



An Investigation of Recent trends In the Remittance Industry: Evidence from Jamaica

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Abstract

This paper seeks to provide an update on the recent developments in the remittance industry with specific focus on Jamaica. Findings indicate that the importance of remittances to Jamaica is seen in its impact on foreign exchange inflows and Balance of Payments support as well as household income. Of the 23 Latin American and Caribbean (LAC) countries examined, Jamaica was tenth (10) overall in remittance inflows for 2007. Comparing remittances as a percentage of exports, imports and foreign direct investment, in Latin America & the Caribbean, Jamaica ranked second (2), third (3) and eight (8) respectively. Innovations in the operation of the remittance market worldwide are largely based on technological advancements, in particular regarding the Internet as well as the introduction of mobile money through cellular phone transfers. A suitable policy approach to promoting increased remittance flows would involve channeling remittance flows into feasible investment opportunities, with while encouraging savings creation through remittance flows. Engaging banking institutions more actively by identifying their opportunity costs in rural areas as well as providing significant tax incentives for remittance market will serve to increase the flow of remittances into Jamaica.

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¹ The views expressed are those of the author and do not necessarily reflect those of the Bank of Jamaica

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1.0 What are Remittances

Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and non-cash items that flow through formal channels, such as across electronic wire, or through informal channels, such as money or goods carried across borders².

International experience suggests that remittance flows have important implications for macroeconomic and financial stability. As such, accurate compilation and recording of remittance flows as well as new trends in innovations in remittance corridors are crucial for understanding the behavior of the remittance market.

Despite the existence of substantial literature on the importance of international remittance flows, measurements of these flows in particular the capturing of accurate data are accompanied with major challenges. Chief among these include the fact that the informal economy dominate both source and recipient aspects of the remittance flows. As such, the absence of data is hampered by the relatively financial unsophisticated nature of the average sender and receiver of remittances. Notwithstanding issues in data collection, significant innovations have been undertaken in remittance intermediation. This note seeks to report on current trends in local and international remittance flows as well as investigate recent innovations in remittance services.

1.1 World Remittances

Remittances contribute to economic growth and to the livelihoods of people worldwide. Money sent home by migrants constitutes the second largest financial inflow to many developing countries, exceeding international aid. For 2007, worldwide remittances

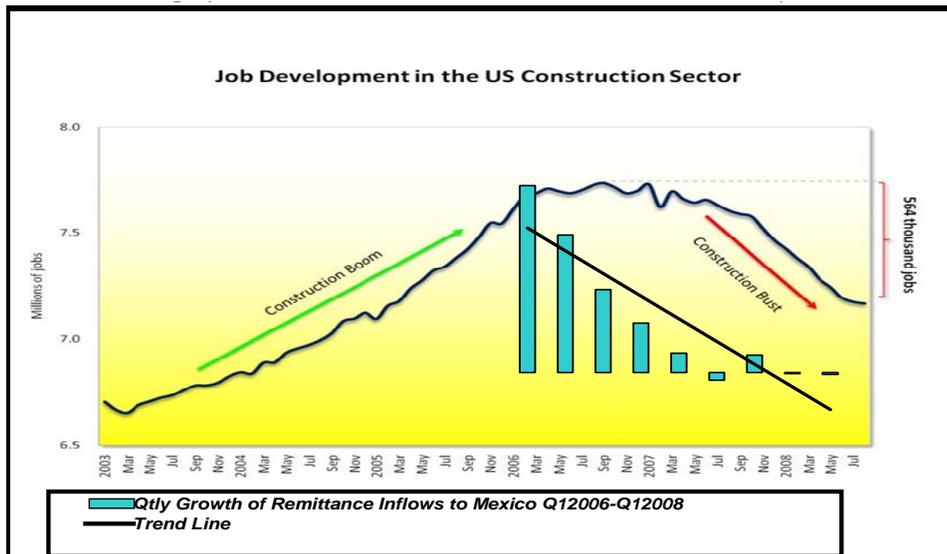
² Draft Balance of Payments and International Investment Position Manual – March 2008

totaled **\$318.0 billion** or **7.0 per cent** greater than the corresponding period. Of this total, **\$240.0 billion** went to developing countries of which India (**\$27Bn**), China (**\$25.7Bn**), Mexico (**\$25Bn**) and the Philippines (**\$17.0Bn**) were the top four recipients³.

1.2 Latin America and the Caribbean

Despite being a major source of foreign exchange inflows, in 2007 growth in remittance flows to Latin America & the Caribbean slowed to the lowest in seven years. Growth reductions were most pronounced in Mexico (see Appendix Table 2). Reductions in remittance flows to Mexico were largely due to reductions in the construction industry where **22.0 per cent** of Mexican immigrant workers are employed. For the period September 2007 to July 2008 approximately 564,000 employees were made redundant in the US construction sector (see chart1).

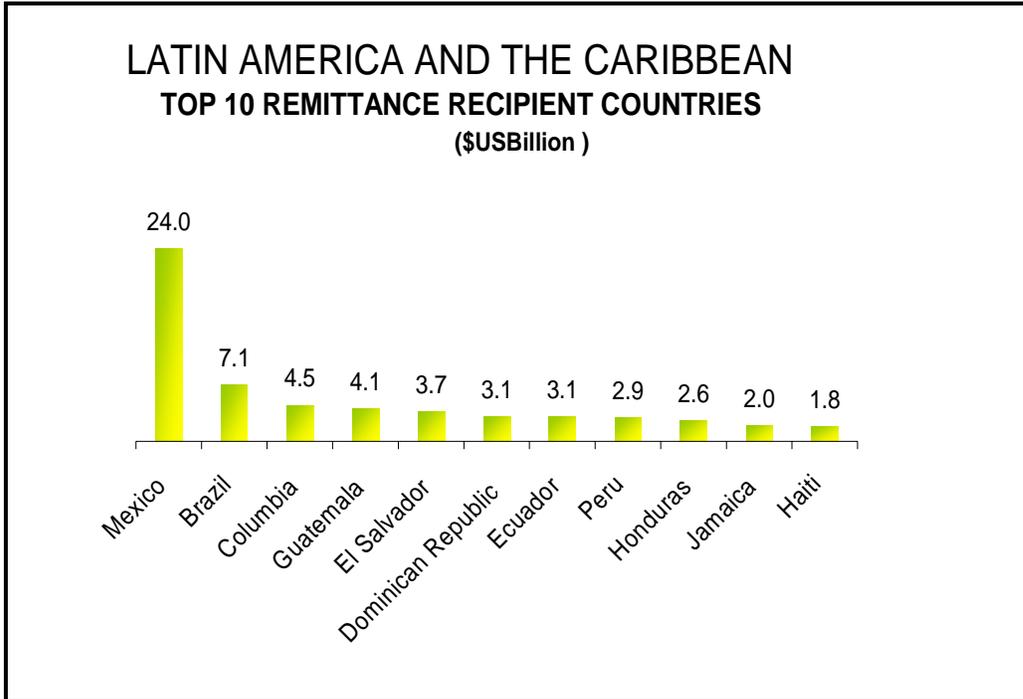
CHART 1: EMPLOYMENT IN THE U.S. CONSTRUCTION SECTOR MARCH 2003-JULY 2008



with Jamaica being the largest English-speaking Caribbean country receiving remittances (see Appendix Table 1).

³ Migrant Remittances Newsletter, USAID DFID

CHART 2



The diagram above represents the Remittance inflows to selected countries in the Latin American and the Caribbean .From the above illustration, we observe the highest recipient for remittances in this region being Mexico recording approximately **USD\$24.0 billion** in 2007 representing approximately **38.3 per cent** of the remittance inflows in the Caribbean(see chart 2).

1.3 The Jamaican Experience

1.3.1 Historical Background

In both pre and post colonial times, Jamaica like its counterparts of similar historical experience, served as a major source of labor export to the developing economies. From the end of WW1 to the mid 1960s, immigration was largely concentrated toward the U.K.as the United States restricted immigration of Caribbean nationals to very small

yearly amounts. However, favorable provisions to the Hart-Celler Immigration Reform Act Immigration Act of 1965⁴ resulted in a resurgence of large numbers of Caribbean nationals migrating to United States. From 1976-1984 approximately 300,000 Jamaicans migrated to the United States.

Chart 3 : Jamaican Immigrants to the United States by Occupational Status 2003-2005

	2003	2004	2005
Execcutive and Managerial	143	179	251
Professional and Technical	387	546	773
Sales	235	150	190
Administrative Support	240	237	296
Farming, Forestry, Fisheries	163	166	178
Operators, Fabricators, Labourers	190	246	320
Precision, Production, Craft Repair	24	140	223
Service	2,867	2,258	3,075
Military			
Total Skilled Workers	4,249	3,922	5,306
No Occupation	5,938	5,562	7,615
Not Reported	3,098	4,927	5,425
Total workers	17,534	18,333	23,652

Source : PIOJ , Economic and Social Survey 2006

Among these immigrants was a large concentration of skilled workers based mainly in the service industry. For 2003 -2005, the service sector accounted for on average **61.0 per cent** of the occupations listed by Jamaican immigrants to the United States⁵. Lake (2005) reported that **13.56 per cent** of all remittances received through official channels were primarily from health sector workers, with **22.84 per cent** from New York region⁶.

⁴ Centre for Immigration Studies, 'Three Decades of Mass Immigration, The 1965 Immigration Act'

⁵ PIOJ , 'Economic and Social Survey Annual Report 2006'

⁶ Lisa Lake (2005) 'Remittances and the Jamaican Economy'

A History of Money Transfer Companies in Jamaica.

Before 1990 the formal remittance market constituted the Government postal services, commercial banks, as well as building societies. By the end of 1990, the growing size of the worldwide Jamaican Diaspora along with their increased demand for remittance services to Jamaica, contributed to the attractiveness of the local remittance market. As a result, August 1990 saw Grace Kennedy Remittance Services under the auspices of Grace Kennedy Company Limited entered the local remittance market forming Jamaica's first non-traditional money transfer company. This company however, acted as an exclusive agent for Western Union International which had already controlled a significant share of the formal worldwide remittance market.

The duopolistic dominance of the Grace Kennedy -Western Union alliance, resulted in existing Commercial Banks and Building Societies adopting aspects of their business model. As such, these institutions resorted to acting as agents for the international money transfer companies. By the end October 2008 there were (12) remittance companies, (2) building societies and (1) commercial bank acting as agents on behalf of thirty (30) international money transfer companies⁷.

1.3.2 Current Market Structure of Jamaican Remittance Market 1994-2007

Currently, the main providers of remittance services to the Jamaican market include remittance companies, commercial banks, building Societies and post offices. From 1994-2000, both remittance companies and commercial banks had equal shares on value of average remittance inflows at **41.0 per cent** respectively (see chart 4). Since 1996, there has been a steady growth in the number of remittance companies, which increased

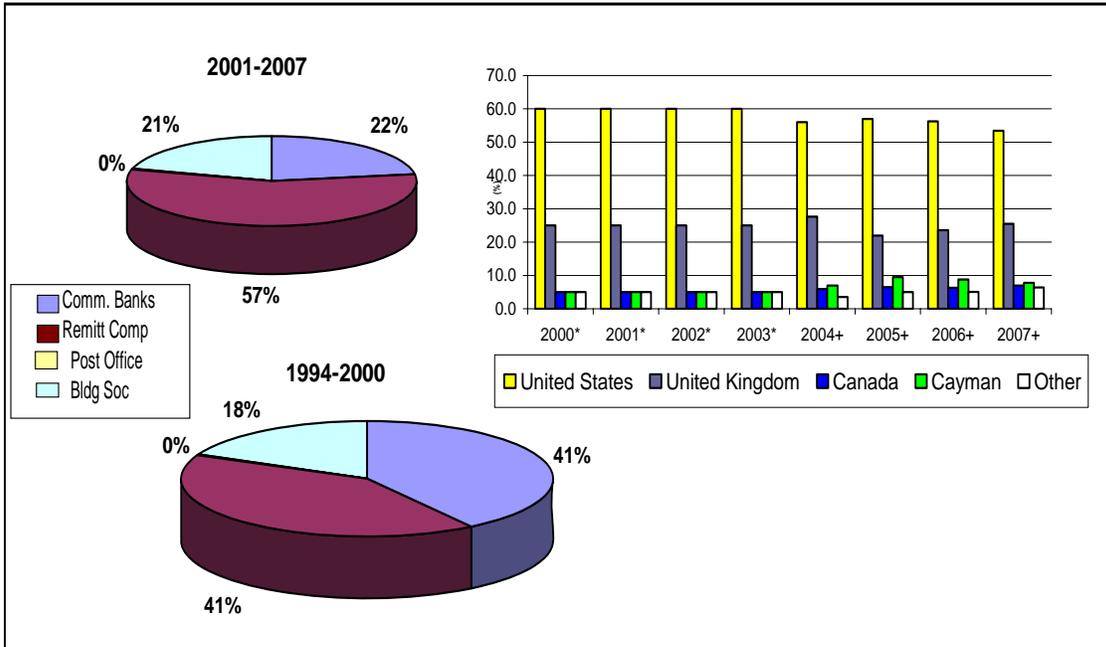
⁷ Bank of Jamaica

to seven (7) by the early 2000s relative to only three (3) in 1995⁸. Similarly, during this period, both building societies and commercial banks continued to hold significant market shares as they also served as agents for numerous international money transfer companies. However, since 1997 the commercial banks market share has been on a declining trend as the number of international agents utilizing remittance companies increased.

The favorable impact of globalization on the movement of skilled immigrants as well as the large advances made in the use of technology accompanied the beginning of the twenty-first century. Against this background, the size of the Jamaican Diaspora worldwide increased, precipitating significant increases in remittance flows into Jamaica. GKRS operating as sole local agent for Western Union deepened their dominance of the local remittance market. As at end October 2008, GKRS accounted for over **70.0 per cent** of Remittance companies' inflows and approximately **50.0 per cent** of the entire local remittance market. This rapid increase is largely attributed to Western Union's increased economies of scale attributable to its worldwide expansion in the number of agent locations as well as the introduction of electronic money transfer system. This precipitated a significant reduction in its costs of transferring funds.

⁸ Elaine Hayle (2005), Performance of Remittances in the Latin American and Caribbean Region with Special Reference to Jamaica: 1997 - 2002

ANALYSIS OF JAMAICA'S REMITTANCE MARKET
AVERAGE PERCENTAGE VALUE OF REMITTANCES BY INSTITUTIONS & FROM SOURCE COUNTRY



Similarly, JNBS also had a strong presence in the local remittance market. As at end December 2008, the share of remittances sent through JNBS was **14.1 per cent** relative to **8.9 per cent** at end December 2002. This strong presence of JNBS in the remittance market was directly related to significant expansion in the UK market over the past ten years.

Despite the remittance market being dominated by GKRS-WU and JNBS, other remittance companies enjoy lucrative gains through the use of technology, which has resulted in a reduction in their operating cost due to gains realized from declines in the cost of sending money.

1.3.3 The Impact of Legislative changes on Remittance Flows in Jamaica 1990 -2008

1.3.3.1 Remittance Market operations in Jamaica before 2000

Prior to 2000, the remittance market in Jamaica was not regulated. Remittance service providers included deposit-taking institutions such as commercial banks, and building societies, and non-deposit taking entities such as post offices. Identification and other “Know Your Customer” requirements were largely governed solely by the operating policies of these service providers and was therefore not standardized. The collection of data pertaining to remittance flows to and from Jamaica has been included in the Bank’s collection and analysis of economic data from 1994.

1.3.3.2 Remittance Market operations in Jamaica 2001- present

Following the September 11, 2001 terror attacks against the United States and the re-emphasis of Global best practice AML/CFT requirements by the Financial Action Task Force (FATF) Jamaica extended AML statutory obligations to remittance service providers in 2002.

Jamaica’s establishment of a regulatory regime regarding remittances commenced in February 2004 with the passage of amendments to the Bank of Jamaica Act which required remittance services to be approved by the Minister of Finance prior to the offer of, or in order to continue to offer, these services. (i.e. The Bank of Jamaica (Amendment) Act, 2004 section 22(G)) This power of the Minister was delegated to the Bank of Jamaica by way of Instrument of Delegation dated 11th February, 2005 and the regulatory regime fully came into effect on 5 July 2005 via the issue of Remittance

Operating Directions under the Bank of Jamaica Act (BOJA). These directions outline transactions that can be undertaken by remittance services in Jamaica; mandate specific reporting requirements; mandate the unimpeded access by the regulator to the records of the service; mandate the inclusion of specific information in transaction records and stipulate administrative penalties applicable for non-compliance.

Under this new regime, the Bank of Jamaica was authorized to supervise the operations of RSPs within its legal jurisdiction. Separation of remittance activities from deposit-taking activities was required with the introduction of the regulatory regime for remittance services. This therefore means that deposit-taking institutions can only offer remittance services through separate legal entities (i.e. subsidiaries). Remittance services have also been subject to “Combating the Financing of Terrorism” (CFT) statutory requirements since 2005 when the Terrorism Prevention Act was passed. These services are also subject to the BOJ AML/CFT Guidance Notes. The regulation of remittance services is less intrusive than that accorded other financial institutions because remittance services do not take deposits and are not the repositories of public funds. The regulation imposed is similar to that in place for cambios/bureaux de change. The establishment of a regulatory regime for remittance services represents one of several measures, which Jamaica is required to implement in order to fulfill its international obligations to combat money laundering and the financing of terrorism.

From the agents’ side, the economic cost associated with fulfilling the requirements under the Bank of Jamaica Act along with the unfavorable economic environment resulted proved challenging resulting in a few smaller non-traditional RSPs either exiting the market or merging their operations with their larger counterparts. At the same time

the number of international providers utilizing local RSPs also increased. The net result was that the overall number of RSPs operating in Jamaica increased. As at end October 2008, in addition to two(2) building societies and one(1) commercial bank, there were 12 remittance companies agencies operating in Jamaica as approved by the Bank of Jamaica Act relative to seven (7)at end 2002.

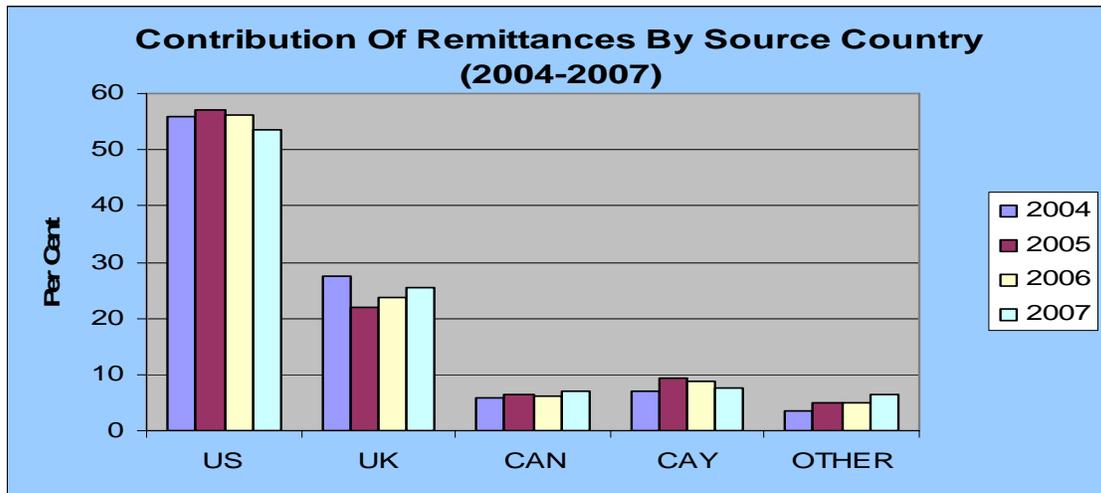
2. The Importance of Remittances to Jamaica

Remittances as a Source of Foreign Exchange and BOP Support

Remittance inflows to Jamaica have become an important source of foreign exchange, almost equaling the value of exports during the review period. Between the periods 2000-2007 inflows have increased on average by 14.0 per cent, to total **US\$1,964 Million** or **15.3 per cent** of gross domestic product (GDP) in 2007⁹. In addition, the deficit in the Balance of Payments current accounts, have been consistently offset by positive net remittance flows. Between 2004 -2007 US.A dominated the source of remittances accounting for on average **55.7 per cent** of the total remittance inflows into Jamaica.

⁹ Remittance Update, Bank of Jamaica October 2008

CHART 5: Remittance by Source Country 2004-2007



Between 2004 -2007 average remittances from U.K., Canada and Cayman was **24.7 per cent**, **6.4 per cent** and **8.3 per cent** respectively (see Chart 5). Between 2004 -2007, the size of remittances averaged approximately **US\$200.00** equivalent per transaction (see Appendix Table 8).

Remittances as a Share of Selected Macroeconomic Indicators

The importance of remittances as a source of foreign exchange in Jamaica becomes obvious when compared to the major traditional foreign exchange earners such as tourist expenditure, foreign direct investment and exports (see Table 5). For 2007, remittances were approximately **15.3 per cent** of GDP estimates. This indicates that there is a strong dependence on remittance flows from overseas. Between 2004 -2007, remittances as a percentage of tourist expenditure averaged **101.1 per cent** reaching a high of **104.9 per cent** in 2005, compared to an average share of **56.1 per cent** between 1995 and 2000. This indicates that remittance flows were approximately equal to the earnings from tourism. Between 2004 -2007, remittance levels as a percentage of foreign direct

investment flows averaged **227.1 per cent** indicating that remittances were on average more than twice the size of foreign direct investment inflows. With regard to exports, remittances as a percentage of exports were approximately **90.0 per cent** on average during the period 2004-2007. This indicates that remittances represent a major foreign currency source for Jamaica (see Appendix Table 3).

Examining the top ten LAC countries in terms of remittance inflows as a percentage of selected macroeconomic indicators, Jamaica had mixed results. For 2001 to 2006 Jamaica's remittances as a percentage of Exports, Imports and Foreign Direct Investments averaged **89.2 per cent**, **35.4 per cent** and **215.5 per cent** respectively. In comparison to the top 10 LAC countries, these results ranked Jamaica's remittances as a percentage of Exports imports and FDI at second, third and eight places respectively. (see Appendix Tables 4-6).

Remittances as a Source of Household Income

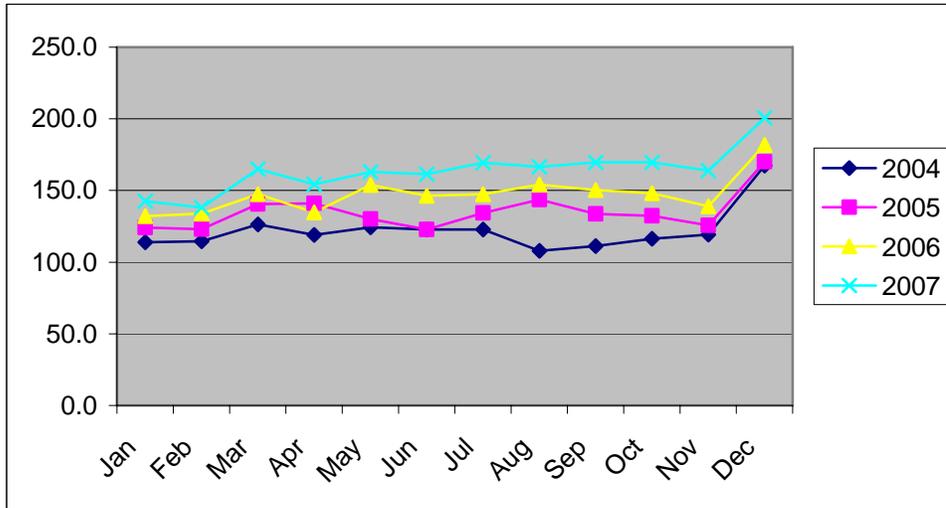
Remittances have a distributive impact on households as income and consumption patterns are affected. The vast majority of remittances are used to provide for the basic needs of households regardless of the country¹⁰ with siblings and parents the most likely recipients¹¹. Lake (2005) posits that three of the main uses of remittances in Jamaica include housing, consumption and education financing. From this study seasonal patterns were also observed with spikes being observed in remittance flows during back to school and pre Christmas periods. As shown in Figure 1 below, there is a sharp increase in

¹⁰ Meyers, Deborah W. (1998), "Migrant Remittances To Latin America", pg.6

¹¹ Orozco, Manuel (September 2004), "Remittances to Latin America and the Caribbean: Issues And Perspectives On Development", pg.7

remittances during December, which implies a direct link between increased seasonal consumption levels and remittance inflows.

FIGURE 1: Remittance Inflows By Month (2004-2007)



Though less obvious, Figure 1 also points to a relationship between the level of remittances and the funding of ‘back to school’ expenses as suggested by movements around July and December . A further check for seasonality using a binary conditionality method reveals that there is an increase in the average transactions increases in traditional holiday and back to-school periods (see Appendix Table 7).

OPERATIONS OF Remittance markets

2. How do remittance transfers work?

Various studies indicate that the operational model of most remittance service Providers (RSPs) worldwide share similar characteristics. Firstly, for remittances to be sent and received, RSPs need to operate within a network of agents. A typical operational procedure would include at least two sets of agents. One agent of the RSP collects the

funds from the sender while another agent functions as a disbursing agent of the funds received. The most visible components of the network access points typically include though not exclusively, banks, and wire transfer offices and grocery stores.

The World Bank categories both international remittances into four categories. These include unilateral, franchised, negotiated, and open¹². Unilateral remittance networks involve only a single RSP. This occurs when a bank, credit union, or other financial institution establishes branches in both the sending country and the receiving country. A unilateral RSP has physical locations in both the sending and receiving countries, and is therefore able to capture, message, settle, and disburse the funds entirely intra-RSP. Unilateral remittance networks also include the electronic transfer of funds, where the access points are virtual rather than physical. A virtual remitter sends the funds from one remote access point, such as her home computer, directly to the receiver, who is at another virtual access point in his home country. Though efficient, unilateral providers are rare. Their scarcity is due to the unavailability and uneven distribution of physical access points, as well as remitters' lack of access to electronic banking or banking in general. Even so, the development of unilateral RSPs is an area of future growth. In a franchised service, an RSP creates the network for transfers without necessarily owning any of the physical access points. Generally, the RSP provides the messaging and settlement portions of the transfer, and relies on capturing and disbursing agents who have franchised the service based on standardized and contractual terms. Wire-transfer services, such as Western Union, fall into this category. A negotiated service involves an RSP in one country that has negotiated and established a network with an institution, or institutions, in other countries. Agreements between banking institutions, credit unions,

¹² World Bank Report on Remittances

and even the unofficial *entities* can constitute negotiated services. In many negotiated services, the messaging and disbursement of funds often occurs *before* the actual settlement, such that the disbursing agent releases funds to the receiver based on the expectation of *future* settlement by the capturing agent. This practice leads to fees and interest rates higher than more formal systems. In an open service, the RSP in the sending country locates an RSP in the receiving country. These networks are not pre-established and usually result in the messaging segment of the transfer occurring simultaneously with the settlement of the transfer.

3. Current trends in Remittance Transfers

Cash to cash

Cash to cash transfers is the most common way of money transfers and is typically offered by RSPs and Money service Businesses. This process is simple and involves one agent of the RSP collects the funds from the sender while another agent functions as a disburser of the funds received. The relatively secure nature associated with this type of transfer, largely outweighs its relatively high cost associated with it.

The cash-to-cash service is normally offered by both internationally and locally owned money transfer companies based in Jamaica. These institutions operate as specialist organizations for which remitting money is their core business.

Account to Account

Although less popular than the cash- to- cash transfer method, account-to-account transfers have the key advantage in being a more secure method for both the sender and the receiver. Most transfers are done using the SWIFT (Society for Worldwide Interbank

Financial Telecommunications) system which connects over 8,385 ‘user organizations’ banks in 208 countries.¹³ Every transaction is fully tracked so as to reduce the possibility of misplacement. The service normally takes two business days but it can take longer if the money needs to go to more rural areas. This method however has two main disadvantages for both receiver and sender. Firstly the receiver is required to have a bank account which may not always be convenient. Secondly, even though the cost charged by SWIFT is very low the banks naturally charge a fee to the sender that represents a full cost recovery of the labor involved. As a result, this type of service can be expensive for small amounts as most banks charge a flat fee for sending small amounts. As most remittances are under **\$300USD** equivalent this makes the service expensive for low value remittances. For higher amounts the banks charges are competitive.

Jamaica currently has two main examples in account to account remittance transactions. Firstly, the AIC group through its National Commercial Bank subsidiary launched *Senvia* money transfer services in August 2003. Under *Senvia*, remittees must have an account in the participating banks in Canada as well as register *Senvia* as a payee at the bank in order to affect money transfers. Money is sent from Canada to Jamaica only via the telephone, internet, or automated banking machine, and is picked up at any NCB branches¹⁴. Secondly, Caribpay online company also launched in 2003 is a subsidiary of TreasureCom Financial Holdings, Inc., a leading financial service provider and offers money transfers from the US, UK and Canada to Jamaica. For this service remittees are firstly required to open a CaribPay account as well as apply for a Prepaid MasterCard for both self and family. Money is transferred from the CaribPay account to the family

¹³ www.swift.com

¹⁴ www.jncb.com

MasterCard, so money can be spent instantly. The account holder will also benefit from free bill payment within the US and the Caribbean¹⁵.

Cash to Account

For this business model, overseas-based RSPs established relationships with banks operating in Jamaica. The process in this case is then followed where the RSPs collect customer transfer instructions in the sending country via agents, over the internet or via a call centre. They then issue transfer instructions to the bank in Jamaica who makes the payment¹⁶. Settlement is made between the RSP and the bank normally by SWIFT or by the bank's account in the sending country being credited.

In addition to the benefits of security and reliability of this method, it is also relatively more cost effective. The RSP uses a bank in Jamaica to make payments to the receiver's bank. This is normally handled via the local clearing system and the cost for making that individual payment is significantly lower than making a corresponding international payment to that Jamaica. This lowered cost is as a result RSP normally bulking together all of the send transactions to bank accounts in that country on a daily basis and therefore pays for only one settlement transaction. This reduces the cost and allows some of the benefit to be passed onto the consumer.

4 Emerging Trends in Alternative Remittance Systems

¹⁵ www.Caribpay.com

¹⁶ Most transfer services in Jamaica use a different platform. For example, JNBS uses E-Money for cash to card services. They also provide Bill payment transfer services through their JNBILLPAY services.

Card-to-card transfers

The key feature of a card based system is that a card is used by the sender, or by the receiver, or in many cases by both to transfer money. There are a number of different models for card-to-card services however the most popular schemes appear to be prepaid dual-card schemes. In these schemes the sender will complete some documentation in order to obtain a card. They will be required to provide identification in order to be issued with a card. In most cases the sender is provided with two cards. One is sent by the sender to the receiver. The receiver requires their own PIN number for their card. To make a transfer the sender loads money onto the card. At this point a 'pool' of money is created that under most models can be withdrawn by either the sender or the receiver at either an ATM or at a merchant who accepts the brand on the card (normally either VISA or MasterCard).

This model has a number of advantages as a remittance product. The service is secure as money is withdrawn at ATMs using a PIN number and therefore is very much under the control of the users. The service is fast because funds are available to be collected by the receiver as soon as confirmation has been received that money has been credited to the card. Card-to-card schemes are a good solution where there is a good ATM network. However, in many of the small towns in Jamaica, ATMs are normally concentrated in the town centers which may be miles away.

The key challenge is that to make the model work requires a significant number of parties to work together and each party clearly will require a share of the revenue. The various parties can include: the card issuer, the card scheme manager, the agent, the ATM network operator and the Electronic money issuer. There are often fees associated with

issuing a card, reloading a card (depending on method), monthly card fee, ATM withdrawal fee, foreign exchange fee, usage fee etc.

The challenge is that most funds are held in foreign currency under this model and the amount that will be received is therefore not known until it is withdrawn. The economics of the scheme mean that there needs to be enough volume and revenue to meet the needs of all of these partners. This makes it very difficult for individuals to compare providers or in many cases to understand exactly all of the charges that there are. These services are in their early stages of development and a variety of models are being developed. Jamaica in particular has a hybrid model to the card-to-card method. This model is the cash-to-card method where the sender is not required to have a bank account. However, similar to the card-to-card method, the receiver may use their card similar to an ABM card. In 2000, Western Union first launched its money card transfer service to Jamaica. Money is firstly sent from the United States using MasterCard/Visa credit or debit card. Customers receiving remittances also received a customer card as such eliminating the need to fill out forms. The Card is presented with identification for quick and easy transfers¹⁷.

Mobile phone based transfers

Mobile phone based transfers represent one of the newest areas to have been developed for remittances. Although not yet a feature of the Caribbean and Jamaican remittance market, it exist in a few countries in the world albeit in embryonic stages. Among the most popular include the M-PESA service offered by Safaricom in Kenya. This involves test initiatives being operated by Vodafone for transfers between the UK and Kenya

¹⁷ www.westernunion.com

through the M-Pesa platform. Similarly, collaborations between Western Union and Bharti Airtel in India and Smart Transfer and Globe Telecom in the Philippines are also being forged. In addition to these agreements, Western Union has made preliminary agreements with GSMA to write standards for mobile remittance transfers. In this model the sender will firstly establish an account with a phone company. This account will normally require some form of identification or password or a negative response from a third party credit reference and identity check agency. Value is then loaded onto the phone account either at a retail outlet or via the internet. This last option assumes that the person either uses a card related to a bank account or perhaps a prepaid card¹⁸.

Once value is loaded on the account the sender is able to transfer any amount of money, up to the amount loaded on the card and the card limit, to the receiver. This is usually done by sending an SMS message to the operator's hub. This SMS will include the receiver's mobile phone number, the amount and some form of PIN number. An SMS is then generated and sent to the receiver. The receiver has the option of holding the value on their phone or of turning that into cash. It is turned into cash by visiting a registered outlet. An SMS is then sent to the operator of that outlet by the receiver which transfers the value and the receiver is then paid out the cash.

There are a number of variations around this model. These include the downloading of, usually Java based, software onto the mobile handset. This software will have a remittance based option that will enable the phone user to make a money transfer in much the same way as they would on-line. The key advantage m-money is underscored by the

¹⁸ For full description of the operations of this service please see www.affinitymobile.com

rapid acceleration in mobile phone penetration in developing markets. As at November 2007, there were **3.3 billion** mobile phone subscriptions worldwide¹⁹. In the case of Jamaica, mobile phone subscriptions were **2.5 million** up to end 2006²⁰. Therefore the widespread ability to send or receive an SMS message complimented by the familiarity of average Jamaican citizen's significant experience with mobile phone technology provide a favorable environment for m-money services being offered in Jamaica. In addition, the presence of three (3) major multi-national mobile phone companies: Mobilcom (Digicel Group) Jamaica, Cable & Wireless (LIME) and American Movil (CLARO) sets the precedence for the establishment of mobile based money transfer services in Jamaica. Other advantages with the use of mobile money include the relatively low cost coupled with the fast service due to the instantaneous nature of SMS. With regard to transfer cost limited information available for m-money services. However, examples of transfer costs for countries like Philippines indicate that mobile transfers are taking place for a lower cost than cash-to-cash transfers.

With regard to security, concerns originate from two main perspectives. From the perspective of the sender and receiver, further stringent measures would be needed to ensure that privacy of the personal identification numbers (PIN) as well as personal details are not compromised. With regard to the system, the Financial Action Task Force (FATF) reports that alternative remittance systems such as mobile money transfers is a source of concern in terms of vulnerability in the misuse of funds for money laundering and terror financing purposes²¹. As such, regulators would need to employ stringent measures to ensure compliance to the legal provision of remittance services. With regard to the flow

¹⁹ www.informa.com

²⁰ PIOJ, Economic and Social Survey 2006.

²¹ Issacs (2008), UK. Remittance Task Force Report

of operation, mobile transfers would likely require similar identification requirements as the account to account based transfers. Despite these challenges, mobile transfers similar to card to card based transfers, have the potential to offer multiple services on the same platform

Web-based transfers

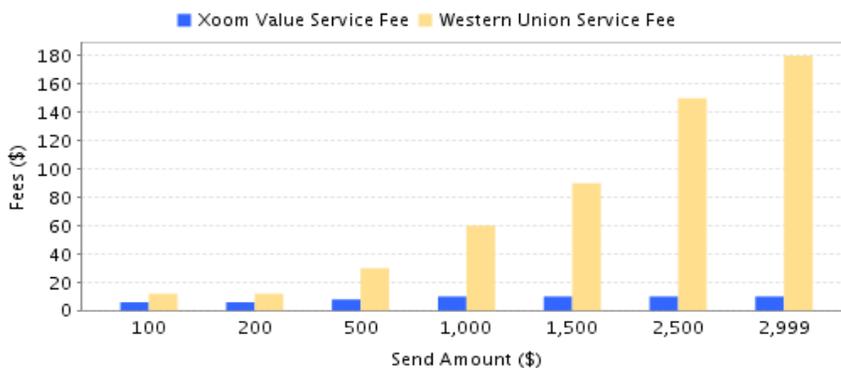
Similar to mobile-based transfers, web-based transfers represent a relatively new area in the transfer of remittances. The operation of this method is based on the high level of worldwide internet usage. Research by Orozco, Jacob and Tescher showed that internet usage by the average Jamaican community in the US Diaspora was approximately **76.0 per cent**²². As a result, a number of the RSPs including Western Union and MoneyGram as well as a number of smaller companies are in the development stages of offering an internet transfer service.

Despite its obvious advantages, it is important to emphasize that providing identification for internet operators is a challenge. With regards to the receiver of remittances, one suggested approach would be to manage the identification requirement by asking for some details that can be easily verified, e.g. passport details, driving license number etc which are then checked against a third party database. With regard to the sender of remittances, another challenge involves the issue of payout security. Most providers require the sender to have some means of bank related payment which is usually a debit or credit card. Some providers do not require this and allow the individual to go to a bank branch and deposit money directly into the RSP's account. Overall, the advantages

²² Orozco, Manuel (September 2004), "Remittances to Latin America and the Caribbean: Issues And Perspectives On Development",

of web-based transfers outweigh its challenges. Primarily, its operation can be low cost because the distribution is handled by the RSP themselves via their own website and often an associated call centre. This means that there is no need for an agent network which reduces the need to share revenue. Similar to cash-to-account transactions the bulking of transactions to take advantage of lower cost are also a feature of web-based transfers' method.

Web-based remittance services albeit a new phenomenon is not uncommon to Jamaica. In 2003, Xoom Corporation in partnership with PayPal a leading payment processor in the world and Paymaster launched an online to offline international money transfer service to Jamaica.²³



Senders have to open a PayPal account and must have internet access and a bank account or credit/debit cards. The transactions are processed by PayPal then sent to the local agent. Xoom sends money from thirty eight (38) countries to Jamaica. Despite the start up requirements, the Xoom method does offer the significant advantage of speed as well as much lower transaction cost than the traditional methods(see chart).

²³ www.Xoom.com

A hybrid to the internet –based remittance system is the cash-for-commodities method offered to the Jamaican market by the Superplus Foods group of stores. The online grocery store enables overseas clients to purchase groceries via the internet using their MasterCard or Visa credit card. After being paid for online, local based recipients are able to collect the groceries at any of the twenty eight (28) Superplus locations islandwide²⁴. The main advantage of this method is that the sender is able to save by reduced cost as no transfer costs are applicable.

Conclusion

The growth of Remittance inflows continue to play a dominant role in the landscape of the Jamaican economy .The use of remittances for household transactions as well as its role in tempering the Balance of Payments current account balance, places it as a pivotal source of income for the economy. The regulation of remittance flows in accordance with international best practices as well as the reduced cost associated with the innovations in remittance flows augurs well for continued expansion of the remittance inflows into Jamaica. Current demographic trends in the form of aging populations as well as low birth rates in developed countries have created significant migration opportunities skilled labor from LAC countries²⁵ Against this background, volumes of remittances are expected to continue to increase over time. This however, may be tempered by deteriorating economic conditions in these developed economies.

A suitable policy approach on Remittances for Jamaica would include modernizing the productive base of the local economy while leveraging resources from migrant foreign

²⁴ www.superplus.com

²⁵ IADB Report 2007

savings. This includes channeling remittance flows into feasible investment opportunities, with while encouraging savings creation through remittance flows. Engaging banking institutions more actively by identifying their opportunity costs in rural areas as well as providing significant tax incentives for remittance market will serve to increase the flow of remittances into Jamaica.

APPENDIX

TABLE 1: REMITTANCES INFLOWS FOR LATIN AMERICA & the CARIBBEAN

Country	Remittance Inflow 2007 \$USMn	Rank 2007	Rank 2006
Mexico	23,979	1	1
Brazil	7,075	2	2
Columbia	4,520	3	3
Guatemala	4,128	4	4
El Salvador	3,695	5	5
Dominican Republic	3,120	6	6
Ecuador	3,085	7	6
Peru	2,900	8	7
Honduras	2,561	9	8
Jamaica	1,964	10	9
Haiti	1,830	11	10
Bolivia	1,050	12	11
Nicaragua	990	13	12
Argentina	920	14	13
Chile	850	15	
Paraguay	700	16	13
Costa Rica	560	17	14
Guyana	424	18	17
Venezuela	330	19	15
Panama	320	20	16
Trinidad & Tobago	125	21-t	19
Uruguay	125	21-t	18
Suriname	115	23	20
Belize	105	24	21

Source: Inter American Development Bank

TABLE 2: REMITTANCES INFLOWS FOR LATIN AMERICA & the CARIBBEAN
Remittances Quarterly Growth 1Q 2006 - 1Q 2008

	2006				2007				2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
MEXICO	29.1	21.4	12.9	7.7	3	-1.2	2.7	-0.2	-0.3
EL SALVADOR	24.6	16.4	12.1	9.2	7.9	7.1	8	3.1	6.1
GUATEMALA	20.2	21.2	27.4	14.4	11.9	13.3	17.3	14.7	9.8
HONDURAS	38.6	41.9	26.8	20.9	12	9	12.4	6.9	6.9
NICARAGUA	13	13.2	18.7	8.7	-4.9	7.7	6.4	14.8	15.4
COLOMBIA	17.1	26.9	14.3	12.3	11	-2	23.2	29.1	19.9
ECUADOR	9.4	17.2	23.3	26.8	3.5	8.5	6.9	3	12.3
JAMAICA	3.6	7.6	7.4	9.9	7.8	10	11.8	13.9	11.9
DOMINICAN REPUBLIC	10.6	18.6	17.6	5.6	17.2	10.7	7.2	8.8	5.6

Source: Inter American Development Bank

**TABLE 3: SELECTED INDICATORS FOR JAMAICA
2004-2007**

Selected indicators (US\$mn)	2004	2005	2006	2007*
REMITTANCE INFLOWS	1465.8	1621.2	1769.4	1964.3
TOURISM EXPENDITURE	1437.9	1545.1	1870.1	1905.3
EXPORTS	1601.6	1664.3	2133.6	2226.4
FDI	601.6	682.5	882.2	866.5
IMPORTS	4098.6	4866.2	5801.4	6614.8
GDP	10111.4	11112.6	11963.9	12873.3
Remittance/Population (US\$) (Per Capita)	553.6	611.1	663.8	733.2
Selected Ratios (%)				
Remittances/GDP	14.5	14.6	14.8	15.3
Remittances/Tourist Expenditure	101.9	104.9	94.6	103.1
Remittances /Exports	91.5	97.4	82.9	88.2
Remittances/FDI (INFLOWS)	243.7	237.5	200.6	226.7
Remittances/Imports	35.8	33.3	30.5	29.7

External Sector Statistics Unit
Economic Information & Publications Department
Bank of Jamaica
October 03, 2008
* Provisional

**TABLE 4: REMITTANCES AS A PERCENTAGE OF EXPORTS 2001-2006
SELECTED COUNTRIES**

REMITTANCE TO EXPORTS						
Country	2001	2002	2003	2004	2005	2006
<i>Mexico</i>	5.6	6.5	8.1	8.8	9.4	9.2
<i>Brazil</i>	4.5	7.6	7.1	5.8	5.4	5.4
<i>Columbia</i>	13.7	0.0	22.2	22.4	19.0	16.7
<i>Guatemala</i>	20.4	60.0	68.8	79.6	55.6	59.9
<i>El Salvador</i>	66.1	73.1	73.5	76.3	82.5	93.0
<i>Dominican Republic</i>	34.2	40.9	40.5	41.1	43.6	45.0
<i>Ecuador</i>	29.7	30.0	25.7	21.8	19.2	22.1
<i>Peru</i>	13.2	16.4	14.2	10.6	14.4	12.1
<i>Honduras</i>	23.8	38.9	41.2	46.8	64.1	77.5
Jamaica	66.6	93.9	102.9	91.5	97.4	83.0
<i>Trinidad & Tobago</i>	1.0	1.5	1.7	1.5	1.0	
<i>Haiti</i>	265.4	339.7	293.0	271.8	234.7	333.7
<i>Guyana</i>	18.5	24.3	27.0	24.5	49.5	45.4

**TABLE 5: REMITTANCES AS A PERCENTAGE OF IMPORTS 2001-2006
SELECTED COUNTRIES**

REMITTANCE TO IMPORTS						
Country	2001	2002	2003	2004	2005	2006
<i>Mexico</i>	6.4	6.2	7.8	8.4	9.0	9.0
<i>Brazil</i>	4.7	9.7	10.8	9.0	8.7	8.1
<i>Columbia</i>	14.3	0.0	23.1	24.3	20.5	16.9
<i>Guatemala</i>	11.4	29.2	34.1	37.4	30.7	32.6
<i>El Salvador</i>	39.6	45.2	42.6	42.5	43.3	45.7
<i>Dominican Republic</i>	20.6	23.9	29.1	30.9	27.2	25.9
<i>Ecuador</i>	27.6	25.6	26.0	22.6	20.7	25.4
<i>Peru</i>	12.9	17.1	15.8	13.9	20.7	19.3
<i>Honduras</i>	16.6	27.4	28.4	30.8	41.6	46.8
Jamaica	31.5	38.7	42.8	35.8	33.3	30.5
<i>Trinidad & Tobago</i>	1.1	1.6	2.2	1.9	1.7	
<i>Haiti</i>	76.7	95.1	87.6	84.8	82.3	106.6
<i>Guyana</i>	16.6	23.2	26.1	24.2	37.7	34.1

**TABLE 6: REMITTANCES AS A PERCENTAGE OF FDI 2001-2006
SELECTED COUNTRIES**

REMITTANCE TO FDI						
COUNTRY	2001	2002	2003	2004	2005	2006
<i>Mexico</i>	30.2	49.8	88.4	73.9	100.8	119.9
<i>Brazil</i>	11.6	27.7	51.3	31.0	42.2	39.3
<i>Columbia</i>	69.5	0.0	174.5	125.1	40.3	65.0
<i>Guatemala</i>	128.2	1528.0	1607.6	1733.0	1320.2	1020.4
<i>El Salvador</i>	685.2	469.4	1640.2	701.3	467.4	1628.7
<i>Dominican Republic</i>	167.5	230.4	361.7	268.2	262.2	245.1
<i>Ecuador</i>	265.3	201.1	190.0	207.9	406.7	1070.1
<i>Peru</i>	81.3	58.7	97.0	85.1	96.7	82.8
<i>Honduras</i>	238.3	438.7	348.7	349.4	474.2	612.7
Jamaica	157.7	255.5	197.9	243.7	237.5	200.6
<i>Trinidad & Tobago</i>	4.9	7.5	10.9	8.5	10.3	..
<i>Haiti</i>	18409.1	16350.9	7087.0	17389.8	4142.3	1031.3
<i>Guyana</i>	160.7	272.9	524.9	476.7	351.6	263.7

**TABLE 7: SEASONALITY TEST FOR GROWTH IN AVERAGE SIZE OF REMITTANCES
JAMAICA Jan 2004- Nov 2007**

Months	US Value	Number of Transactions	Average Transaction	% Growth	Seasonal Dummy*
Jan-04	34,548,224	167,507	206.2		
Feb-04	35,337,282	178,818	197.6	-4.2	0
Mar-04	39,970,423	202,897	197.0	-0.3	0
Apr-04	38,459,235	196,811	195.4	-0.8	0
May-04	38,875,254	207,362	187.5	-4.1	0
Jun-04	37,853,833	201,259	188.1	0.3	1
Jul-04	38,295,337	199,963	191.5	1.8	1
Aug-04	37,466,201	192,890	194.2	1.4	1
Sep-04	40,531,574	217,962	186.0	-4.3	0
Oct-04	41,245,157	223,200	184.8	-0.6	0
Nov-04	37,120,972	197,278	188.2	1.8	1
Dec-04	48,047,737	249,237	192.8	2.5	1
Jan-05	34,119,780	180,762	188.8	-2.1	0
Feb-05	38,350,609	205,435	186.7	-1.1	0
Mar-05	43,821,185	234,073	187.2	0.3	1
Apr-05	44,789,316	238,163	188.1	0.5	1
May-05	43,105,968	235,582	183.0	-2.7	0
Jun-05	42,055,150	228,567	184.0	0.6	1
Jul-05	41,116,620	228,371	180.0	-2.1	0
Aug-05	43,815,988	229,117	191.2	6.2	1
Sep-05	44,167,276	240,631	183.5	-4.0	0
Oct-05	40,735,788	233,606	174.4	-5.0	0
Nov-05	39,904,053	218,949	182.3	4.5	1
Dec-05	53,439,534	282,981	188.8	3.6	1
Jan-06	38,552,173	204,668	188.4	-0.3	0
Feb-06	42,523,341	228,483	186.1	-1.2	0
Mar-06	47,897,219	252,628	189.6	1.9	1
Apr-06	46,048,527	249,447	184.6	-2.6	0
May-06	47,476,865	259,835	182.7	-1.0	0
Jun-06	46,164,535	252,664	182.7	0.0	0
Jul-06	45,717,216	247,820	184.5	1.0	1
Aug-06	46,191,395	241,831	191.0	3.5	1
Sep-06	47,592,344	262,602	181.2	-5.1	0
Oct-06	45,179,717	249,353	181.2	0.0	0
Nov-06	42,836,155	226,119	189.4	4.6	1
Dec-06	46,724,874	290,046	161.1	-15.0	0
Jan-07	41,340,276	217,092	190.4	18.2	1
Feb-07	43,959,273	233,479	188.3	-1.1	0
Mar-07	50,306,695	268,813	187.1	-0.6	0
Apr-07	46,123,962	252,182	182.9	-2.3	0
May-07	48,345,756	263,298	183.6	0.4	1
Jun-07	48,536,721	268,115	181.0	-1.4	0
Jul-07	45,010,508	244,706	183.9	1.6	1
Aug-07	47,245,171	255,594	184.8	0.5	1
Sep-07	47,405,941	264,705	179.1	-3.1	0
Oct-07	46,184,338	262,193	176.1	-1.6	0
Nov-07	42,816,839	235,321	182.0	3.3	1
Dec-07					

Source :Estimates based on information submitted by selected institutions

* - the irregular seasonal dummy tests through using a binary relationship if there.

was positive growth in the average size of transactions over the previous month. Findings indicate that a seasonal pattern exists in traditional holiday and back-to-school periods.

Table 8 : Average Transaction Value for Remittances by Source Country 2004 -2007

	2004	2005	2006	2007*	% CHANGE		
					2004/05	2005/06	2006/07
					INFLOWS (MN)	1465.8	1621.2
AVERAGE TRANSACTION TOTAL	200.5	194.7	194.8	201.5	-2.9	0.0	3.5
AVERAGE TRANSACTION BY SOURCE							
US	192.1	184.8	183.1	183.4	-3.8	-0.9	0.2
UK	338.0	260.2	300.6	337.6	-23.0	15.5	12.3
CAN	148.4	168.2	155.9	164.6	13.3	-7.3	5.6
CAY	173.2	178.8	170.3	173.2	3.2	-4.7	1.7
OTHER	243.7	312.9	347.0	375.7	28.4	10.9	8.3

Table 9: REMITTANCE GROWTH BY SECTOR 2004 -2007

	2004	2005	2006	2007*	% CHANGE		
					2004/05	2005/06	2006/07
					US\$MN		
COMMERCIALS BANKS	361.3	358.0	385.1	412.1	-0.9	7.6	7.0
REMITTANCE COMPANIES	763.4	961.9	1042.6	1166.3	26.0	8.4	11.9
POST OFFICE	1.2	1.2	0.1	0.1	2.1	-91.9	0.0
BUILDING SOCIETIES	339.8	300.2	341.6	385.5	-11.7	13.8	12.9
TOTAL	1465.8	1621.2	1769.4	1964.0	10.6	9.1	11.0

Jamaica's Remittances											
	US\$ Millions						% Change**				
	2003 Jan-Oct	2004 Jan-Oct	2005 Jan-Oct	2006 Jan-Oct	2007 Jan-Oct	2008* Jan-Oct	Jan-Oct 04	Jan-Oct 05	Jan-Oct 06	Jan-Oct 07	Jan-Oct 08*
Remittance Companies	553.1	616.1	785.8	853.5	952.3	1027.7	11.4	27.6	8.6	11.6	7.9
Building Societies	221.9	278.6	245.3	272.7	312.3	344.6	25.5	-11.9	11.2	14.5	10.4
Other Authorised Dealers	251.0	284.4	294.4	322.4	335.1	348.3	13.3	3.5	9.5	3.9	3.9
Total Remittance Inflows	1026.0	1179.0	1325.5	1448.6	1599.7	1720.6	14.9	12.4	9.3	10.4	7.6
Total Remittance Outflows	231.9	280.0	262.0	246.6	246.4	266.6	20.8	-6.4	-5.9	-0.1	8.2
Net Remittances	794.1	899.0	1063.5	1201.9	1353.3	1454.1	13.2	18.3	13.0	12.6	7.4
<p>** Growth relative to the corresponding period of the previous year. * Provisional</p> <p><i>External Sector Statistics Unit Economic Information & Publications Dept. Research & Economic Programming Division Bank of Jamaica</i></p>											

Overseas Affiliates 2007 (35 Companies)	Primary Agents 2008 (12 Companies)
<p>Antigua and Barbuda Co-operative Credit Union Caribbean Airmail Inc. (USA) Coinstar Money Transfer Ltd. * Envios de Valores La Nacional (USA) Envios Internacionales Inc. dba Amigo Envios Express Remittance Services (Grand Cayman) EZ Remit Ltd. First Financial Caribbean Ltd. Global Money Remittance Ltd. Jamaica National Overseas (CAN) Ltd. Jamaica National Overseas (UK) Ltd. Jamaica National Overseas (USA) Inc. Money Exchange (Spain) MoneyGram Payment Systems Inc. National Building Society of Cayman NCB Remittance Services (Canada) Ltd. NCB Remittance Services (Cayman) Ltd. NCB Remittance Services (UK) Ltd. Nouvelle Money Transfer Ltd. Omnex Group Inc. Pascarn Services t/a Cheque Point Money Transfer Rapid Remittance (Canada) RIA Envia Inc. (USA & Canada) Roraima Financial Services (Nevis) Ltd. Senvia Money Services Inc. Sun Transfer Holdings Swift Cash Ltd. (UK) TreasureCom Financial Holdings dba Caribpay (USA) Union Caribe (Aruba) Unitransfer (USA) Vigo Remittance Corporation (USA) VMBS Overseas (Canada) Inc. VMBS Overseas (UK) Ltd. Western Union Financial Services Inc. Xoom Corporation (USA)/Paypal (USA)</p>	<p>Alliance Remittance Services Ltd. Capital and Credit Remittance Ltd. City of Kingston Co-operative Credit Union Ltd. First Financial Caribbean (Ja.) Ltd. GraceKennedy Remittance Services Ltd. Itech Money Transfer Ltd. JN Money Services Ltd. JTS Remittance Company Ltd. Lasco Remittance Services Ltd. NCB Remittance Services (Jamaica) Ltd. Supreme Ventures Financial Services Ltd. VMBS Money Transfer Services Ltd.</p>

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