

2010

Americas Center Annual Review



A Note from Senior Vice President Mike Johnson



Since joining the Atlanta Fed as senior vice president of supervision and regulation at the start of 2010, following many years within the Federal Reserve System, I've had the opportunity to observe even more closely the work of the Atlanta Fed's Americas Center. As described in this *Annual Review*, the Center had another outstanding year as its staff and external partners collaborated on a range of programs and activities related to four key themes:

- Enhancing service while reducing the costs of payment processing within the Americas
- Broadening and deepening access to consumer banking products and services as well as financial education through community outreach programs
- Through important working relationships with regulatory partners, doing our part to further build the effectiveness of best practices for U.S. and region-wide consolidated supervision
- Improving our understanding of the economic, financial, and political dynamics driving change in the Americas through various research initiatives and forums

To highlight some of the Americas Center's key accomplishments, we have made progress in responding to increasing customer demand for low-cost, efficient cross-border payment vehicles. For example, FedGlobal® ACH Payments now offers a broad array of services to an increased number of countries in Latin America and Europe. As for banking supervision, we have purposefully built, over 15 years, a track record of continuous, consistent, and collaborative multilingual foreign technical assistance programs in an expanding variety of supervisory disciplines to central banks, banking superintendencies, and multilateral organizations throughout the region. Underpinning all of our work are ongoing efforts to better understand individual country and regional fundamentals and their interaction with global developments. In this regard, it goes without saying that the Center could not fulfill its core mission without the active interest and participation of our many external partners representing academia, financial institutions, regulatory and governmental agencies, and community groups.

These working relationships are fundamental to the Center's overall success as we look forward to a new year of exciting work in 2011. One upcoming initiative is our consumer banking conference, Strengthening the Financial Safety Net in Emerging Markets. Amid robust economic growth in Latin America there is untapped potential within the unbanked and underbanked populations. Here in the United States, we are

also interested in bringing more individuals into mainstream and closely regulated financial institutions and away from alternative service providers. It is our intent that these meetings and other work supporting our strategic themes will serve to promote sound financial education, provide low-cost financial service alternatives, improve the penetration of useful banking products and services, and foster more institutional and personal financial stability and economic development.

From its inception in 2005, the Americas Center has been a clearinghouse of ideas. So, as interested as we are in having you read the *2010 Americas Center Review*, we are equally interested, if not even more interested, in engaging with you about your ideas to further the work of the Americas Center. I hope this *Annual Review* helps to stimulate your ideas, so please contact us any time. We look forward to hearing from you.

A handwritten signature in cursive script that reads "Michael E. Johnson".

Mike Johnson
March 2011



The Americas Center's Purpose

The Americas Center, launched in 2005, is a cooperative initiative among the Federal Reserve System's Retail Payments Office, based in Atlanta, and the Atlanta Fed's Supervision and Regulation, Research, and Operations and Administrative Services divisions. The Americas Center provides a framework for collaboration among Bank staff whose responsibilities relate to the Americas. This collaboration enables the Bank to more efficiently leverage its strengths and integrate its resources to serve internal and external constituencies through a wide variety of initiatives. These include sponsorship of policy conferences, analysis of key regional banking and economic trends in the area, exchange programs, technical assistance, and public outreach and educational activities.

Our vision: The Americas Center is a clearinghouse of ideas and initiatives that support the Sixth Federal Reserve District and the Federal Reserve System and their connections to the Americas and Spain. We contribute to informed policies and practices that respond to the changing dynamics in Latin American, Caribbean, and Spanish financial institutions and markets. We bring thought leadership to the areas of critical emerging policy and regulatory issues that are of vital interest to our Bank's mission.

—Americas Center Strategic Plan

Highlights

This *Annual Review* highlights the Americas Center's most significant projects, products, programs, and initiatives in 2010. We invite you to visit our website to learn more. These achievements reflect the accomplishments of committed people from throughout our organization, often in partnership with colleagues from other institutions.

Improving service and reducing the costs of payment processing within the Americas

As global business is expanding, the Federal Reserve Banks are keeping pace with customer demand for low-cost, efficient cross-border payments. FedGlobal® ACH Payments delivers a range of payment options to help meet this demand, combining convenient access with robust customer support.

New countries, currencies, and payment options were the focus of the Retail Payments Office FedGlobal ACH Payments in 2010. Critical enhancements included adding an Account to Receiver (A2R) payment option for U.S. financial institutions to be able to participate in the global remittance market. A2R allows banks and credit unions to send payments from their customers to unbanked receivers abroad. The new payment option reaches Argentina, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua, Peru, and Uruguay. Launching the A2R service was a collaborative effort among the Federal Reserve Banks,

Sixth District Cash Operations

The Miami Branch of the Federal Reserve Bank of Atlanta serves as one of the two primary Fed offices that help satisfy global demand for the U.S. dollar currency notes and coin. As a gateway to the Americas, Miami provides cash services to 36 countries in Latin America and the Caribbean, making dollar payments to and accepting dollar deposits from financial institutions throughout the region, including several central banks. International cash services contribute 50-60 percent of Miami's total cash volume, and about 16 percent of the total Sixth District volume.

The value of U.S. currency payments to international endpoints in 2010 increased by 37 percent over 2009, driven largely by high demand in Argentina during the political and institutional crisis precipitated by President Fernandez Kirchner's decision to use central bank reserves to make sovereign debt payments. In contrast, currency deposits to the Miami Branch declined by 4 percent from the previous year, continuing a trend begun in 2009 that illustrates the impact of reduced remittance flows into Latin America as a result of migrant worker job losses.

Banco de Mexico, MicroFinance International Corporation in the United States, and Banco Rendimento in Brazil. FedGlobal also launched a new, bidirectional service to 22 European countries with Equens, a pan-European payments provider, and DZ Bank in Germany. The Europe service features payments in U.S. dollars, euros, British pounds, and Swiss francs.



The service also marks the first live implementation of the business model created by the International Payments Framework Association (IPFA), an international group formed to standardize the exchange of nonurgent, cross-border credit transfers.

The Atlanta Fed cosponsored the second Directo a México Jornada in 2010. The event featured materials designed to enhance participants' knowledge of factors influencing the sending and receiving side of payments, including banking regulations, payment options, and customer needs. The keynote address featured Donald Terry, formerly the head of the Multilateral Investment Fund at the Inter-American Development Bank. Attendees visited the Mexican Consulate in Atlanta to learn about consular services for Mexicans abroad and opportunities for collaborating with U.S. financial institutions. They also viewed the process of obtaining a Matrícula Consular de Alta Seguridad, or consular identification card. Cosponsors with the Atlanta Fed were Banco de Mexico, the Institute of Mexicans Abroad in the Mexican Foreign Ministry, and Bansefi.

Broadening and deepening access to consumer banking products and services, financial education, and community outreach programs

The Central Bank of Brazil and Instituto Palmas, a community development bank in Brazil, invited the Americas Center to participate in a forum to discuss community development banking. Ana Cruz-Taura, regional community development director with the Atlanta Fed's Community and Economic Development function, spoke on two panels during the conference, presenting an overview of the U.S. community development finance network and the role of financial education in supporting access to banking. Latin American and U.S. banking and community development professionals are equally interested in providing access to responsive and responsible mainstream bank products for the previously unbanked and underbanked.



Access to emergency funds and financial services was also a major consideration in Haiti following the January 2010 earthquake. The Atlanta Fed, working through Community and Economic Development, became an active partner in disaster response and planning for the large Haitian-American diaspora located in South Florida. For example, when the U.S. Department of Homeland Security granted temporary protected status (TPS) to Haitian nationals who had been in the United States since before the earthquake, the Americas Center posted a TPS Fact Sheet that provided information to individuals, community groups, and financial institutions about the immigration status granted by TPS and the resulting access to U.S.-issued identification and financial services.

The Americas Center undertook other activities related to the earthquake response and the Haitian-American community, including organizing meetings regarding the re-establishment of central bank functions and introduction of mobile banking services, inclusionary community planning and disaster recovery, rebuilding contract opportunities for Haitian-American businesses, and social service network collaboration to meet emerging needs of Haitians in South Florida.

The Center participated in a range of other outreach activities. Atlanta Fed economists presented their research at the central banks of Argentina and Bolivia, and economists from the central banks of Chile and Brazil visited the Atlanta Fed. A delegation from Brazil's Institute for Applied Economic Research spent three days visiting the Atlanta Fed's research department. Professor Tapen Sinha of the Instituto Tecnológico Autónomo de México (or ITAM) in Mexico City spent part of his sabbatical year at the Atlanta Fed. The Americas Center hosted two state department delegations from Latin America and the Caribbean and an industrial financial group from China visiting the Miami Branch. It also hosted an event for delegates to the 2010 Americas Competitiveness Forum in Atlanta.

Working with partners to build the effectiveness of U.S. and region-wide consolidated supervision

The chief responsibilities of the Atlanta Fed's Foreign Banking Organization (FBO) Analysis Team, a part of international supervision, are understanding the home country economic-

political-financial system operating environment and determining a “strength-of-support assessment” (SOSA) by foreign parent banks, primarily originating from Latin America and Spain, for their U.S. operations. In executing these responsibilities, team members travel throughout South and Central America and Spain conducting meetings with the head offices of foreign banks with operations in the United States, foreign central banks, banking superintendencies, banking associations, rating agencies, and local offices of major U.S. banks. During 2010, FBO visits were conducted in Brazil, Costa Rica, Colombia, Peru, and Spain. Beyond executing the SOSA responsibility, these visits also serve very useful outreach purposes.

Additionally, Atlanta Fed staff worked closely with the Board of Governors serving as bilingual instructors on foreign technical assistance (FTA) missions for classes held in the United States and abroad and attended by foreign regulators. These classes were held in Lima, Peru; Miami, FL; Buenos Aires, Argentina; Mexico City, Mexico; and the Cayman Islands, as well as several international schools in Washington, DC. Fed representatives also spoke at the Financial Action Task Force of South America meeting in Lima, Peru, and participated in anti-money-laundering conferences in Medellin and Cartagena, Colombia. Some local outreach activities included conducting web-based courses for members of the Florida International Bankers Association (FIBA) on trade finance.

Better understanding the economic and financial dynamics driving change in the Americas

In October, the FBO team in conjunction with FIBA hosted the Americas Center breakfast forum, Southeastern U.S. Regional Economic Outlook and Regulatory Reform Update. An Atlanta Fed economist and a DC-based regulator provided insights and views on the South Florida economy, focusing on international trends and perspectives as well as the implications

The Changing Economic and Political Landscape

In December, the Americas Center and the Center for Hemispheric Policy at the University of Miami cohosted a conference on The Changing Economic and Political Landscape in Latin America: Outlook for 2011. An audience of 80 professionals convened to hear panelists Paulo Leme (Goldman Sachs), Claudio Loser (Centennial Group), Rafael de la Fuente (UBS), Lilian Rojas-Suarez (Center for Global Development), and Susan Kaufman Purcell (University of Miami). Atlanta Fed First Vice President Patrick Barron presented opening remarks. The panelists focused on risks to the outlook as they discussed a number of key topics, including the sustainability of the region’s current economic growth pattern, trends in foreign currency valuation, and the potential economic impact of Brazil’s recent oil discoveries.

of regulatory reform for the international banking sector. The forum provided an opportunity for dialogue between international bank representatives in the Miami community and supervision and regulation staff on a timely topic.

In November, the Center cohosted a research workshop with the American Society of Hispanic Economists on economic issues affecting the Hispanic community. Economists from throughout the country presented papers on topics that included education, income distribution, immigration, and remittances. Highlights of the conference included “Immigration and Child-Care Patterns Among College-educated Mothers in the U.S.: Evidence from Time-Use Data,” by Catalina Amuedo-Dorantes and Almudena Sevilla Sanz, and “Assimilation and Cohort Effects beyond the Labor Market: Time Allocations of Hispanic Immigrants to the U.S.,” by Andres J. Vargas and Manuel Chavez.

In December, the Americas Center and Mercer University’s Stetson School of Business cohosted the fourth annual Southeastern International/Development Economic Workshop in Atlanta. The meeting, which began in 2007 as a workshop for researchers from Atlanta-area

Remittances and Immigration Conference

Economists from leading universities convened at the Atlanta Fed to discuss new research on remittances and immigration. One of the highlights of the conference was a paper by University of California, Davis professor Giovanni Peri, who argued that unskilled immigrant labor helps prevent U.S. firms from relocating offshore. Peri concluded that immigration generates cost-savings for U.S. firms and thus a corresponding increase in productivity, so immigration’s aggregate effect on the level of low-skilled native employment in the United States is positive. This finding contrasts with research conducted by George Borjas of Harvard University, who also participated in the conference. Borjas suggested that immigrants with similar skill levels tend to be substitutes rather than complements for native workers.

Another presentation looked at remittance flows, which can generate billions of dollars in fees. Dean Yang from the University of Michigan quantified the impact of money transfer fees on remittances flows. Using a unique field experiment among Salvadoran migrants in the Washington, DC, area, Yang randomly assigned discounts on remittance transactions fees to migrants. Surprisingly, minor reductions in remittance fees led to large increases in total transfers. For instance, a \$1 reduction in transaction costs generated \$25 more remitted per person per month. Yang said this finding suggests that a reduction in transaction costs can lead to very sizable gains in recipient countries.

Other papers included new research aimed at quantifying the effect of female migration on children left behind, the role of sponsorship on immigration, the impact of immigrants on the educational attainment of natives, the productivity gains from skilled migration into the United States, and the role of seasonal migration in mitigating famine in Bangladesh.



universities, has become more widely known, and now attracts interest from economists throughout the world. The number and quality of abstracts have also increased each year. A highlight from this year's conference included "Economic Shocks and Civil Conflict: Evidence from the Constraints of the Open-Economy Trilemma," a paper by Peter Hull and Masami Imai exploring the impact of short-term economic shocks upon the political and economic performance of ethnically divided states. Georgia State University graduate student (and Americas Center intern) Gustavo Canavire-Bacarezza presented "Ethnic Wage Gaps in Segmented Labor Markets," another notable paper. Using household survey data from Bolivia, Brazil, Guatemala, and Peru, Canavire-Bacarezza estimated and analyzed wage gap distributions among ethnic groups over time in informal and formal markets, and examined factors that explain their differences.

Americas Center dissertation internship

Each year, the Americas Center invites doctoral candidates writing dissertations on economic topics directly linking to Latin America and the Caribbean to apply for the Americas Center summer dissertation internship. The student is expected to make significant progress on his or her dissertation during an eight-week tenure at the Bank. The student must also make two formal research presentations and be available for consultation with staff from the Research Department and other areas of the bank.

The 2010 dissertation intern was Cesar Sosa Padilla Araujo of the University of Maryland, whose dissertation analyzes sovereign defaults. While in residence at the Atlanta Fed, he looked at the role of domestic debt on the cost of sovereign defaults and worked on a paper on a sovereign default framework that quantifies the importance of the debt dilution problem in accounting for overborrowing and sovereign default risk.

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Some members of the Americas Center staff (left to right): Laurel Graefe, James McKee, Stephen Kay, Thomas Cunningham, Carolyn Healy, Elizabeth McQuerry

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