Evaluating the Remittance Market: Understanding Demand Side Constraints from the Perspective of Richmond Latino Immigrants

Olivia Rappe

Introduction

Remittances are a big deal.

Five hundred and fifty billion USD will cross international borders in the form of these small-scale, family-centric transfers according to the most recent World Bank Data; by 2016, that projection increases to $700 billion.¹

Remittances are organic in nature, going straight into the hands of the neediest families. Seventy-five percent of the world’s remitting population hail from “developing” countries, and the money they send back is spent overwhelmingly on basic medical and living expenses.²,³ Due to these characteristics, remittances have an enormous potential to reduce familial and community poverty in recipient nations.⁴

Moreover, remittances are relatively stable, generally withstanding the economic fluctuations that so often hamper foreign direct investment and official aid.⁵ For recipient nations, they are also quickly catching up to or surpassing the total income from other forms of external finance, sometimes representing as much as a third of the nation’s GDP.⁶ In other cases, remittances singlehandedly support balance of payment deficits in developing nations. In an extreme example, income in the form of remittances surpasses income from national IT exports in India.⁷

Despite their economic and developmental importance, the market for remittance services remains dominated by a few key players, keeping prices prohibitively high. These high prices are particularly consequential given the fairly inelastic demand for remittance transfer services,

⁶ Ibid.
⁷ “Migrants from Developing Countries to Send Home $414 Billion in Earnings in 2013.”
coupled with the small size and frequency of each transfer.⁸ The World Bank estimates that a five percent decrease in price could save senders a total of $16 billion each year.⁹

There are, of course, supply-side barriers that contribute to the under-developed market. The market for banks and money transfer operators (MTO’s) is heavily regulated by both recipient and host governments, not to mention international law.¹⁰ There are also more immediate entry barriers, since firms generally need to build physical plants in all of the countries in which they operate while mitigating the subsequent cultural and language barriers.¹¹ That said, these barriers have not stopped entrepreneurial activity in the market. Banks, credit unions, non-bank transfer institutions—even cell phone companies—have begun strategic initiatives to tap into this profitable industry.¹²

Supply-side barriers are not the only constraints in the market, yet there is a palpable lack of scholarly research on demand-side constraints. In the United States, Latino immigrants comprise 53 percent of the total immigrant population and send an estimated $45 billion dollars back to their home countries each year.¹³,¹⁴ However, very few notable organizations currently survey Latino immigrants on their remitting behavior. The Mexican Migration Project (MMP) at Princeton and the “Encuesta Sobre Migración en la Frontera Norte de México” (EMIF), conducted by the Mexico-based Colegio de la Frontera Norte regularly survey migrants on their remittance behavior. Both organizations, however, survey only Mexican immigrants in selective populations that fail to capture the complexity of the broader immigrant population.¹⁵ In contrast,

---

⁹ Ibid.
the IMF and World Bank typically survey firms to understand the market, and while there is a
host of survey data on Latino immigrant demographics, only a few studies have sought to link
them with remittance behavior.\textsuperscript{16, 17} No studies have yet undertaken to explain remitting behavior
as a function of the remittance service provider (RSP) market; how do migrants make decisions
amongst various service providers? How does this differ within demographic subgroups? Why is
it that, despite growth in the number and type of firms operating in this sector, Western Union
and MoneyGram continue to maintain the largest market share year after year?\textsuperscript{18}

In order to help fill this scholarly void, I endeavored in the summer of 2013 to interview a small
sample of Latino immigrants in the city of Richmond, Virginia and Washington D.C. I did not
limit my analysis to immigrants of Mexican origin. However, I did limit the sample to immigrants
from Latino nations, as they alone represent half of the nation’s immigrant population. The goal
of this research was to determine which services are being used, why, and how the services could
be improved from the perspective of its consumers. I further analyzed the data to see if there were
statistically significant differences between demographic sub-groups, such as between men and
women or between different age cohorts. Again, the overall intention was to get a “thick
description” of how remitting migrants interact within the RSP market: how do they make
choices regarding providers and what factors impact their decisions.\textsuperscript{19} The research was funded
by a research grant from the Harrison Institute at the University of Virginia in the spring of that
year. The results of the project are summarized below.

**Methodology and Data**

I collected the data exclusively through 32 one-on-one interviews with Latino Immigrants in
Richmond, Virginia and Washington D.C. Originally, the intent was to limit the scope of the
study to Richmond. There were several good reasons to do so:

- Personal contacts in Richmond facilitated comprehensive sampling; a longtime
  Richmond resident myself, I was able to connect to the Virginia Coalition of Latino
  Organizations and several other local Latino community organizations.
- Richmond, as a new destination for Latino immigrants, is representative of a broader
  migration trend. Migrants are now moving out of traditional enclaves and into areas with
  previously small immigrant populations.\textsuperscript{20} Because of this relatively new immigrant
  presence, it is interesting to note the rising and diversifying market for RSP’s in this area.

\textsuperscript{16} International Monetary Fund (IMF), *Balance of Payments Statistics Yearbook, 2002: Part 2 -- World and
Regional Tables; Part 3 -- Methodologies, Compilation Practices, and Data Sources* (International
Monetary Fund, 1981).

\textsuperscript{17} Amuedo-Dorantes, Bansak, and Pozo, *On the Remitting Patterns of Immigrants: Evidence from Mexican
Survey Data*; Fernando Lozano-Ascencio, “Remittance Behaviour among Latin American Immigrants in
the United States,” vol. 95 (presented at the XXV Internation Union for the Scientific Study of Population

\textsuperscript{18} Andreassen, *Remittance Service Providers in the United States: How Remittance Firms Operate and
How They Perceive Their Business Environment*.

\textsuperscript{19} Herbert J. Rubin, *Qualitative Interviewing: The Art of Hearing Data*, Third Edition edition (Thousand

\textsuperscript{20} Debra J. Schleef, *Latinos in Dixie: Class and Assimilation in Richmond, Virginia* (Albany: State
University of New York Press, 2010); Victor Zuniga and Ruben Hernandez-Leon, *New Destinations:
Mexican Immigration in the United States* (Russell Sage Foundation, 2006); Douglas S. Massey, Jacob S.
• The Richmond Latino population is “small, but relatively diverse in terms of country of origin, economic opportunity, and other variables.”

Two of the participants were Washington, D.C. residents. I decided to include both participants’ responses, since they did not represent outlier values in terms of amount sent, frequency, or reason for transfers. Their preferences were, however, unique, which contributed valuable information for the study. Still, due to a small sample size, we must consider the results with a certain degree of caution.

I designed the interviews to last approximately thirty minutes, containing 25 to 30 questions. The questions were varied to collect both quantitative and qualitative data; the mix provided a holistic understanding of the ways the Richmond Latino population interacted within the RSP market.

I took notes during every interview. When permitted, I supplemented my notes with voice-recordings. After each interview, notes and recordings when available were transcribed and archived. All participants were informed of the voluntary nature of the study; if they did not want to answer a question they could skip it without consequence.

The goal of the interview setting was to facilitate open and honest communication. I correctly suspected that potential participants would be wary in speaking with an “outsider” about something as personal as financial habits. To mitigate this distrust, I sought to work through community leaders with longstanding relationships with potential participants. My hope was to build relationships with the participants in order to demonstrate the integrity and veracity of my intentions. However, some participants were still wary of my presence, and I only interacted with participants for the duration of the interview.

My first and primary contact in Richmond was the Virginia Coalition of Latino Organizations (VACALAO), an umbrella organization for Latino community groups. VACALAO referred me to a number of smaller organizations that directly connected me to participants. There were two primary programs from which I derived most of my initial interviews: a small, daily lunch program for women in a primarily Latino neighborhood, and a local Latino Farmers’ Market.

Additionally, through VACALAO and the Farmers’ Market, I learned of a large event held at the end of July attracting large numbers of Latino Immigrants each year. The “Feria de Oportunidad” joined together consulates and other organizations to provide services and information for Richmond’s Latino population. The fair drew Latino immigrants of many different national, economic, and social backgrounds for a variety of different reasons. “La Feria” accordingly represented an enormous resource for my study. I acquired approximately half of my interviews from the event. I found that such Latino attendees were generally very willing to share their stories with me in the safety of this setting; many did not find the questions or topic out of place given the kinds of services provided in the fair.


21 Schleef, *Latinos in Dixie*.

22 Rubin, *Qualitative Interviewing*.
The remaining interviews came from personal contacts and relationships. Two of the interview participants came from the D.C. area. Many of their responses corroborated the responses of Richmond Latinos. However, the two participants varied significantly from other participants in that both were very well assimilated into American culture and were part of a high socio-economic bracket. They were included in the sample not only despite these characteristics but because of these characteristics; the Latino Immigrant population is far from homogeneous. Including them in the analysis helped to diversify the study and provide interesting, if anecdotal, comparisons to bulk of the remaining data. Moreover, six participants had previously received at least one remittance payment before migrating to the United States and were able to tell me about their experiences on the other end of the remittance equation.

The demographic makeup of the sample was important to my analysis. Few other studies and surveys have collected demographic data on the Latino population of Virginia. Cavalcanti and Schleef specifically studied the Latino population and demographic dynamics in Richmond; their work “Latinos and Dixie” provides invaluable comparative data on the Latino demographic composition in Richmond. The Weldon Cooper Center at the University of Virginia also tallies and organizes census data on Latino immigrants, but their descriptions are general to Virginia as a whole. Both Cavalcanti & Schleef and the Cooper Center draw on 2000 and 2010 census data. I use their compilations to determine the degree to which my sample differs or mimics their population profiles; how representative is my sample, as illustrated in Figure 2, of the Virginia—let alone Richmond—Latino population? Can my results be extended to the larger metropolitan or state level?

Despite the lack of diversity in interview location, participants were very diverse in their age, gender and background. As the following figure demonstrates, the age range for the sample spanned from 19 to 59 years of age. The interviews were coincidently split exactly in half between men and women, with six unique countries of origin.

**Figure 1.** Age and gender composition of participants.
To examine this comparability, a series of statistical tests compared my sample to the profiles provided by the above reports. The results of these tests are summarized below:

Table 1. Demographic comparisons of participants.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Prior Studies</th>
<th>Current Study</th>
<th>Difference</th>
<th>Significance</th>
<th>Confidence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comparisons drawn between Richmond's foreign-born population, 2000.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 20</td>
<td>0.34</td>
<td>0.03</td>
<td>-0.30</td>
<td>0.000</td>
<td>99%</td>
</tr>
<tr>
<td>20-39</td>
<td>0.44</td>
<td>0.63</td>
<td>0.18</td>
<td>0.019</td>
<td>95%</td>
</tr>
<tr>
<td>Over 39</td>
<td>0.22</td>
<td>0.34</td>
<td>0.12</td>
<td>0.075</td>
<td>---</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comparisons drawn between Virginia's foreign-born population, 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>0.53</td>
<td>0.50</td>
<td>0.03</td>
<td>0.36</td>
<td>--</td>
</tr>
<tr>
<td>Female</td>
<td>0.47</td>
<td>0.50</td>
<td>-0.03</td>
<td>0.36</td>
<td>--</td>
</tr>
<tr>
<td><strong>Country of Origin</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comparisons drawn between Richmond's foreign-born population, 2000.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>0.307</td>
<td>0.594</td>
<td>-0.287</td>
<td>0.001</td>
<td>99%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.008</td>
<td>0.031</td>
<td>-0.023</td>
<td>0.228</td>
<td>--</td>
</tr>
<tr>
<td>Guatemala</td>
<td>0.042</td>
<td>0.156</td>
<td>-0.114</td>
<td>0.043</td>
<td>95%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>0.069</td>
<td>0.125</td>
<td>-0.056</td>
<td>0.173</td>
<td>--</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.021</td>
<td>0.063</td>
<td>-0.042</td>
<td>0.170</td>
<td>--</td>
</tr>
<tr>
<td>Peru</td>
<td>0.008</td>
<td>0.031</td>
<td>-0.023</td>
<td>0.228</td>
<td>--</td>
</tr>
</tbody>
</table>
Consequently, my sample roughly corresponds to the demographic composition in terms of gender and regional origin; over half of the characteristics were not statistically different from external estimates to the 95 percent level. Several factors, however, appear overstated in my sample.

The sample’s proportion of Mexican immigrants appears to overstate their presence in the larger population. There are many potential reasons for this disparity. The Lunch program discussed previously was run in a predominantly Mexican-origin neighborhood. This trend biases the study towards Mexican immigrants. The Farmers’ Market was also held near this immigrant enclave, which may have further biased the results.

However, it is worth mentioning that census data used for these figures surveyed only documented individuals up until 2010. Many alternative studies suggest that the rates of Mexican illegal immigration are much higher than from other Latino nations. My study made no effort to discern the legal status of the individual. The data subsequently may not be biased towards Mexican Latinos simply because it theoretically must incorporate a few, if not many, undocumented participants, while the census data did not.

My sample also did not capture all of the various immigrant origins. The international composition of the study’s participants also overrepresented the Richmond city’s Guatemalan population according to 2000 census data. I suspect this was due to the snowball design where participants were found through personal contacts. The study’s results cannot be extended to represent all the behavior of the foreign-born population from different national origins in Latin America.

Finally, the sample appears to overstate the proportion of the population within the age cohort of 20 to 39 years old, understate individuals younger than 20 years of age, and mildly overstate individuals older than 39 years. The remitting population, however, bulges within the 20-39 year range, as this is a prime savings period for the consumption cycle, which may mean my sample is representative in this regard.

---

Results

*Profile of Richmond Latino Remitters:*
Participants in the study varied in the quantity and frequency of remittance payments. Some sent money home at the end of every week, while others only for special occasions. The vast and statistically significant majority, however, sent between $200-$300, with 95 percent confidence, as demonstrated in Figure 2. This suggests that while there may be differences in the number of payments made per year, both frequent and occasional remitters send roughly the same amount in each transfer.

**Figure 3.** Average number and amount of payments made by participants.

---

One hundred percent of the participants sent money to a family member, with over a third specifically mentioning their mother as the primary recipient. Only one participant mentioned

---

*the Remitting Patterns of Immigrants: Evidence from Mexican Survey Data,* Lozano-Ascencio, “Remittance Behaviour among Latin American Immigrants in the United States.”
recipients outside the family—creditors—although they were mentioned in addition to his family recipients.

Ninety-seven percent stated general living expenses as the purpose of the transfer. “Gastos básicos” was the most frequently reply in all interviews. What comprises this expense category? Fifty percent mentioned food specifically, followed by medical expenses and clothing. One common critique of remittances attributes these transfers to unnecessary luxury goods—rather than investment—however, with food and medical costs topping the list, I am hard pressed to find such expenses excessive. Again, further study should expand upon this point.

As for the preferred provider, Vigo (recently purchased by Western Union) took the majority of the participants’ transactions. Participants frequently claimed it was the cheapest service available, particularly when considering the speed. Within minutes, Vigo can wire up to $10,000. In contrast, it takes banks days to perform the same operation, with fees generally beginning at $15.26

Despite Vigo representing the perceived “cheapest” alternative, over a third of the participants said they were unhappy with the service because of the cost. At $10.00 a transfer, Vigo charges a steep tax for such small transfers. Because the fee is a flat rate that increases not as a percentage system but as a tiered schedule, there was no flexibility if the remitter needed to send a small transfer. This disadvantaged certain subgroups more than others; women, for example, proved more ready to switch for even slightly less expensive services. Many complained that often times they only had $40-$50 to send; a $10 fee for this kind of transfer actually discouraged frequency.

Sources of Information
A competitive market has reliable and timely information available to consumers. Of course, no information is complete or perfect; however, the pervasiveness of information barriers enormously impacts the ability of consumers to follow price signals. According to their responses, participants in this study largely depended on two sources of information to learn about their RSP options: 47 percent of participants relied on word of mouth, another 47 percent relied on the “default options” provided at their local grocers.

Grocery stores are common access points for RSP agents, and often only offer a couple of service options.27 Latino groceries and convenient stores are a comfortable, non threatening place for remitters in which individuals can also purchase auxiliary products, such as phone cards.28 Several participants revealed that they switched services when their grocer stopped providing their originally preferred RSP, demonstrating the power of grocery stores to determine which services are being used.

More traditional forms of advertisement hardly factored into participants’ RSP decision-making. In fact, one participant explicitly expressed concern over a service he had seen advertised on TV. Many others mimicked this distrust and were concerned about the security of lower-priced alternatives (discussed further in subsequent paragraphs). In contrast, the services that were

26 “Remittance Prices Worldwide: Making Markets More Transparent.”
28 Ibid.
“trustworthy” were RSP’s that had been recommended personally or were effectively sponsored by local groceries.

Costs
An important component of the interview was related to costs. The underlying assumption is that costs are prohibitively high, deterring remitters from sending more money more frequently. Given that a third of the participants explicitly complained about cost, initial assumptions appeared correct. How much were participants paying on average?

Participants reported paying, on median, $10 per payment. However, the average cost was slightly lower: $9.48. One participant effectively paid $0 per payment—through a clever international debit card linked to an American account—and two others paid a $5 fee each time. On the whole, participant responses generally mirrored World Bank estimates on equivalent data. Therefore, we can assume that these costs are roughly equivalent to the costs paid by the population at large.

The final information acquired tried to discover the situations that would cause participants to change their primary RSP. First, participants were asked if they would change services given a reduction in cost—from $4.00 to $1.00 reductions in increments of $1.00. Then participants were asked if they would change RSP’s if the new service were more convenient for them personally. Participants often asked for clarification on “how” the service would be more convenient. For consistency, I responded with the same example every time: would they switch services if they could send money via their mobile phone? Finally, the participants were presented with situations in which switching services would not be Pareto-efficient: either the recipient or the sender would benefit at a cost to the other.

Participants overwhelmingly responded that they would change given a reduction in cost. Eighty-five percent would change given a $4.00 decrease. This is not surprising since that would represent a 58 percent decrease in the average cost. The results are roughly the same for a $3.00 decrease at 84 percent. The corresponding percentages for a $2.00 and $1.00 decrease fall to 67 and 59 percent, respectively; nonetheless, it is imperative to note that the majority of participants would switch services for as little as a $1.00 decrease.

As for convenience, 59 percent of participants would change if the new service were more convenient for them. This is surprising because 89 percent of participants responded yes when asked if they thought the services were currently easy and convenient to use. Because “convenience” was not defined in the question, there are numerous interpretations that could justify this discrepancy, but, because of the subjective nature of the questions, we are resigned to

---

interpreting this result in the following manner: while innovation would still be appreciated in the market, participants were largely satisfied with the level of convenience and accessibility of the existing service providers.

Additionally, women were 31 percent more likely to say they would change for only a $1.00 decrease. This difference did prove statistically significant; women—particularly Mexican women—claimed to be more price-sensitive than men. At this point, it is worth noting that women sent statistically equivalent amounts per remittance, as did men in the study, but at less frequent intervals. Does the above complaint suggest that lower prices would encourage women to send less but at more frequent intervals? This would certainly confirm the idea that women are more reliable when it comes to regular remittances, but that they generally earn less. What people say, however, is often different than what they do, and it is beyond the limits of this study to predict a change in behavior.

In terms of similarities, women favored roughly the same RSP firms as men. There were a few differences across these subcategories, but they were small and statistically insignificant. That said, although also not statistically significant to the 95 percent level, it is worth mentioning that when asked to justify their preference for a given RSP, men more frequently mentioned the speed of the transfer and the security of the service as their main justifications. In contrast, no women reported security as justification for their current RSP preference.

An interesting fact, however, is that 100 percent of both men and women reported that the transfers were easy and convenient for their families to receive. Accordingly, RSP firms are doing a good job reaching recipients, at least according to Latino remitters in Richmond, Virginia. Moreover, both men and women have similar relationships with their recipients—mothers, siblings, children, etc.—and mentioned similar purposes for their payments.

As for regional or age comparisons, there was very little evidence to suggest behavior differs substantively across these subgroups. Central Americans tended to be less precise about the purpose and recipient of the remittance payment; South Americans tended to be slightly more assimilated, yet regardless of origins, participants sent statistically equivalent amounts from the same providers. The same can be said for age cohorts. Interestingly, no matter the age of the participant, their justifications for service preferences and information sources were statistically equivalent. Of course, with a sample size this small, it is impossible to be definitive about any of regional or age comparisons.

**Discussion**

The Latino community is far from a monolithic demographic regarding their remittance sending habits. Not all immigrants remit, and there is evidence to suggest that second and third generations remit much less. Of those remitting immigrants or first generation individuals, there is significant variation in the quantity, frequency, method, complaints, and perspectives on the remitting process.

---

**Payment Schedules**

While imperfect and small, my study provides unique insights that are worth mention. For example, the Richmond Latino population appears clustered in terms of the frequency of remittances. Most remitters send around five payments per year, while another smaller cluster sending payments at the end of each and every week. Yet another cluster may emerge with more data: those remitting twice a month. What does this clustering mean? I would hazard that such patterns correspond to specific “schedules” for payments; be it weekly or every paycheck, payments are regular, consistent, and scheduled. This confirms the fact that remittances are more stable than other forms of financial inflows for recipient nations while also providing a useful detail for firms entering the market. These payments are not spontaneous; the infamous lines at the Latino grocer on paydays are enough evidence in that regard. RSP’s would do well to innovate in such a way that reflects the cycles and schedules of remitters.

**Payment Size**

As my study confirms, payments are generally small. While some participants sent around $1,000 per payment, this is far from the norm. The average payment for this study ranged from $200 to $300. Still, given their regularity and frequency, these small sums add up over the year. The 32 participants in this study claimed to send an aggregate sum of nearly $84,000 per year. There are thousands of Latino immigrants in Richmond alone, and this is a relatively small population compared to other large immigrant centers. Billions of dollars are therefore crossing boarders in the form of these small, regularly scheduled payments.

**Cost and Fee Structures**

Each transfer bears a cost. For the average Richmond remitter, the cost per year of remitting is nearly $50. Factoring in the non-typical remitter, these costs rise to $122.60 per year. While this cost amounts to only 5 percent of the total sum sent, it is important to their destination; in countries like Guatemala, the per capita GDP in 2012 barely exceeded $3,000. From this perspective, the real purchasing power of an extra $5-10 per month is quite high.

Over a third of participants reported that the costs were too high. That third also happened to send smaller sums per year. This outcome implies that some remitters are burdened more by the transfer costs than others. This group may either send less because of the costs, or are just more impacted in other consumptive habits by the flat rate system charged.

The most common fee schedule for RSP providers is staggered according to amount. Most MTO-type firms charge $10 per transfer up to $1,000. Above that threshold, the price increases, and so on and so on. While better than a pure flat rate system, the threshold schedule nonetheless ignores much of the variation inherent in remittance payments. Few participants actually sent $1,000 per year, much less expand beyond $500.

A possible alternative to such a system might be a fee as a percentage of payment schedule, in which the larger the transfer, the larger the cost, but the proportion remains constant. Doing so would burden the small-senders less, but represent an unnecessary tax on large value remitters.

---

Another alternative would simply be to adjust the fee schedule to more accurately reflect the typical remittance variation. Thresholds would be for lower amounts making fees more sensitive. Still, there is little incentive for MTO’s to do so, since competition is scarce and profits are high.33

As mentioned earlier, women sent less on average than men. As an informative anecdote, I offer part of a conversation I recorded between the five women of the Lunch Program:

As I explained the interview process to these women, many immediately offered their comments on the problems with the services. The women did not have jobs, a function of their childcare duties, lack of English proficiency, and inability to afford childcare. In consequence, the women expressed frustration with the fees they encountered when sending remittances. The money they sent was often gifted to them by their husbands, rarely more than $100. As one woman quipped when asked about her satisfaction with the service, “Sometimes we only have $40, $50 to send. But they charge $10 per transfer! This is way too much for me!”

So what of these small senders? I suspect that the dominant fee structure is in place because firms expect a relatively inelastic demand. These women, despite the high costs, still continue to send money to their family members at home. Still, a 20 to 25 percent fee would not be tolerated in the face of competition. Indeed, the $10 fee increasingly represents a lower and lower proportion of the transfer, suggesting the size of the transfer does not impact the costs facing the firm.34

Some new firms in the market have adopted a fee as a percentage format. Why do they gain no ground for the consumers that are disproportionately affected by this flat rate? The question, then, is what are the existing barriers to competition from a demand-side perspective?

Information Barriers and Trust
From the data here, the largest barrier is information. Remitters generally distrust traditional methods of advertisement. Instead, the overwhelming majority of participants rely on their local grocer and word of mouth in their decision-making processes. Although there is not enough evidence to examine why participants did not trust advertisements, I would suppose that the close familial and local networks experienced by immigrants fosters a sort of interpersonal dependence not penetrable through traditional means of advertising. An alternate interpretation might be that entering firms have not been successful in finding Latino grocery partners or in convincing their attendants of the benefits of the new service.

34 This high fee does not represent the competitive equilibrium. Ria, for example, in service to Ecuador, charges $5.00 to send $200 in cash. See: “Remittance Prices Worldwide; Country Corridors.” This suggests there is significant room for firms to cut costs, or at least that there exists some oligarchic market power for the top firms. This noncompetitive market is particularly apparent in this study, since Western Union recently purchased Vigo, the top RSP. Additionally, MTO’s are increasingly coming under fire for manipulative practices that raise the cost of the remittance transfer above the advertised amount. The Federal Consumer Affairs Procurator Office based in Mexico is investigating the ways large MTO’s manage exchange rate conversions—another cost not tallied in the official price. For more see: Dale Allred, “Bank-Based International Money Transfer System,” June 20, 2002.
In either scenario, however, it is clear that innovation does not precipitate dramatic changes in the market composition. For example, efforts to encourage immigrants to turn to banks as their primary remittance service provider struggle to overcome significant distrust, particularly on the part of illegal immigrants. Although it is now legal to open a bank account with a “matricula consular” card rather than a social security number, many Latino immigrants fear documenting their finances officially lest the favorable banking circumstances change.

On the other hand, the growing popularity of “mobile wallets” is making money transfers easier within the United States. As it stands, there is significant regulation against this form of mobile transfer across international borders due to anti-terrorism legislation. Still, it seems somewhat plausible that such movement will be possible in the future, although there are significant hurdles yet to be overcome. If international mobile transfers do gain ground, how will the Latino Immigrants of Richmond react? There is no doubt that Latino immigrants are avid smartphone users. Will they and their families trust this form of transfer? Will receiving countries’ cell phone agents prove trustworthy? Will agents in the US prove the same?

While the innovation in the market is exciting, this study reveals that remittances are a serious commitment involving thousands of dollars per year for the remitter. Other concerns, such as security and long-term viability, may trump cost in terms of RSP preference.

**Heterogeneity in the Population**
Another thing is clear from this study: while there are broad trends that can be established, significant differences exist between demographic subgroups. An important distinction exists for Mexican women in particular, who, according to the study’s participants, are more likely to claim that they would switch to a new service if the price were cheaper by $2. In contrast, few Mexican men or other Central and South American individuals claimed they would switch, as demonstrated in Figure 4. While it is unclear whether this would actually occur in practice, at least in theory there is evidence to suggest Mexican women would benefit disproportionately from price decreases.

---


Figure 4. Reasons why participants would change lending services.

**Conclusion**

As in all markets, the remittance service provider market is complex. There are significant, yet malleable barriers facing the entrepreneur, both from the demand and supply side. On the supply side, building comprehensive and legal transfer networks represent the first major hurdles. Finding access points for recipients and senders represents another set of challenges. But how, then, to integrate into the market? Innovation, it seems, hasn’t been enough. As this study demonstrates, prices are not the only important factor in decision-making. Rather, regularity and trust-worthiness feature heavily in individuals’ preferences. Immigrants are aware of the dangers of sending money abroad with just anyone. Fearful and conscious of several exploitative instances with individual agents, remitters in this study vastly preferred to work with people they knew, be it following a friend of family member’s guidelines or with the Latino grocer.

There is also a convenience factor that compliments this preference for familiarity; as one participant noted, remittances are not single transaction affairs. The recipient must be told of the transfer, the approximate time and place of arrival, and of the “pin” number required to release the funds. This means remitters must often purchase calling cards, pre-paid cell phones, and other associated products. So, not only are such grocery stores convenient, friendly, Spanish-speaking, and located in the centers of immigrant hubs, they are also a one-stop shop for all of remitters’ needs. If any entrepreneur in the remittance service market wants to obtain even a shot at market share, they will certainly need to consider the existing grocery networks in their “access point” decisions.
A second notable consideration that emerged from the study is the general frustration with the staggered fee schedule for remittances. Firms offering price decreases might tailor their approaches to capture the “small-senders,” actually represented quite well in this study by those who were unsatisfied with the cost. These remitters are much more likely to switch services, particularly if the fee were charged in a percent of payment system.

Another group of “malcontents” in the market might be well categorized as Mexican women. I cannot easily explain this differential; why are Mexican women more likely to switch services than other Latino women? Conversely, why are Mexican men significantly less likely to make the switch given a price decrease? More research is necessary to build a solid theory or discredit this distinction as the result of chance in this particular sample.

Yet another area relatively unanalyzed here is the issue of immigrant banking. Clearly, connecting to the financial mainstream offers immigrants a larger portfolio of financial service options. Banks can do a better job of tapping this market, even if they do not physically transfer the funds themselves. This may mean bankers step out of the bank doors and go to the local Latino grocery. It may mean they meet with community leaders and community organizations themselves to speak to the “unbanked” populations about the benefits and security of keeping their money within bank vaults, while assuaging fears of persecution or deportation.

Banks are necessarily slow moving institutions held to more rigorous legislative regulation than perhaps the newcomers to the remittance market, be they new traditionally franchised MTO’s or mobile money firms. How quickly banks will be able to establish themselves in an already trusted and familiar market remains to be seen. In either case, progress would likely be slow, therefore representing a long-term strategy of holistic financial integration—not cost reduction and market diversification.

Even still, it is worth the effort of increasing awareness about bank services amongst immigrant populations, not only so they can better protect their savings, but so those savings can go towards national investment and economic growth.

Olivia Rappe is a second-year MPP student at the Batten School. Olivia is especially interested in development economics and political economy. Her work on the remittance market was part of her undergraduate thesis in Global Development Studies at the University of Virginia.