounts is the extent to which prepaid cards provide consumer protection, saving and credit building features. Market research indicates that lower-income consumers desire products that provide safe, convenient and inexpensive ways to save and build credit. However, currently, while a few companies have experimented with offering savings features, most prepaid cards lack the ability for cardholders to save and build assets.⁸ The ability to build a credit history and to access saving vehicles are key considerations in considering the extent to which prepaid cards can connect underbanked consumers

As with savings features, a few companies have experimented with credit building features, with at least four having tried to report payment behavior to the credit bureaus and a few attempting to

⁷ For more information about trends, challenges and opportunities in the prepaid card industry, see Jacob, Su, Rhine and Tescher, 2005.

⁸ Notable exceptions are Netspend's recent introduction of a savings vehicle linked to its prepaid card; indigGOCARD's launch of a savings product that is marketed as an overdraft protection program for its cardholders; and the RevelCard's savings feature.

incorporate small extensions of credit. However, at this point, prepaid card transactions do not affect a consumer's credit record. Because the cards are primarily marketed to individuals who may have sparse or negative credit histories, adding credit-building features could both benefit consumers and help differentiate the myriad of prepaid products and distributors currently in the market.

As the industry focuses on innovation related to features, reloadability, and distribution networks, several companies have begun to add remittance features to their prepaid cards in order to enable their customers to send money to friends and family overseas. This allows U.S. cardholders to transfer funds to authorized persons in other countries, either by creating a sub-account which a cardholder in another country can access or by issuing a second card on the full account. There are also innovations with respect to prepaid cards that are not connected to a U.S. based prepaid card or account, but that are marketed, purchased and reloaded in the U.S.

The assumptions about prepaid cards are tested in this paper against the extent of the supply for card based transfers and the demand for it among remittance senders. Consumers in the remittance marketplace are individuals with predominantly low education and income levels, with a preference for cash to cash transactions, both domestic and international. Therefore, the use of these instruments presents challenges and opportunities.

2. Card based remittance transfers: issues and practices

When looking at prepaid products, we find that card-based remittances are very early in their development, and there is wide variation in the maturity and features of the product offering. Many of the companies that are offering card-based remittance programs are very young, and the overall prepaid card industry is also in its infancy. However, almost every company interviewed indicated that they are actively evaluating the options for product structure, pricing and marketing.

a. Business models

The companies offering prepaid card-based remittance fall along a spectrum from card companies who are adding remittances as a new card feature to remittance companies who are adding prepaid cards as a new method for customers to access their cash. In the middle are a handful of companies whose only or primary product is a card-based remittance.

In each case there are pros and cons as companies gain expertise in one area and experiment with the other product (a prepaid card, or a remittance option) as a way to sell their core product. There are also significant differences in the infrastructure and operations of these companies, which result in

differences in how the company structures its card-based remittance product. As time goes on, it will be worth watching how the variation in features affects consumers, and whether the features converge, as well as whether the pure card-based remittance companies are able to become significant players in this space.

The essential feature that defines card-based remittances is the use of a card on either the sending or receiving end (or both) of a funds transfer from an individual to friends or family in another country. There is significant variation in how the sender initiates the transaction. For some card-based remittance companies, the sender must have a credit or debit card already, which he or she uses to purchase and reload a prepaid card for use by the recipient of the funds. Similar products allow the sender to use cash to purchase and reload a prepaid card for the recipient to use. Other companies in this segment issue a prepaid debit card to the sending cardholder, which is then used to remit funds. Several of the entrants into this market are payroll card issuers, who are adding the ability to transfer funds as an additional method of using the funds that have been loaded onto the payroll card by an employer.

At least four models have developed for how the recipient can then access the funds that have been sent. First is the “card-to-cash” model, in which the recipient does not have a card of his or her own but has the ability to retrieve the transferred funds directly in cash. Many of the companies interviewed believe that this is the preferred model for consumers because it is convenient for the recipient and it most closely replicates how remittance transfers generally work today. Hence, it is the most familiar and requires the least education. It is also a natural option for remittances to countries in which card use is less ubiquitous generally or to rural areas that do not have many ATMs. However, this is a difficult business model to create from scratch, as it requires building a disbursement network in the receiving countries. As a result, the remittance companies who are adding prepaid cards are best positioned to offer this option. It is also a part of the market in which there is very little vertical integration. Instead, companies evaluating or offering this option are more likely to establish a set of partnerships with banks and other entities in the recipient country to form a distribution network. This is particularly true for the prepaid card companies who are adding a remittance feature.

Second is the “dual-card” model, in which two cards are issued with access to the same account. The disadvantage to this approach is that the recipient is able to withdraw the full amount of funds in the account. However, offering two cards on the same account is administratively simple, and in some cases is happening organically as consumers figure out how to make this happen even if it is not

explicitly an offering of the card issuer. Several of the prepaid card companies interviewed indicated that their customers have been using their accounts in this way, with one having tracked this type of activity in over 100 countries.

Third is the “sub-account” model. With this approach, two cards are issued, but the primary cardholder can transfer specified amounts of funds to the sub-account which is accessible to the recipient cardholder. And fourth is the “recipient-only” card model. In this case, the sender purchases a prepaid debit card in the U.S., which is either sent directly to the recipient or issued in the recipient’s country. The sender can then reload funds onto the card.

A significant challenge in offering card-based remittances using any of these approaches is that issuing a card to a recipient outside of the U.S. raises regulatory and operational issues that present new challenges for the issuing entity, regardless of whether it is a remittance or prepaid card company. Interviewees mentioned concern about not being able to verify the identity of the recipient, some in the context that regulatory requirements may become more stringent over time. The card also needs to be reliably delivered. Another major challenge is that users in many receiving countries are not familiar with card-based platforms or are unable to utilize this model due to the lack of a payments network that accepts cards.

Across all of the business models chosen by companies entering into this marketplace, there is a strong interest in developing local partners. A partner in the recipient’s home country can potentially provide access to the distribution network that is best equipped to meet the expectations and current behavior of consumers in that country. For example, in countries in which card use at ATMs and point of sale are ubiquitous, the local partner could be a large regional bank; whereas in countries where cash disbursement is critical, the local partner could be an entity that has already developed that functionality. If a local partner issues the card used by the recipient, the U.S. issuer can avoid the operational and regulatory hurdles inherent in issuing a card to an individual who is out of the country. Local partnerships also offer co-branding opportunities, the possibility of avoiding or lowering some fees, the ability to provide greater levels of customer service and education, and the option of marketing additional financial services.

b. Card features and fee structure

The features of the cards used by the sender and recipient in the remittance transaction vary as much or more than the features of prepaid debit cards generally.⁹ As with other prepaid cards, an important issue for consumers is whether the card is branded with a Visa, MasterCard, American Express or Discover logo, which offers extended purchase capability and enables consumers to participate more fully in the larger financial mainstream. A few of the products that exist today, including those offered by the pure, card-based remittance companies, are unbranded, PIN-based cards. However, the majority of cards offered by the companies interviewed are branded cards, and it is likely that the larger prepaid card companies that offer branded cards today would continue to do so even as they add a remittance feature. This should improve consumer acceptance and card usability.

Loading funds is done through the issuer's reloading network, which generally includes some combination of online, phone and retail locations and allows for reloading through cash payment or funds transfer using a bank account, credit card, debit card or sometimes a PayPal account. In some cases, reloading is only possible via the Internet using an existing credit or debit card, creating a significant challenge in using this product to serve underbanked consumers who may not have access to computers. The prepaid card companies who are moving into the remittance space seem most likely to be able to offer a broad range of reloading methods. Companies starting with a remittance product and adding prepaid cards have a substantial operational challenge to replicate or connect to existing loading networks.

How the cards are reloaded and how the funds are transferred affects both the usefulness of the product to consumers and the fees charged. For some of the products, reloading and transferring funds are one transaction and hence, subject to one fee. By definition, dual-cards accessing the same account accomplish reloading and transferring simultaneously, as do recipient-only cards. For a sub-account product or a product in which the recipient card is issued by a local partner, reloading the prepaid card and transferring funds are two distinct steps, each with its own constraints and fees. Another important distinction is whether the second card, used by the recipient, is free. In some cases, the sender bears all costs, though usually the recipient pays an ATM fee to withdraw the funds. In others, the recipient pays fees to have a second card or account.

As with prepaid cards generally, there is wide variation around the fee structures offered by each company. As reported in the interviews, the types and ranges of fees include the following:

⁹ For more information on prepaid card features and pricing structures, see Jacob, 2004.

- Activation, card purchase or card shipping fee: ranges from free to \$19.95
- Monthly maintenance fee: ranges from free to \$6.95
- Reload fee: often depends on reload method, ranging from free for direct deposits to \$2.00 - \$6.00 to load at a merchant
- Transfer fee: ranging from non-existent in some models up to \$5.00 + 3% of the transaction. Often a flat fee, ranging from \$3.00 – \$9.00
- ATM Withdrawal fees: \$1.50 - \$4.00
- Card shipping fee: \$1.00 - 10.00

Table 6: Cost to customer to use remittance cards

Company	Company a	Company b	Company c	Company d	Company e	Company f	Company g
Advertised Price per send	9.99	9.95	2.5	2	14	10	9.95
Actual price of card (s)		4.95	29.95	14.95	1.99		14.95
Shipping fee					9.99		1
Monthly fee			2.5		0.99		1.5
ATM withdrawal fee					1.99	1	
P.O.S. purchase fee				2			
Balance Inquiry			2			0.5	
Dormant account				\$5.95/month		\$2.00/month	
Total fee for first transfer	9.99	14.9	34.95	16.95	28.96	11	27.4
Percentage of amount sent	0.03	0.045	0.1165	0.0565	0.0965	0.0367	0.091

Table 6a: Sample fee structures

Model	Recipient Only	Dual Card	Sub-Account with Local Partner
Sample Fees	<p><u>Sender</u> pays shipping fee to purchase and send card.</p> <p><u>Recipient</u> pays a monthly fee and an international ATM fee for each withdrawal.</p> <p>Sender pays <u>transfer</u> fees to load funds onto</p>	<p><u>Sender</u> pays typical fees for prepaid card (activation fee, reloading fees and either a monthly maintenance or a transaction fee).</p> <p><u>Recipient</u> gets card free but pays international ATM fees to withdraw funds.</p> <p>No <u>transfer</u> fees.</p>	<p><u>Sender</u> pays typical fees for prepaid card (activation fee, reloading fees and either a monthly maintenance or a transaction fee).</p> <p><u>Recipient</u> may pay the same to local partner, but will not pay international ATM withdrawal fees.</p> <p>Funds <u>transfer</u> through ACH, so would be</p>

	the card, which are competitive with existing remittance fees.		fairly low fee to the sender.
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In general, it seems that the funds transfer fee within a prepaid card package are slightly lower than the remittance charges that are prevalent in today's marketplace. Moreover, the total cost to transfer funds may still not be lower if the recipient needs to pay an international ATM fee to withdraw the funds in addition to a transfer fee, or if the recipient pays a full set of fees for a separate card or account.¹⁰ A key problem is that it is difficult to know if the consumer's total expenditure for financial services will decline using prepaid card remittance services since that will depend on how he or she uses and pays for the full services of the prepaid debit card.¹¹

Table 6b: Cost comparison for remittance transfers

	2005		2006	
	Prepaid Cards	Wire Transfers	Prepaid Cards	Wire Transfers
Average cost to send \$300				
Advertised cost per transfer	\$7.95	\$11.27	\$8.30	\$11.41
Actual cost of first transfer	\$21.35	\$14.85	\$19.02	\$14.05
Actual cost of subsequent transfers	\$9.39	\$14.85	\$9.30	\$14.05

Source: data compiled by the authors

c. Competition

Companies introducing remittance products through prepaid cards recognize that their main competition is the typical MTO. These companies stress that those businesses with the largest brands in the remittance market, possessing brand recognition and credibility with consumers, well-developed distribution systems and established operations, represent their main concern. However, they also suggested that there is room for new players, especially in niche markets or for companies serving specific geographic regions.

Moreover, companies whose primary product is a prepaid debit card or payroll card do not consider MTOs as their primary competitors. This is because they do not perceive themselves as entering the remittance business as their principal strategic goal. The remittance service is instead viewed as a new feature or product enhancement designed to drive more users to their primary product – payroll, bill payment or general spend cards.

¹⁰ The foreign exchange rate offered is also likely to vary according to the method of transferring funds, which will impact the total financial benefit or loss to the consumer of using a particular prepaid card or remittance product.

¹¹ For a discussion of the relative costs of using prepaid cards versus other financial services, see Jacob, Su, Rhine & Tescher 2005.

d. Marketing and customer relationship

Card-based remittance products are still very early in their development. There are no publicly available reports of the total number of customers using this method of sending funds abroad. However, it seems likely that the volume in transfers still number in the thousands probably to less than 2% of the total U.S. outbound international funds transfer market. Take up rates for the product have been lower than hoped for at several of the companies interviewed. However, several companies reported that repeat usage by existing customers is high, with customers tending to be fairly loyal and establishing long-term relationships with service providers. Customers are sending amounts that are consistent with other forms of remittance, often \$200-400/month. The primary challenge is in acquiring customers.

To some extent at least, the low take-up rates are probably due to the fact that no large-scale marketing of prepaid card-based remittance has been done to date. The companies offering these products are new and generally small. Several interviewees referenced the lack of financial resources to devote to marketing and the competing internal demands of pursuing multiple new product ideas simultaneously. Given these constraints, these companies have often needed to be quite creative in how they market their products. Many have relied on a combination of word of mouth, flyers at musical/cultural events and marketing at local schools or church groups.

An important feature of many providers' marketing efforts is focusing on a specific region, or tailoring a range of remittance products for different segments of the customer base. Regional specialization allows the provider to choose the business model most likely to be successful, whether that means developing a card-to-cash disbursement network or partnering with the right local bank. It also allows for more targeted marketing to specific regions or ethnic groups within the U.S.

To date, marketing for the prepaid card-based remittance products has been directed at the U.S.-based sender. He or she is viewed as the decision-maker in choosing how funds will be sent. It is often then viewed as his or her responsibility to educate the recipient on how to use the prepaid card and why it is a good option. It seems likely that those entities that pursue a local partner strategy of offering prepaid card-based remittance will have an easier time marketing at the recipient end of the transaction as well.

e. Challenges and opportunities

Overall, the interviews conducted indicate promise in offering card-based remittances as well as meaningful operational challenges that need to be overcome in order to capitalize on that promise. The most-often cited challenge was the need to create stronger consumer acceptance of card-based transactions in the receiving countries. Operational challenges such as creating reloading and distribution networks and building the appropriate technology backbone require significant management sophistication and investment. And, regulatory concerns need to be resolved in order to create a stable environment for innovation.

All of these challenges are exacerbated for smaller companies that lack scale or resources. However, the companies interviewed generally perceived these challenges as surmountable and worth the investment. Companies tended to see the card-based remittance feature as a way to leverage their existing customer base into longer term, more profitable relationships or to generate new customers who would be drawn in by this particular feature. Most importantly, the potential market for either prepaid cards or for remittance products individually is perceived to be so large that learning how to provide services effectively seemed to be viewed as a nut worth cracking – even if it is challenging operationally.

Challenges

The primary challenges and barriers facing the providers of prepaid card-based international remittance include the following:

Expectations, Distribution, Regulations, Scale

The operational and marketing challenges inherent in converting recipients of transferred funds to the use of cards were the most-often cited barriers to the growth of this product. In some regions, receiving cash is simply more practical than using a card, as ATMs or POS terminals are not ubiquitous or are expensive to use. In other regions, cultural norms lead to high percentages of unbanked consumers who need to be marketed to about the uses and advantages of cards if the cards are to be attractive. Accessing the market for card-based remittances successfully therefore seems to require sophistication about financial behavior and attitudes in the receiving country as well as effective marketing to U.S. consumers. Regional specialization is one strategy that some of the prepaid card-based remittance providers are pursuing to address this challenge.

Distribution:

Most of the companies interviewed also referenced the difficulty of establishing an appropriate disbursement network. This issue is strongly related to the need to be responsive to consumer expectations, as well as being a critical cost structure and regulatory issues. Vertical integration in the prepaid card remittance market is difficult to achieve, and as a result, a significant competitive requirement for prepaid card-based remittance companies may be the development of appropriate and committed partners – regardless of whether the company seeks to develop cash or card-based distribution capabilities.

Regulation:

Many respondents cited the time and resources devoted to regulatory issues as a barrier to growth, as they need to comply with an array of federal and state rules. This is true for remittance companies and for prepaid card companies already, and hence, adding the component that they do not currently offer does seem to add to the regulatory burden. In particular, requirements for more stringent identification procedures under the USA PATRIOT Act complicate the provision of cards to non-U.S. based individuals. In addition, because the prepaid card industry is in its infancy, it is unclear how a wide range of rules will ultimately be applied to prepaid cards. This includes rules regarding FDIC insurance, consumer disclosures, anti-money laundering and anti-fraud controls under the Bank Secrecy Act and various requirements under state Money Services Business (MSB) laws. This uncertainty makes it more challenging for providers to weigh compliance costs versus regulatory risk, though, for the moment, it is probably appropriate given the early stage of these companies and the ongoing development of their products and services.¹²

Scale:

Connected to all of the above challenges and barriers is the need to develop sufficient scale in this marketplace. Consumers have high expectations with respect to how the service of transferring money abroad is performed. The money needs to be available nearly immediately and there is almost no tolerance for errors. As a result, larger companies with established operating histories and brand recognition have some advantages. In addition, investments in distribution, technology and regulatory expertise are primarily fixed costs that demand leverage across a wider customer base – at least within the context of serving particular regions.

Opportunities

While these challenges are certainly substantial, our interviews also surfaced a general sense of optimism and an expectation of opportunity for those companies and products that can meet the

¹² For a more detailed explanation of the regulatory issues surrounding prepaid cards, see Jacob, Su, Rhine & Tescher 2005.

challenges mentioned. In several cases, areas that were viewed as barriers by one company were viewed as opportunities by others. For example, those companies that were confident that they had positioned themselves effectively with respect to regulatory requirements were optimistic that this would be a competitive strength that would facilitate their continued success. The perception seemed to be that for those companies that figure out how to provide this service well, there will be an ability to not only create but also maintain market position.

Market size and cross-selling:

The fundamental opportunities identified were the overall market size and ability to cross-sell additional products to the underbanked population. Serving the underbanked – whether with prepaid card services or remittance services – was generally viewed by the interviewees to represent a huge market with unmet demand and the potential for many players to be successful. Card providers perceive that underbanked remitters are willing and able to use technology to conduct a variety of financial transactions. The pure, card-based remittance market did not seem to itself be the draw (at least for now), and it remains to be seen if the monoline companies will emerge as significant players in this space. However, adding a remittance feature to prepaid card offerings or vice versa seemed to be viewed as a capability worth developing in serving whichever market the interviewee viewed as the primary strategic target.

Many of the respondents view card-based remittance as a “gateway product” offering the opportunity to cross-sell a range of services. At this point, the card-based remittance product is often a cross-sell itself, from either remittance companies expanding into cards or card-based companies adding remittance services. Given the operational challenges they are currently working through, few providers are actively cross-selling other products or services. However, prepaid card-based remittances seem to offer the opportunity to move consumers further into mainstream financial services. Additional services that were suggested as future possibilities included:

- Bill payment
- Overdraft protection
- Savings
- Credit services
- Loyalty/reward programs
- Non-financial services, including travel services, telecommunications, shipping and catalog sales

3. Money remitters and the demand for card based transfers

In addition to the reality of prepaid cards entering remittances, it is important to understand the demand side of the equation. An analysis of the potential of prepaid cards from the supply side shows that one opportunity, which also has been identified by money transfer operators, is the use of cards for the transfer of remittances. There is an assumption that the Latino and immigrant market is significantly large and that, since this market is largely unbanked, they will be strong candidates for the use of stored value products. Unfortunately, there is little understanding among the supply side as to the size and position of this population. In this section we analyze this cohort as well its remittance transfer patterns vis a vis the remittance intermediation industry. We also analyze the extent to which this group uses prepaid cards as payment tools in addition to concretely looking into the determining factors that inform a remittance sender to use card based transfer mechanisms instead of typical electronic wire money transfers.

b. Remitters, financial services and prepaid cards

As mentioned in the introduction and the first part of this report, nearly half of migrants lack effective access to financial institutions, meaning that they don't have bank accounts or secure access to credit. Although providing banking financial access to immigrants is a critical task, some institutions have argued that instead of offering traditional banking services, alternative products may be more suitable. For example, many companies in the prepaid card business have sought to offer remittance transfers to immigrants as part of their bundle of products. These companies argue that prepaid cards are a solution for those without bank accounts. Others have argued that offering Internet payment services can make transfers more efficient.

The assumption emerging from this argument is that access to bank accounts is perhaps more difficult than access to a prepaid card (Jacob 2004 and Jacob et al 2005). After all, many migrants find it much easier to manipulate value on a phone card than to use an ATM, and they also find it more convenient to buy a phone card than to request bank services at a financial institution. Research has shown that half of those Latinos who send remittances, particularly Mexicans, do not have bank accounts (Orozco 2005).

In surveying remitters for this paper, we find that the factors associated with financial access are related to both endogenous and exogenous causes, some of which dealing with the banking industry, and others specifically relating to the social conditions of Latinos. Income, age, education, and

citizenship, however, are often typical features explaining this lack of financial access. This is even more pronounced among Mexican immigrants, two thirds of whom do not have accounts, and nearly a third of whom say is because of their legal status.

Table 7: Descriptive statistics among remittance senders who have bank accounts

	Mexico	DR	Jamaica	El Sal	Guat	Bolivia	Nica
High school education or more	79	95	99	69	75	93	91
Woman	45	82	79	57	27	77	46.3
Man	36	67	88	60	36	74	57.6
Income over 30,000	14.5	6.5	7.8	11.7	17.2	33.6	23.1
Older than 35	41	40	41	34	66	47	81
Sends above average	36	8	2	32	31	17	13
Has US citizenship	31.2	54.2	66.3	29.2	36.4	20.5	24.5

Source: survey of migrant remitters, February-April 2006.

Table 8: People who say don't have bank accounts because of legal status

Mexico	Dominican Republic	Jamaica	El Salvador	Guatemala	Bolivia	Nicaragua
57.0	16.0	12.9	73.7	61.2	79.6	51.1

Source: survey of migrant remitters, February-July 2006.

From a statistical standpoint, we find that some determinants of owning a bank account are those reflecting socioeconomic status and inclusion in the United States, and that the extent of one's commitment back home does not have a statistical relationship. Education is the only variable that is not statistically significant, which may be because most people have relatively limited educational status. We also find that women are more likely to own a bank account than men.

Table 9: Logistic regression results on having a bank account

	B	S.E.	Wald	df	Sig.	Exp(B)
Age	.132	.047	7.997	1	.005	1.141
Education	-.946	.423	5.004	1	.025	.388
Income	.000	.000	5.179	1	.023	1.000
Citizenship	2.847	.976	8.514	1	.004	17.233
Annual amount remitted	.000	.000	.057	1	.812	1.000
U.S. citizenship	1.539	.672	5.242	1	.022	4.658
Constant	-6.792	2.603	6.806	1	.009	.001

Dependent variable: having a bank account

These determinants support the importance of endogenous factors, such as income and age, but also the extent to which citizenship matters. Other studies have also shown that language matters, and as

a result we see that social inclusion plays a key role in ensuring economic citizenship. However, many issues that can influence the transformation into financial access outside of income, language or citizenship have to do with factors that can accelerate the process and that are more associated with specific supply driven initiatives from banks, grassroots organizations or government institutions.

Would inverse factors apply to users of prepaid cards? In other words, would lower income, no citizenship status, age, or lesser amounts remitted, for example, be determinants for card use? Or are there other factors to take into consideration? Before answering these questions we inquire into the extent of use of cards as payment instruments, and then explore their relationship to other variables. To that end we have conducted a survey of migrant remittance senders to learn about any type of card usage, including debit, stored value, prepaid, affinity and loyalty cards.¹³ The survey shows important results that offer clues about how these products fit with remitters' daily financial services needs.

As we have seen in the previous section, the sale of prepaid cards in the United States has experienced substantive growth in the past five years. This is, however, a new and incipient industry. The current business landscape has identified foreign born Latinos in the United States as an important market and revenue source for this economy. Although the incomes of Latino migrants have grown considerably in the past fifteen years to over 50% more of what was recorded in 1990, Latino income is still below the national U.S. average, particularly when compared to other foreign born groups. In terms of purchasing power, this population of an estimated 20 million people represents US\$300 billion, and financial services companies see stored value cards as a way to provide access to Latinos. While Latinos are a major target, it is important to note that some companies interviewed see the Latino market space as too competitive and have chosen to focus on other cultural groups, such as Asians or Caribbeans.

The survey among seven main foreign born Latino groups in the U.S. asked questions about the use of fifteen different types of stored value products or prepaid cards. The analysis below shows two main results identified from the survey. First, Central Americans and Mexicans are distinct consumer groups from Caribbean migrants, whether they be Jamaicans or Dominicans. Their differences are found in their demographics but also in that they are more likely to use prepaid or stored value

¹³ In this paper, prepaid cards refer to reloadable cards that can be used for a variety of purposes in a number of locations. Stored value cards refer to closed-loop products, such as gift cards, Laundromat cards, etc., that cannot be used for a variety of purposes such as for remitting money.

products. Second, there is low product usage among Latinos, with discount and prepaid phone cards being the most widely used instruments. Except for those cards, usage is relatively low. Moreover, money transfers through cards are the least used card instruments by migrants.

Table 10: Type of card used by migrants (%)

Type of card	Mexico	Dominican Republic	Jamaica	El Salvador	Guatemala	Bolivia	Nicaragua	Total
Discount	46.5	67	70	60.8	50.0	74.5	59.0	59.0
Phone card	78.0	85.3	79.0	82.8	74.0	96.5	92.0	82.7
Credit and Debit	36.6	56.5	69.1	40.3	39.4	57.1	29.6	49.1
Public transit	33.3	65.0	79.5	25.8	24.0	8.5	97.0	63.1
ID	42.3	68.7	76.0	45.0	22.0	59.0	86.0	53.6
Debit	49.6	25.1	17.3	53.7	54.6	29.3	57.4	38.2
Gift	13.3	26.7	28.0	11.3	16.0	7.00	5.0	15.6
Credit	13.8	18.4	13.7	6.1	6.1	13.6	13.0	12.8
Benefits	2.5	17.0	30.5	8.3	4.0	0.0	1.0	8.7
Payroll	0.3	17.3	39.0	6.8	0.0	1.0	0.0	8.5
Laundry	6.5	6.7	24.0	9.0	12.0	4.0	5.0	8.8
Reloadable	1.5	11.3	15.5	5.3	4.0	14.5	6.0	7.1
Prepaid debit	2.7	7.7	19.5	5.5	1.0	0.5	1.0	5.4
Affinity	0.0	5.7	9.5	4.3	0.0	0.0	0.0	2.8
Remittance	1.8	5.0	6.5	12.8	1.0	8.0	13.0	6.3

Immigrants still prefer to use traditional cash to cash remittance transactions and, to some extent, cash to account transfers—an important finding considering the different business models outlined earlier in this paper. Some banks in Latin America report that an increasing number of transfers into their institutions are being transferred into accounts. BBVA/Bancomer in Mexico, for example, says that 12% of its clients receive their money into an account. Banco Salvadoreño in El Salvador stresses that nearly half of transfers from its U.S. branches go into the clients' accounts. Banco Cuscatlán, also in El Salvador, reports that 15% of its remittance transactions are done through cards. The survey results show that those companies used for card transfers are companies that have important market share participation and enjoy the trust of consumers. This is particularly true in El Salvador and the Dominican Republic.

Table 11: Company that issued remittance transfer card

	Mexico	DR	Jamaica	El Salvador	Bolivia	Nicaragua
Banco Agricola				76.5%		
Bancomercio				19.6%		
Bolivar Express					6.7%	

Cash Zone			7.7%			
Cashpin	10.0%	80.0%				
Credit union					6.7%	
Dolex	70.0%					61.5%
Fin Center					6.7%	
MoneyGram		6.7%				15.4%
Telegiros Virginia					80.0%	
Western Union	20.0%	13.3%	92.3%	3.9%		23.1%

There are also differences in card use across cities. People in the New York-New Jersey area are more likely to use different types of payment instruments than in other cities, followed by Miami, with Los Angeles and Chicago having the lowest number of users. Note however that Washington DC displays the largest number of people using card based transfers. This is particularly related to the use of cards by Salvadorans and Bolivians to send money to their families.

Table 12: Cardbased products by metropolitan area

	NY-NJ	Los Angeles	Chicago	DC	Miami
Transit	75	20	28	5	3
ID	69	27	55	51	86
Loyalty	66	54	33	66	59
Credit and Debit	61	32	48	43	30
Gift	25	17	7	5	5
Debit	23	59	38	48	57
Payroll	22		1	1	
Benefits	21	3	1		1
Credit	16	9	14	9	13
Laundry machina	13	12	3	3	5
Pre-paid debit	12	2	6	0	1
Reloadable	12	3	2	7	6
Affinity	8				
Remittance transfer	4	1	4	16	13

Cards and banking

Another important finding from this survey is that the low usage of cards is associated with banking access. Unfortunately, no national data exist on prepaid card users by banked status. Understanding this connection could help place the findings among remitters surveyed here into a broader context. What we have found is that more than income or education, having access to a bank account ensures the use of any type of card. More importantly is the fact that even those instruments that are more likely to hold a higher financial capacity, such as a prepaid card, a payroll card, or even a remittance transfer card, are products owned by people only with a bank account. This could be based on the

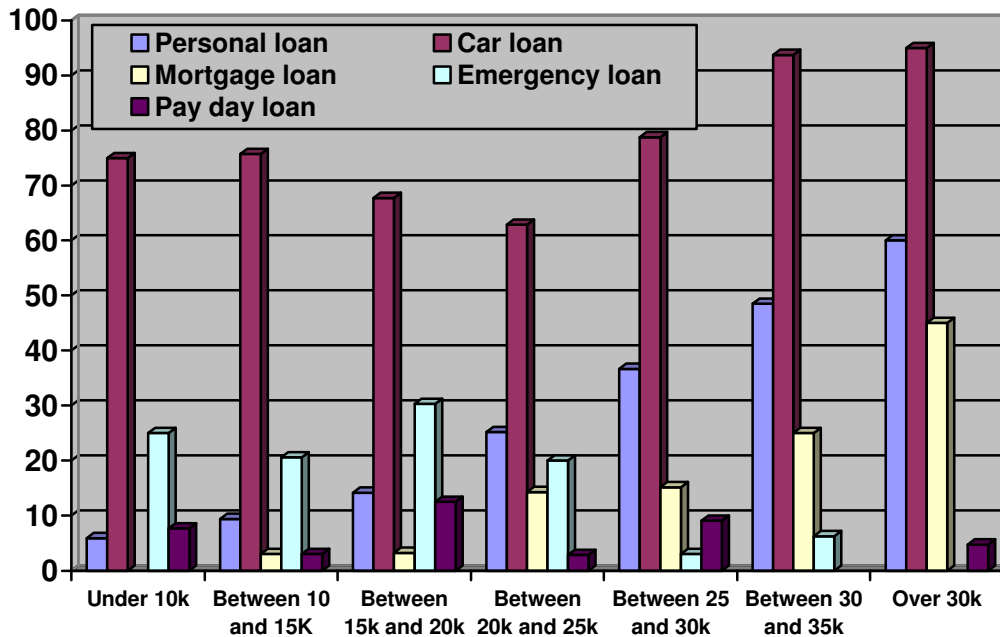
fact that the prepaid card industry is nascent in this country, leading to the fact that financially aware consumers are more informed about their existence and usage options.

Table 13: Type of card owned and having a bank account

Type of card	Bank Account	No Bank Account
Rewards/Loyalty/Discount Cards	75.1	36.8
ID Card	71.4	29.0
Transit System Card	39.1	33.9
<i>Credit and Debit card</i>	<i>49.5</i>	
Debit	38.1	44.0
Gift Card	21.9	6.9
<i>Payroll Card</i>	<i>14.6</i>	
Electronic Benefit Card	12.7	3.1
Reloadable Card	12.0	0.3
<i>Prepaid Debit Card</i>	<i>8.6</i>	<i>1.0</i>
Washing Machine Card	8.8	8.9
Affinity Card	4.7	0.1
<i>Remittance/Money Transfer Card</i>	<i>7.9</i>	<i>4.1</i>

Moreover, those who send remittances and have bank accounts have a relatively low demand for financial services, which reflects their material needs and conditions. Three important aspects found among people with bank accounts are that their incomes define their borrowing needs. First, most people borrow to buy a car, but that percentage increases with income. Second, people with higher incomes are predominantly those who will borrow to buy a house. Third, migrants do not use banks for payday or emergency loans and are more likely to pay higher costs at alternative providers.

Figure 2: Loans borrowed by migrants at banks



c. Determinants: prepaid cards and card based remittance transfers

Some of the relevant findings on prepaid and stored value cards suggest that usage is practiced mostly at less financially oriented payment mechanisms, such as public transportation, phone cards, or IDs. We also find differences in use by nationality and city, but discover that owning a bank account may provide greater chances for use. Are the determinants of owning a bank account found above similar to those of owning some kind of prepaid card among migrants?

Here we look at some statistical determinants for prepaid and card based transfers to identify the more salient factors influencing the use of these instruments. This data will shed light for businesses on ways to improve their position related to market penetration. We hypothesize that lower income people are more likely to take advantage of cards, yet leave open other variables for interpretation.

The table below shows an OLS regression model using an aggregate ordinal value for use of any prepaid card among those listed in the survey. The independent variables deal with income, citizenship, ownership of a bank account, undocumented legal status, age, education, and amount remitted. The results show that except for gender and the average amount remitted, all other variables are statistically significant. What we can infer from this data is that older, less educated, naturalized but lower income individuals are more likely to take advantage of these products: that is, working class immigrants. This result opens the question about younger cohorts and the opportunity and possibilities to bring them into the financial system, either through banking or prepaid card

products.

Table 14: Prepaid card statistical determinants

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
(Constant)	1.807	.288		6.272	.000
Age	1.327E-02	.004	.115	3.029	.003
Gender	7.955E-02	.082	.037	.971	.332
Education	-.251	.048	-.205	-5.203	.000
US Citizenship	.779	.334	.089	2.329	.020
Average remittance	3.469E-05	.000	.006	.162	.872
Income	-4.849E-02	.033	-.057	-1.482	.1
Legal status	-.233	.086	-.107	-2.723	.007

a Dependent Variable: CARD

When looking at card based remittance transfers we find relatively different results. Except for age, all other variables are statistically significant. This means that those choosing card based transfers are males with good levels of income who send more money and tend to do so more frequently, who are citizens, and who have bank accounts and relatively higher levels of educational attainment. The results highlight the important issue that card based transfers are more likely to be used by those who are better established and better off than the unbanked. We cannot tell from this survey if this is due to the general lack of understanding of card usage in this area or other factors. Again, the policy and business challenge is to identify mechanisms that will provide opportunities to take advantage of the benefits that prepaid cards can offer to underbanked consumers.

Table 15: Card based remittance transfers and its determinants

	B	S.E.	Wald	df	Sig.	Exp(B)
Income	.201	.068	8.849	1	.003	1.223
Citizenship	-1.310	.329	15.891	1	.000	.270
Age	-.010	.013	.563	1	.453	.990
Gender	.460	.223	4.253	1	.039	1.584
Education	-.187	.130	2.084	1	.1	.829
Amount remitted	.001	.000	9.238	1	.002	1.001
Frequency sending	.032	.010	10.734	1	.001	1.033
Bank account	.673	.257	6.857	1	.009	1.960
Constant	-4.292	.825	27.066	1	.000	.014

a Variable(s) entered on step 1: Q21, Q23, Q16, Q17, Q18, Q3, Q4, Q7.

4. Lessons and policy opportunities

Our demand-side research shows that migrants are living in a vulnerable financial condition, partly informed by their low access to banking, low incomes, education, and legal status. These factors might be part of the reason why there is relatively low participation and success of prepaid card companies in providing remittance transfers to this population. Moreover, we have found that to some extent people are more likely to use card-based products when they already have financial access through banks. Successfully offering remittance transfer cards, payroll cards or prepaid money cards is thus more likely to exist when customer has a bank account. Thus it seems that the need to implement more aggressive financial access tools is more urgent than thought, and depends on creative approaches that should include greater risk propensity among financial institutions to reach out to migrants.

Table 16: Transnational Financial Users

	Cash to cash	Cash to account	Account to cash	Account to account
Not so acculturated	More likely to be undocumented	Someone with a savings account in home country	An individual with unbanked relatives	Someone who has been more than ten years
Acculturating	A person accustomed to using cash to cash			
Fully acculturated				

As prepaid card companies and remittance companies begin to converge to offer card-based remittance products, there are important business lessons to be learned from the gap that is shown between the demand and supply-side research shown here. We conclude that companies should reflect on the following when structuring their card-based remittance programs:

- Financial education: In order to help consumers understand prepaid cards and use them successfully, companies might develop joint partnerships with grassroots organizations and government institutions to provide financial education. Grassroots groups have the network access, while banks and government institutions have the training skills to educate groups, and money transfer operators are in a condition to use their venue for practical on-the-spot outreach.
- Market segmentation: Segmenting the market is critically important in order to identify areas of action and the varying methodologies for outreach. From a business planning perspective,

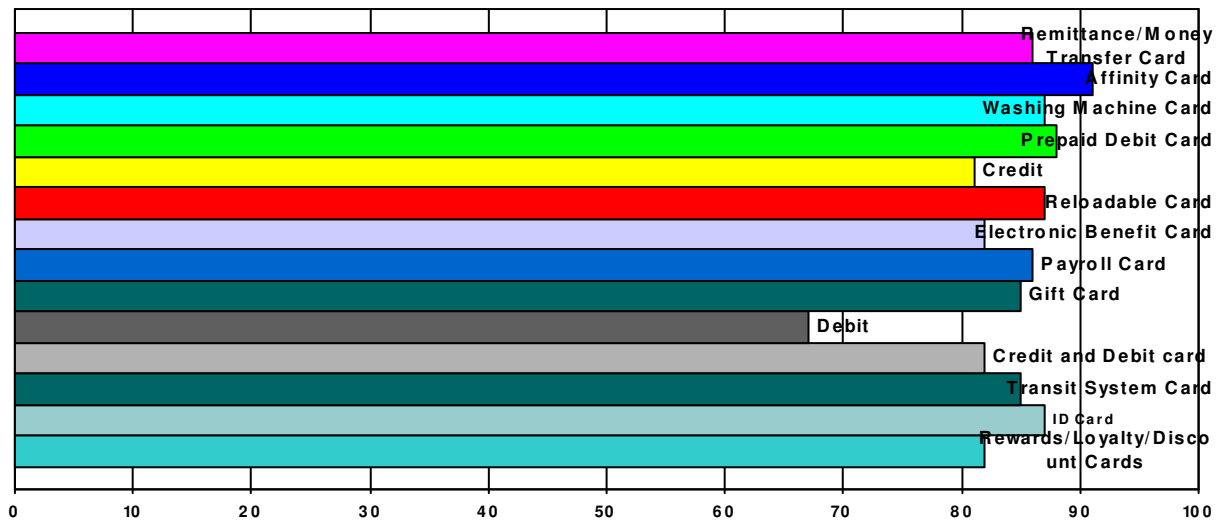
market segmentation will provide the necessary cues to establish realistic revenue projections from this market. Segmenting the market will help determine the appropriate financial products in terms broader than those who have and do not have bank accounts.

- **Pricing:** The costs involved in conducting business transactions with cards are not as simple as paying one fee and an exchange rate commission. Instead, there is a roster of costs that include fees per withdrawal, monthly fees, the cost to issue cards or additional cards, and exchange rates, among others. The complexity of fee structures makes customers uneasy, particularly if they consider using the card for several activities. Businesses need to be sensitive to these factors.
- **Distribution channels and business models:** Considering the significance of banked status on card usage, companies need to take into consideration how distribution channels are set up here and abroad, and how card-dependent solutions fit into those channels. For remitters who are more likely to be unbanked—or for receivers who are unbanked—cash to card or card to cash options might fit better than pure card-based models. It is evident that dual-card programs might have the biggest challenge in this area, implying that in the future, card products that incorporate cash on one side will grow at a faster pace. However, all models are in need of effective distribution networks on both sides of the border.
- **Scale:** As company interviews show, scale is necessary to make card-based remittance programs successful, and yet most companies offering these services are relatively small, especially in comparison to the dominant MTOs. In order to capitalize on scale, companies should leverage partnership models and opportunities. Those with the most effective marketing, distribution and customer partnerships are most likely to be able to build sufficient scale.
- **Targeted marketing:** As our survey research shows, remitters are a diverse market, and non-Latino markets might be particularly well-suited for card-based solutions. Yet card companies often attempt to capitalize on the growing Latino market when putting card-based remittance products in the marketplace. Companies that effectively segment the market can develop a more expansive potential customer base and begin targeting within those segments.

Moreover, it is important to remember that prepaid cards are not the only new option in the remittance market. One creative consideration to alternative banking is mobile commerce. More than eighty percent of remittance senders who use any type of stored value card also use prepaid

phone cards which are loaded into cell phones. Cellular telephony should be a critical instrument to promote financial intermediation by loading money into cell phones. Experiences in Asia and Africa suggest that mobile banking is an effective choice for low income groups. Given the increasing penetration of alternative financial payment mechanisms that include stored value cards or online transfers, introducing mobile banking would be an effective tool to reach people at the “bottom of the pyramid”.

Figure 3: Percent of remitters who have calling cards and use any of these other cards



In conclusion, though significant gaps exist between the demand side and supply side of card-based remittance solutions, there is potential to capitalize on a product set that offers value for underbanked remitters given the right product design. Rather than simply putting card products to market, companies that carefully consider the entire financial picture of remittance senders can begin to develop the marketing, distribution, consumer education and pricing models needed to allow card-based transfers to compete with traditional MTOs and other options, such as mobile and Internet remittances. As the prepaid card industry matures alongside the remittance industry, we find important synergies and areas of convergence in spite of operational challenges.

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