

Panel Discussion on Cross-Border Remittance Process

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Focus on US – Mexico Transfers and the Banking Industry

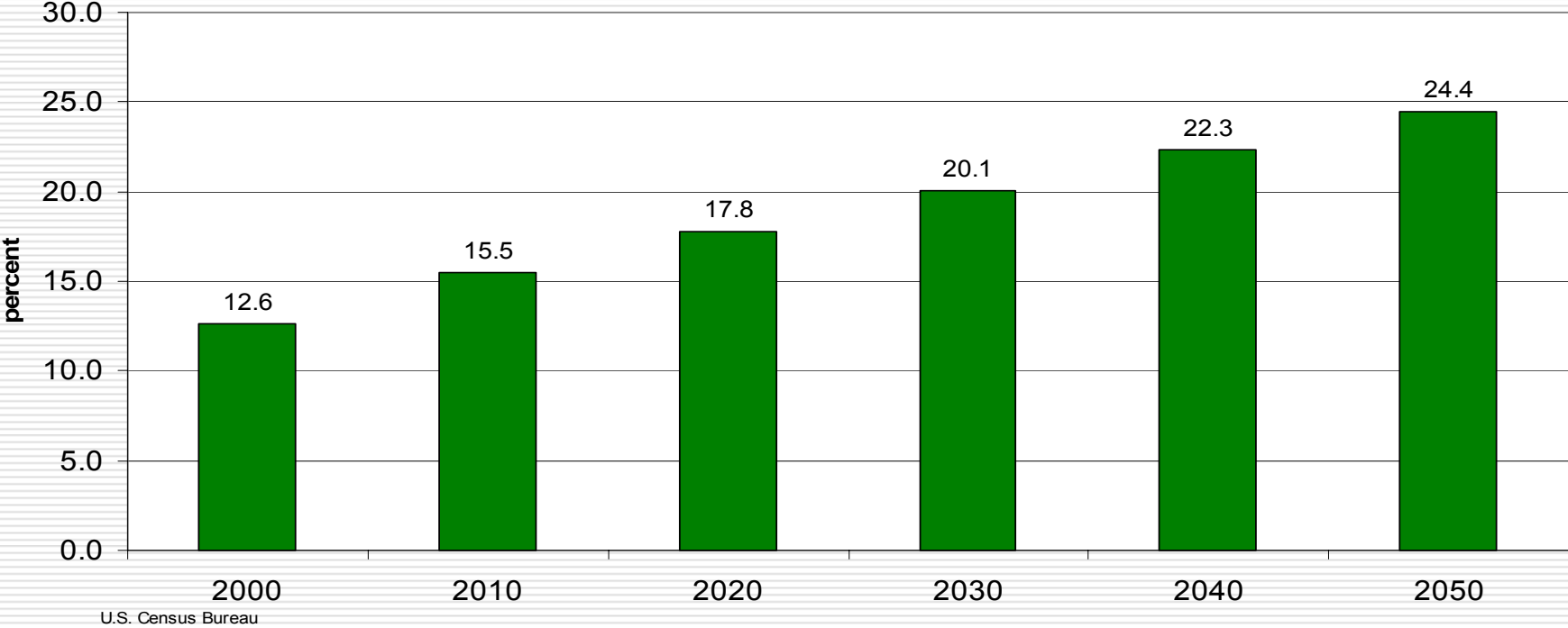
- Background
 - Banking & Electronic Payments in Mexico
 - Results
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Background

The Premise and the Promise

Demography & Economics

Hispanics as Percentage of Total U.S. Population



Mexican Population in the U.S.

□ 2002 Census:

- 32.8 million Latinos/Hispanics
 - 66.1% are of Mexican population
- 21.7 million persons of Mexican origin
 - up from 13.5 million in 1990 census
- Estimated 5-10 million Mexicans not legalized

□ Buying power estimated at \$580 billion in 2002

- Faster growth rate (8.8%) than non-Latinos (4.9%)
 - Projected to more than double by 2008
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Policy Imperative

- Partnership for Prosperity (September 2001)
 - Increase investment in housing.
 - Investing in infrastructure for commerce.
 - Financing U.S. franchise opportunities for Mexican entrepreneurs.
 - Supporting small businesses in Mexico.
 - Lowering the cost of sending money home.
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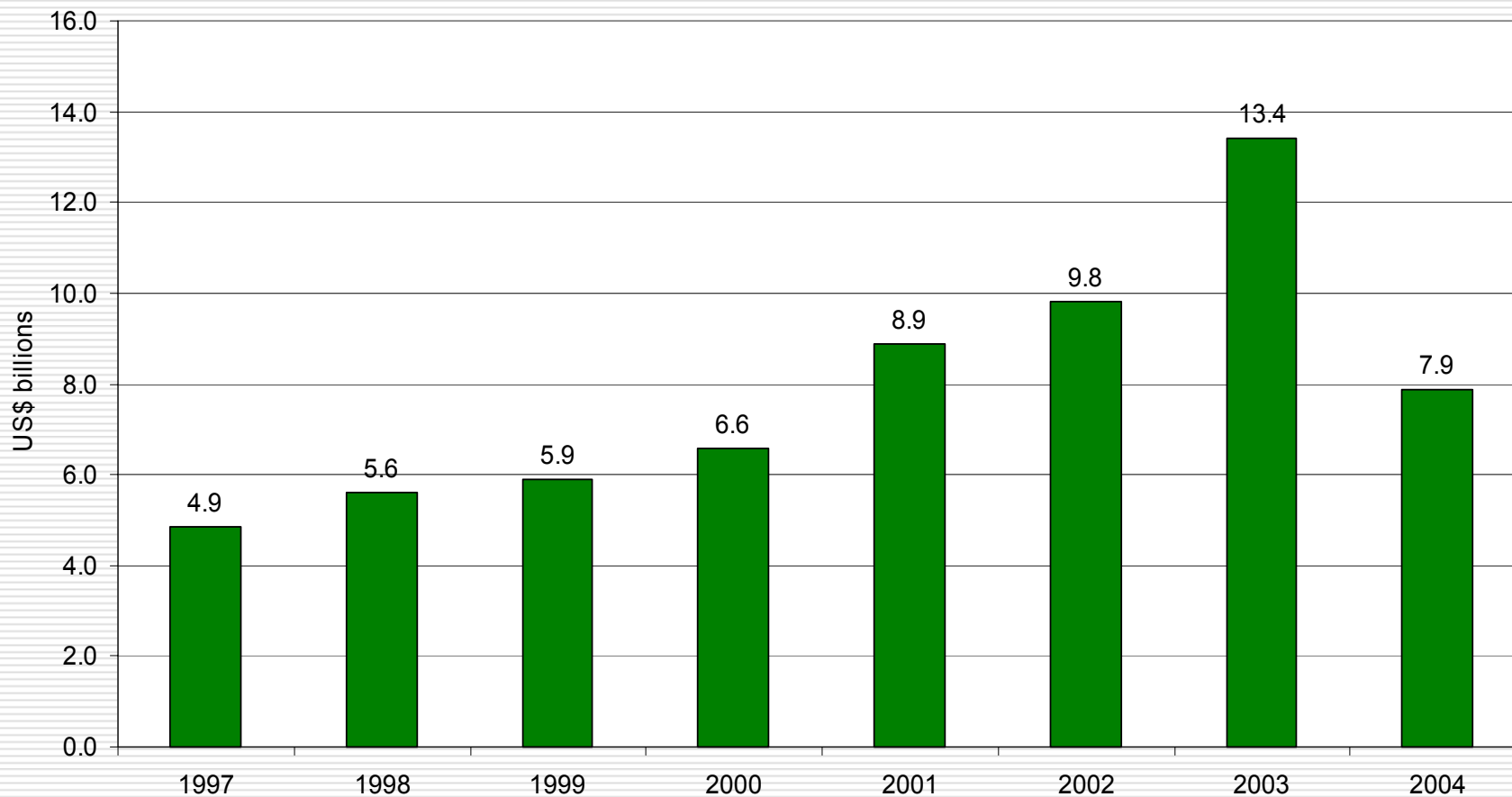
Policy Imperative (2)

- ❑ P4P had no stimulus, incentives or enforcement capacity – purely top down encouragement of policy goals
 - ❑ Private and public sector involvement has been tremendous
 - ❑ Significant results, especially considering policy initiative was non-binding
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Remittances, circa 2000

- ❑ Rapidly growing volumes
 - ❑ Market underdeveloped in terms of product offerings and infrastructure
 - ❑ Wires totally dominate as money transfer channel (infrastructure and consumer preference)
 - ❑ Consumer information/transparency virtually non-existent
 - ❑ Rapidly growing market with high fees
 - ❑ Relatively little regulatory focus
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U.S.-Mexico Remittance Volumes

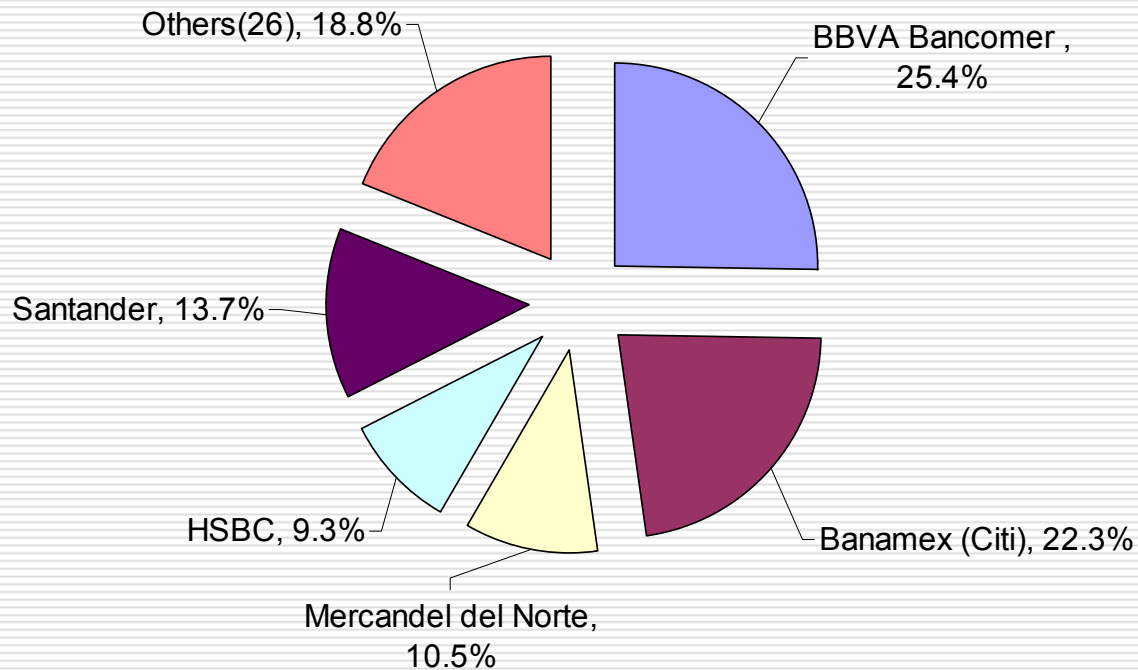


Source: Banco de Mexico. 2004 data are Q1 and Q2 only.

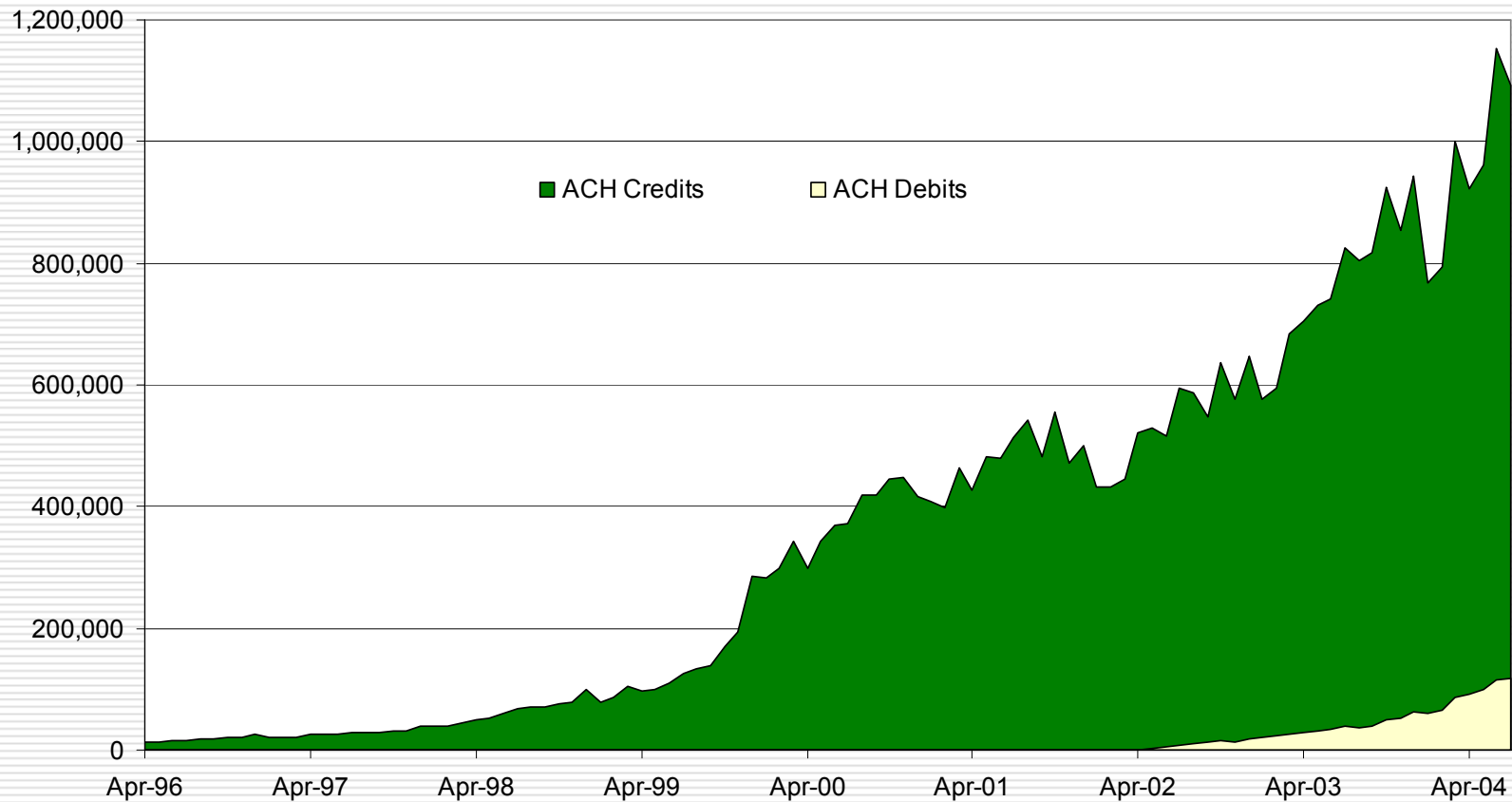
Banking & Electronic Payments in Mexico

The Reality

80% of Market in 5 Banks

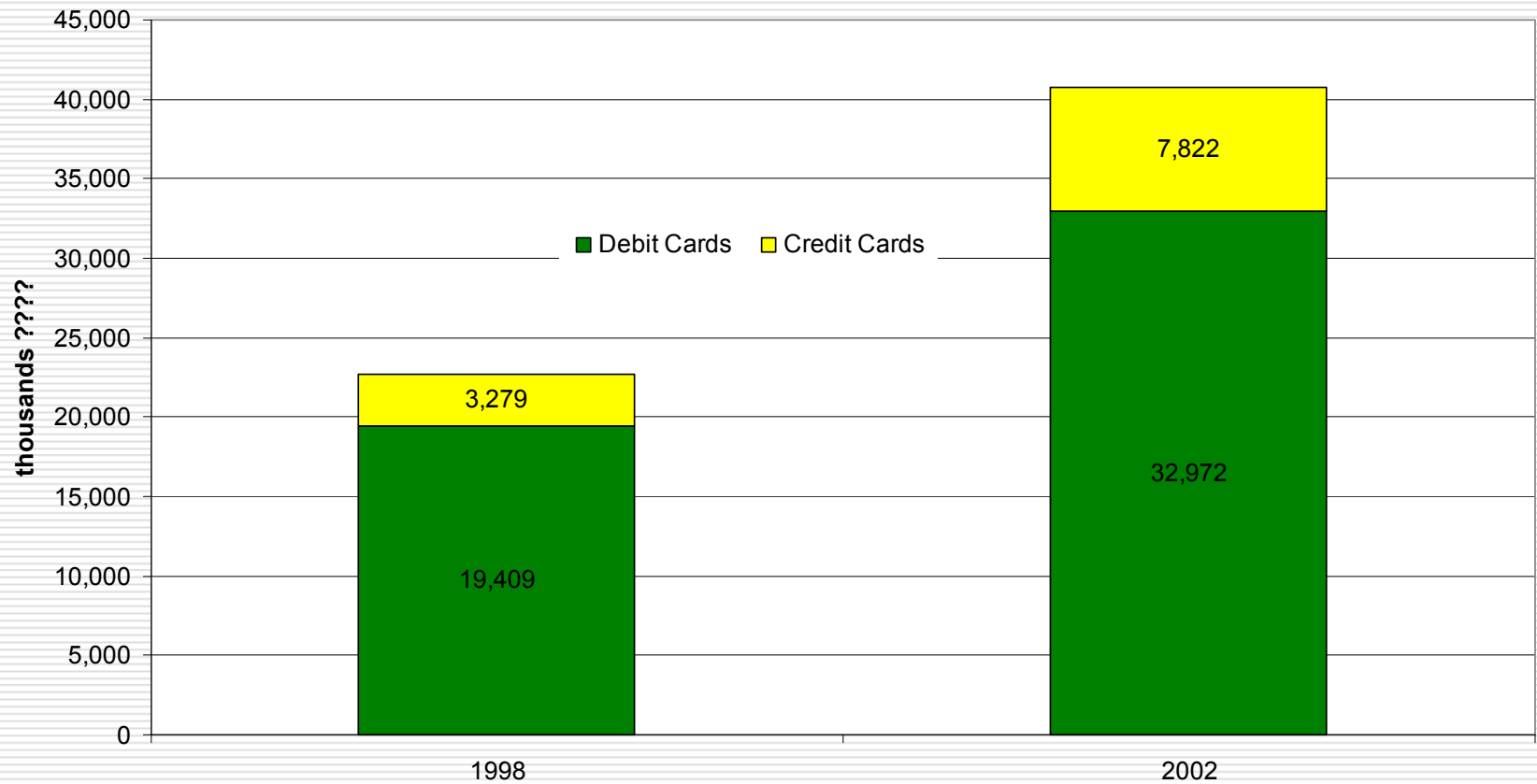


ACH (TEF) statistics



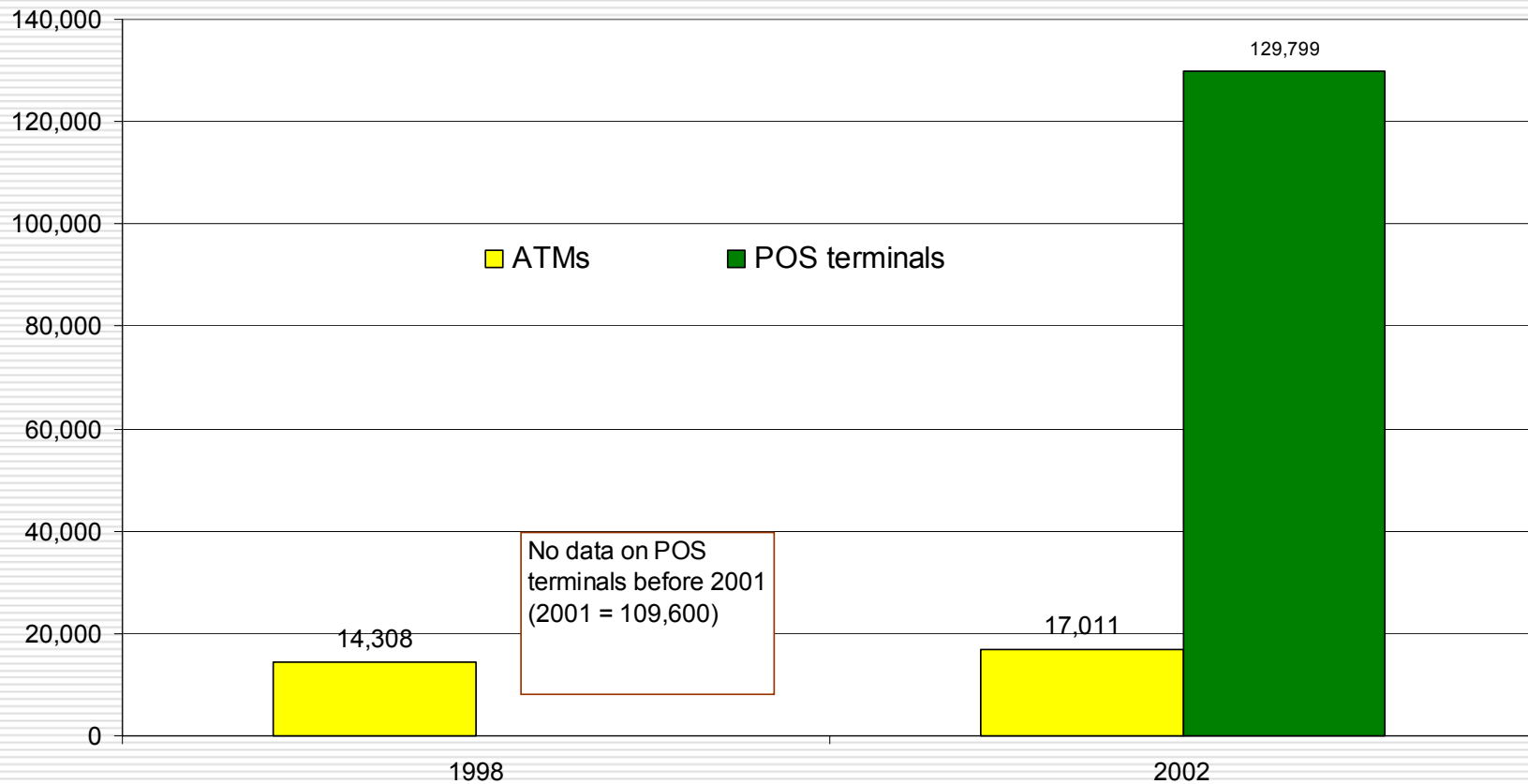
Source: Banco de Mexico.

Cards



Source: Banco de Mexico.

ATM & POS terminals

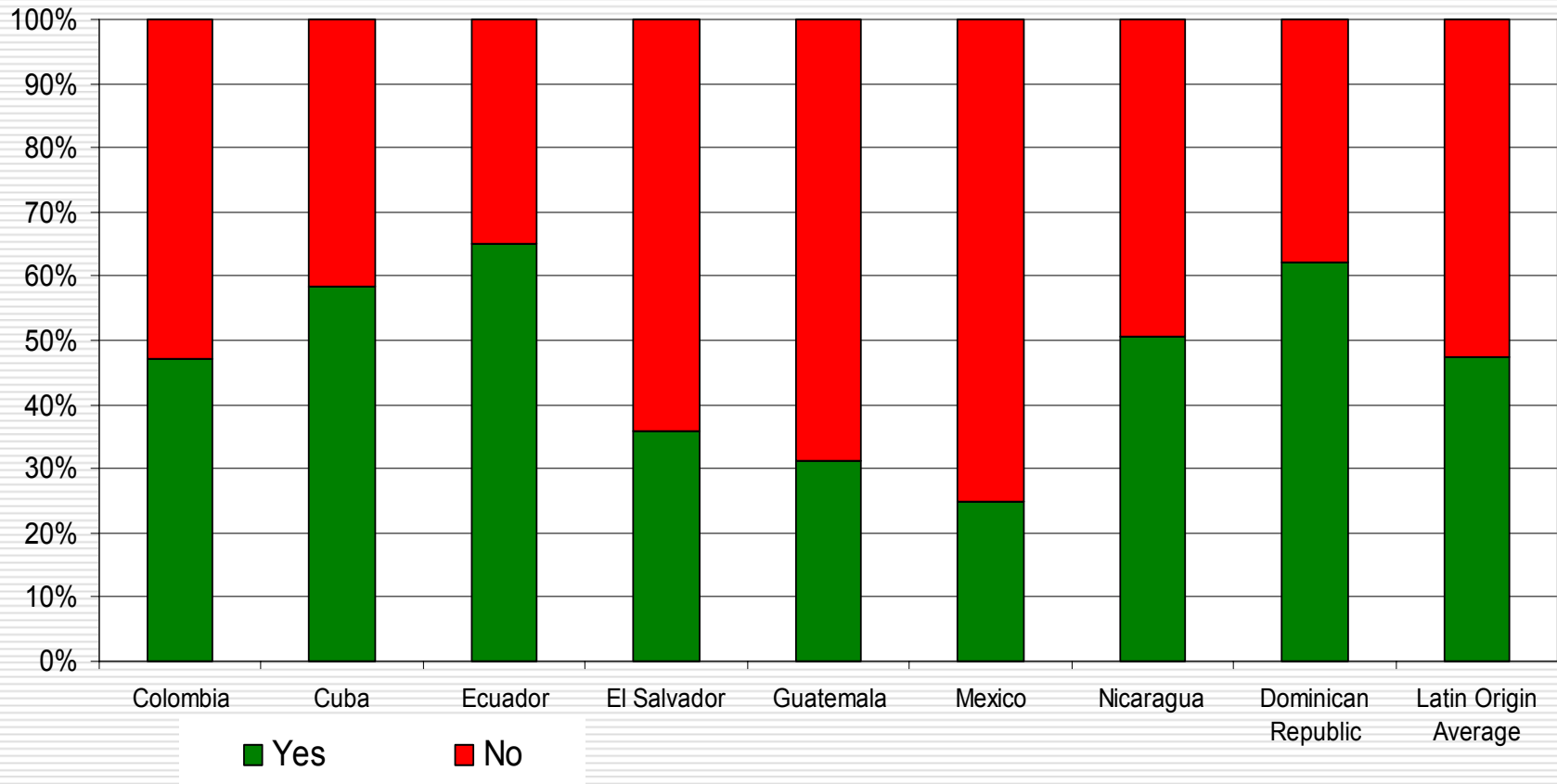


Source: Banco de Mexico.

Low Branch & Bank Account Density

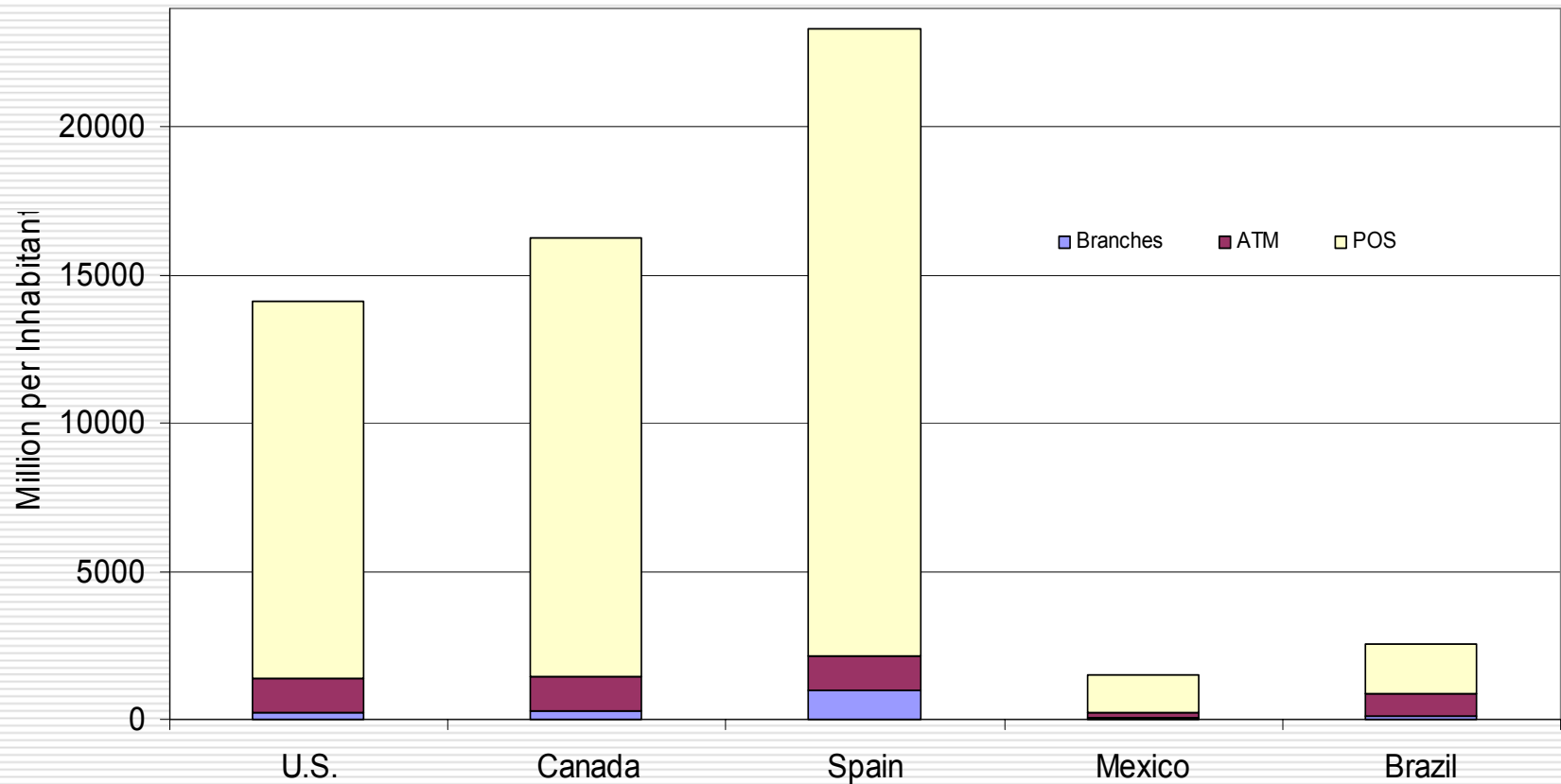
- Branches per 10k inhabitants
 - Average – 0.79
 - Median – 0.74
 - Bank accounts per 10k inhabitants
 - Average – 3,149
 - Median – 2,869
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Tendency to Maintain a Bank Account in U.S. by Country of Origin



Source: Pew Center.

Financial System Reach



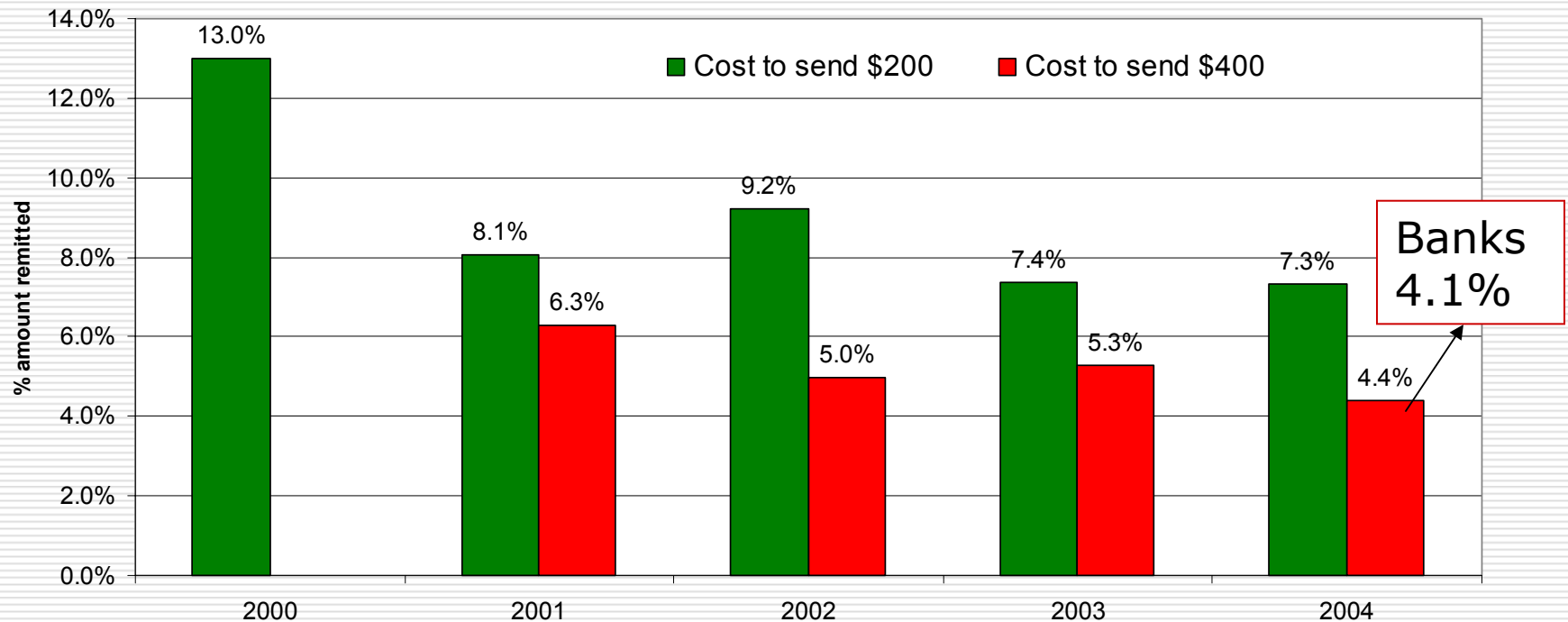
Source: Banco de Mexico presentation.

Results

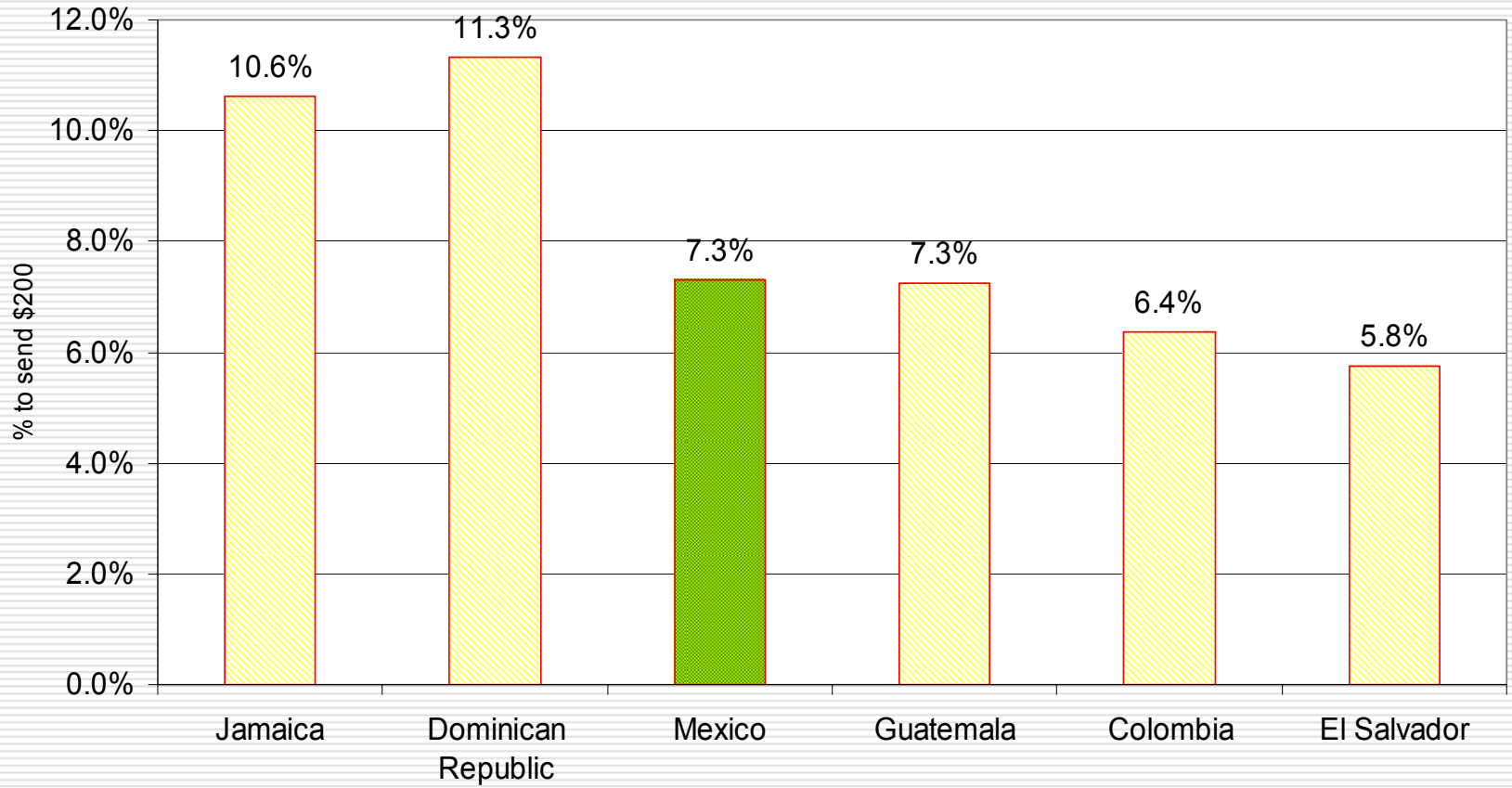
Remittances, circa 2004

- ❑ Volumes still growing rapidly
 - ❑ Wires continue to dominate transfer channel but other infrastructures gaining some traction
 - ❑ Much more transparency and consumer information
 - ❑ Heightened regulatory focus on industry (AML & Embargo)
 - ❑ New focus on enhancing developmental value of remittances
 - ❑ Fees have continued to fall ...
 - ❑ Banks in US targeting Latinos as customers
 - ❑ Market maturing toward electronic payments, especially in U.S.
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Average Transfer Costs Declining ...



... But Still (Somewhat) High by Comparison



Latino Immigrants as Customers

- Needs and preferences different than standard bank practices:
 - Relationship building
 - Identification (matrícula consular)
 - Spanish-speaking personnel
 - Expanded hours & weekends
 - Location
 - New products in checking, cards, lending, remittances
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Early Conclusions

- ❑ Some banks making successful inroads with Latino customer segment
 - Wells, Citi, BofA, Harris Bank, USBank have distinguished themselves as innovative leaders in money transfer business to Mexico and in attracting Mexican customers
 - Credit unions and small banks gaining in money transfer market as well as in offering innovative credit building and loan programs
 - ❑ Low cost electronic highway for ACH now exists for all banks
 - ❑ New programs in development to increase bank account usage in Mexico and to facilitate banked, ACH transfer channels
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Early Conclusions (2)

- Long term project – banks only beginning to understand Latino customers and to take advantage of market opportunities
 - In money transfer market, banks must convince senders to be banked customers and that their products are trust-worthy
 - Summit of the Americas goal to eliminate regulatory obstacles that affect the cost of transfers and reduce their average cost of transfers to Latin America by at least half by 2008 is ambitious but attainable
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