

Opportunities & Obstacles for Banks in Remittance Market

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**“Clearing the Path to Hemispheric Growth:
Expanding Credit to Create Jobs and Alleviate Poverty”**

Florida International University

June 4, 2005

Outline

- Opportunities
- Challenges
- Fed Involvement
- Innovative Solutions

Opportunities

- Remittances are Big Business – transactions
- Remittance Senders Need Financial Services – relationships
 - New customer segment
 - Hispanic buying power
 - Latinos known to be very loyal customers
- Possible Community Reinvestment Act (CRA) credit for offering remittance services – compliance

Challenges

- Potential Customers May be Undocumented
 - Regulatory compliance and procedure choices to be made
 - Cross-border payments like remittances may require additional scrutiny and compliance
- Potential Customers May be Unbanked
 - Trust and familiarity issues
- Money Transfer Businesses Dominate Market
- Marketing & Customer Service
 - How to Approach Customer?

Challenges (continued)

- Lack of Person-to-Person Payment Model
 - No tradition of electronic P2P in United States
- Technology
 - ACH (automated clearinghouse) was designed as a back office tool
 - How to affordably leverage efficiencies into new customer tool?

Fed Involvement

Partnership for Prosperity

The Banco de México and the U.S. Federal Reserve agreed to study the possibility of setting up an automated clearinghouse system (ACH). Once established, there will be an efficient interbank mechanism to carry out payments between both countries that will be available to all financial institutions.

Partnership for Prosperity, September 2001

What We've Done

- Federal Reserve and Banco de México created an electronic payments highway – available to all banks and credit unions – that accommodates both personal payments (i.e., remittances) and commercial payments
 - FedACH InternationalSM Mexico Service
 - Highly efficient
 - Low-cost
 - Wholesale foreign exchange rate applied to all payments, regardless of amount
 - Move to next business day delivery starting in July

What We've Done (continued)

- Contributed to lowering the costs of sending funds to Mexico
 - 23,000+ items per month
- Support for bankarization
 - Account to account product
 - Reach any bank account in Mexico
 - Created a product that fits perfectly into standard payments practices by banks today

What We've Learned

- Technology not the problem
 - We Built It
 - How to Innovate Change in Banking Practices?
- Cost may not be the main problem
 - How to Innovate Change in Banking Practices?
 - Distribution channels (banks, credit unions, ATMs)
- Need to focus on banking both remittances senders and receivers
- Speak to the people, not the product

Innovative Solutions

- Support banks in promoting remittances
 - Directo a MéxicoSM
 - Joint promotional campaign by Banco de México, Embassy and Consulates of Mexico, and the Federal Reserve Banks
 - White-branded funds transfer product for financial institutions
 - “Marketing in a Box” – promotional ideas and bilingual materials
 - Messaging – Communicates key product attributes and value to customer

Directo a México



Innovative Solutions (continued)

- Support bankarization – Beneficiary Account Registration
 - Bansefi and L@Red de la Gente to provide internet utility to facilitate accounts at cajas for receivers of remittances
 - Accounts will be low cost and offer additional services to remittance receivers in Mexico
 - CLABE for receiver to be generated on website
 - Account owner must visit caja with proper identification to finalize account opening
 - Transferred funds available at caja at time of account opening
 - Account owner now has a bank account and can begin using bank services and continue to receive remittances
 - Pilot program begins during summer; full availability of website to U.S. banks later in year

Innovative Solutions (continued)

- Support innovation in technology and business process
 - Work with industry to make ACH format compliant with Travel Rule requirements and carry additional data
 - Discussions with industry groups and software providers on existing gaps for banks to serve remittance customers

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