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**STATEMENT OF THE
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)
AND
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND
CONSUMER CREDIT**

“Remittances: Regulation and Disclosures in a New Economic Environment”

June 3, 2009

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Chairman Gutierrez and members of the Subcommittee, thank you for the opportunity to provide a written statement on the issue of remittances on behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU). CUNA is the largest credit union advocacy organization, representing over 87 percent of our nation’s 7,969 federal and state chartered credit unions and their nearly 90 million members. WOCCU is the global trade association and development agency for the international credit union movement and represents over 49,000 credit unions in 96 countries.

In the last decade, the cost of international money transfers has dropped significantly due to an increased number of lower-cost market entrants, improved pricing disclosure at the point of sale, and the global dispersal of improved telecommunication technologies, among other causes.

The resulting efficiencies have had a tremendous impact internationally. Lower costs not only put more money in the hands of consumers, many of whom rank among the world’s poor, they also positively contribute to real economic growth in many of the world’s emerging economies. As these markets mature and grow, they represent new opportunities for U.S. business and provide support for stable political regimes.

In the United States and internationally, CUNA and WOCCU have put pressure on these remittance prices in two ways. We promote quality, low-cost money transmitter organizations to our member credit unions and have developed accessible complimentary financial products. By encouraging the remittance market to view credit unions as its financial institution of choice, our aim is to not only add value for our members but also fulfill our unique social mission.

Today we believe that exclusivity clauses and other troubling negotiation techniques employed internationally by some money transmitter firms reduces competition and greatly impedes credit unions and other micro finance institutions from providing lower-cost remittances. We believe it is appropriate for Congress to investigate this issue as most money transmitter firms are U.S.-based and because of the pervasiveness of these competition-limiting practices.

Credit Unions in Remittances Continue to Provide Quality Financial Services to the Unbanked.

In 2001 WOCCU launched its IRnet service to facilitate the sending and receiving of remittances through credit unions. We work with MoneyGram and Vigo Remittance to facilitate transactions through approximately 330 credit union locations throughout the United States and 800 rural and urban credit union locations in Mexico, El Salvador, Guatemala, Bolivia, Ecuador, Nicaragua, Peru, and Kenya as distributors of remittances. We believe that these activities and the \$2.6 billion that has been transmitted through the IRnet program since its inception makes it one of, if not the largest, remittance program of any microfinance network.

Today a significant number of U.S. credit unions also offer check-cashing services, alternative loan products, and tax preparation services for free or at reduced rates to members and the unbanked within their fields of membership. Through the Real Solutions program at the National Credit Union Foundation, credit unions nationwide are taking significant strides to continue their outreach to the unbanked in the U.S.

Internationally, WOCCU is working to improve upon existing remittance programs in order to bring added value to the rural poor and to multiply the wealth-effect potential of remittances. 62% of the receivers of remittances in Guatemala would be living on less than \$1 per day if they did not receive remittances. In Guatemala and El Salvador, for example, credit unions now offer remittance-backed home loans and remittance insurance policies to protect families in case a family member loses a job or dies while working abroad. In Mexico, credit unions offer a matched savings program to encourage remittance beneficiaries and others to build wealth through saving rather than solely consume. Finally, WOCCU continues to instruct and promote micro credit methodologies to its member credit unions internationally and is experimenting worldwide with different telecommunication technologies to better deliver remittances and other financial services to previously inaccessible rural areas around the globe.

U.S. Credit Unions in Remittances Maintain the Highest Standards for Transparency.

While U.S. credit unions have increased their services for the unbanked they also continue to meet the highest standards for transparency. As member-owned financial cooperatives, credit unions are by their nature consumer-oriented. Since beginning to offer remittances in the IRnet program, U.S. credit unions have ensured that each sender is provided a written and signed receipt disclosing the exchange rate for the transaction, the fee and instructions on the recourse process. These disclosures are in English and Spanish (as it's the principal other language of senders).

Since 2003, CUNA has had and promoted a set of best practices for wire transfers among U.S. credit unions. Credit unions remain committed to being leaders in transparency and consumer protection practices in this market and all the markets we are involved in.

Reducing the Cost of Remittances

We believe the greatest scope for improvement within the remittance market is not through additional consumer disclosures, where much has already been accomplished, but rather in the structure of the market itself. While there are many providers of remittances in some large remittance corridors such as US-Mexico and US-El Salvador, in many corridors the market is still dominated by a small number of money transmitter organizations (MTO) that enforce exclusive and competition-limiting contract arrangements.

When negotiating with credit unions, micro finance institutions, and other new market entrants, some money transmitter organizations' contracts contain one-way exclusivity requirements which limit competition amongst remittance firms and future lost earnings clauses which act as penalty clauses for early termination. Lost future earnings clauses effectively function as penalty clauses in that foreign correspondents must pay a fee to US-based MTOs in order to exit a contract. Combined with exclusivity, and non-compete clauses, this practice strongly discourages credit unions, micro finance institutions, and other foreign correspondents from choosing lower cost remittances for their members because they cannot easily exit a pre-existing exclusive arrangement to work with additional firms. Furthermore, these contracts are presented in highly technical English legalese and avoid the U.S. court system for dispute resolution where practices might be more effectively monitored and regulated.

While we support the legal presumption of arm's length negotiations, MTO contracts can require a degree of sophistication not widely found internationally even when independent legal counsel is sought. To be fully competent, the correspondent's lawyer must be highly fluent in English legalese, possess an understanding of international and U.S. law, and have knowledge of the remittances market. While multinational banks may possess this level of sophistication, credit unions and micro finance institutions that directly serve the poor frequently do not. As a result, international correspondents end up relying on money transmitter organizations themselves to understand the terms of their mutual contract. This ultimately has the impact of limiting the scope of remittance distribution networks and access to financial services by financial institutions in developing countries.

Because many of these money transmitter organizations are U.S.-based companies engaged in competition-limiting practices, we believe it is both appropriate and necessary for Congress to inquire on these issues. The specific issues to be reviewed include:

- The extent to which one-way exclusivity clauses are used by US-based MTOs in contracts with foreign correspondents? If yes, in which countries or regions?
- The extent to which lost future earnings clauses or other clauses that assign monetary damages for early termination are used by US-based MTOs with foreign correspondents? If yes, in which countries or regions?

- The extent to which pricing differences occur between countries where exclusive MTO contracts are prohibited by law and countries where they are not prohibited?

Our intention of raising these issues is not to encourage Congress to become directly involved in setting terms for contracts in the financial services industry, but rather to inquire on these items and potentially raise them with the Department of Justice as competition-limiting activities.

Conclusion

Credit unions throughout the world are leading the way in ensuring that immigrants have access to affordable remittance and financial services. We want to work with Congress to encourage competition in the market and limit these troubling negotiation techniques employed internationally by a select number of money transmitter firms. These monopolistic techniques not only prevent credit unions and other micro finance institutes from better serving their members, they also impede remittance pricing from falling further.

Thank you for holding this very important hearing. We would welcome the opportunity to continue meeting with the Subcommittee to explore ways to improve the monitoring and oversight of international remittances.