



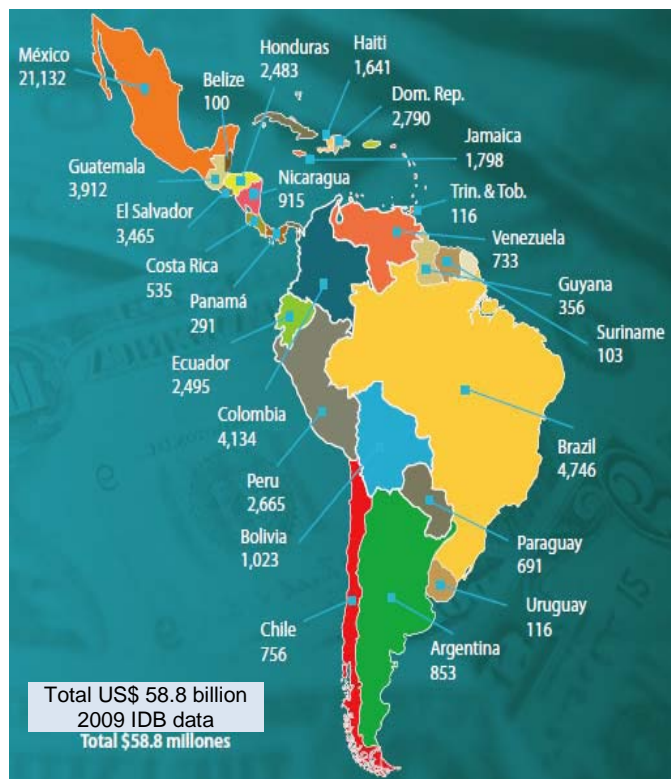
Remittances from Accounts

Resource Guide

Remittances, or money transfers, continue to be one of the most widely used financial services. Yet banks and credit unions have been slow to participate in this market and facilitate only a small percentage of remittance transfers. The Federal Reserve, realizing the challenges presented by the growing need for international payments services, is enabling financial institutions to offer remittances to their customers through the FedGlobal[®] ACH service.

Financial institutions are now able to transfer funds on behalf of their account holders to unbanked receivers in 11 Central and South American countries—Argentina, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, and Uruguay. Additionally, 25 countries are available for banked receivers—Canada, Mexico, Panama and 22 European countries.

The *Guide* features facts and figures about the remittance market to Latin America, ideas on developing a business case, as well as a marketing plan and information on regulatory compliance requirements.



The Opportunity

Remittances from the U.S. to Latin America represent a large flow of funds, reaching nearly \$60 billion in 2009, of which more than \$21 billion goes to Mexico alone, making it the single most important receiving country in Latin America. Given the size of this market, remittances can be an attractive component of any financial institution's portfolio and, in today's globalized world, they are increasingly a "must have" to remain competitive. As with any new offering, financial institutions need to understand the service and how to successfully deploy it.

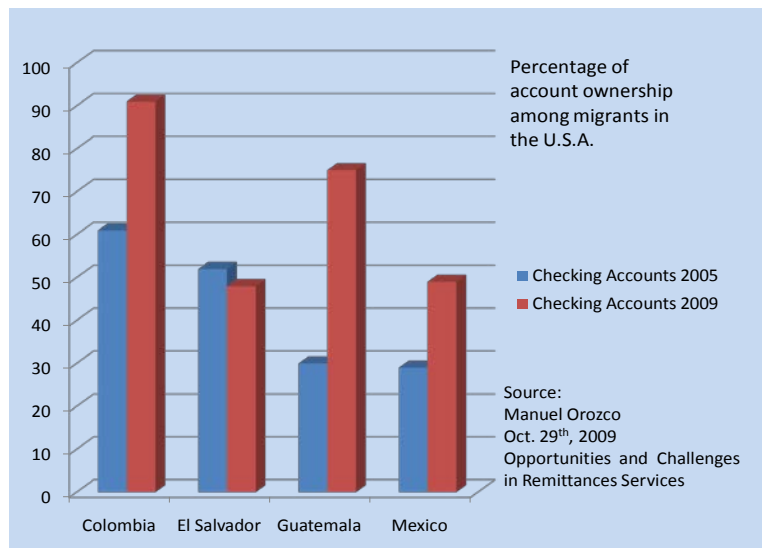
In the past, banks and credit unions have chosen not to offer remittances for a number of reasons. For instance, a remittance service required additional compliance, and different marketing, and, since many receivers in the destination countries didn't have bank accounts, there was no way to forward the payment.

Many of these important concerns can now be addressed through the **FedGlobal Service**, which can help minimize the burden on financial institutions in search of a remittance offering. The Federal Reserve is able to channel the international remittance payments through the **U.S. domestic payment system**. Additionally, the Federal Reserve Banks can assist financial institutions by providing customizable marketing materials and a transaction format that includes all the data required for money transfers, while capitalizing on the use of our domestic clearing house as a link to foreign financial institutions and regulated money transfer payers in the receiving countries.

Until now, most remittances have been sent via money transfer organizations, and banks have had a relatively small share of the market, mainly by offering international wire transfers. With FedGlobal, banks now have a significant opportunity to increase their market share, particularly in light of other diminishing margins.

The number of individuals with the potential to make remittances to Latin America is growing. There were 50 million Latinos in the U.S. as of 2010¹ and the population is predicted to grow to 60 million by 2020.²

Seventy-two percent of all immigrants born in Latin America send money to their country of origin on a monthly basis.³ Additionally, the number of Hispanic-owned businesses (2.3 million) has grown at a rate twice the national average.⁴ Furthermore, while 60 percent of Latinos have savings, only 20 percent use a savings account,⁵ As indicated in the adjacent graph, checking accounts are also underutilized among Latinos.



It is apparent that there is a significant opportunity to offer financial services to the Hispanic population. While Hispanics have been traditionally concentrated in nine states—with around 80 percent residing in Arizona, California, Colorado, Florida, Illinois, New Jersey, New Mexico, New York, or Texas—other states, including Georgia, Nevada, Massachusetts, North Carolina, Oregon, Virginia, and Washington, have experienced significant growth rates.⁶

FedGlobal is an option for any financial institution that originates ACH payments. Using NACHA formats and the ACH network, **any bank or credit union can now offer remittances**.

Information on formats, payment flow, currencies, and other details are on the FedGlobal ACH Payments Service Origination Manual available online at:

http://www.FRBservices.org/files/serviceofferings/pdf/fedach_global_service_orig_manual.pdf

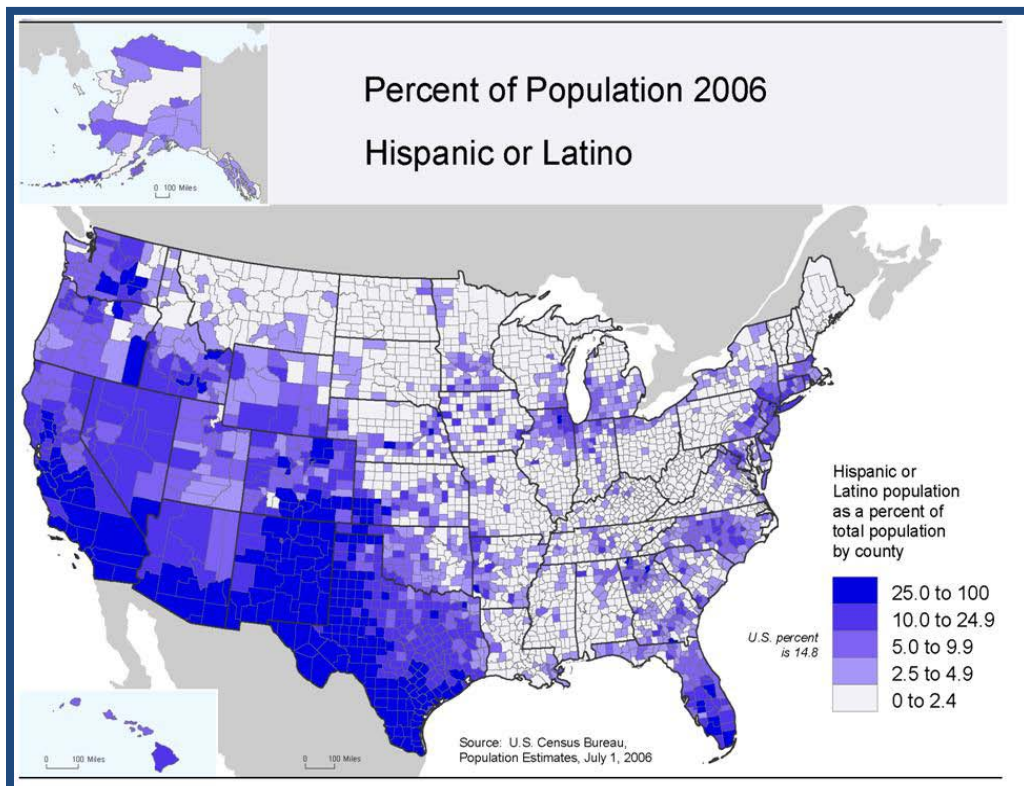
Business Case

As with any new service, implementation should involve coordination among several areas of a financial institution. Generally these include:

- Retail Management** to champion the service and approve the business case
- Marketing** to implement branding and promotion
- Compliance** to incorporate FedGlobal into the financial institution's compliance policy
- Operations** to implement the service and procedures
- Community Development** to help substantiate the need in the local market
- Treasury Services** to capitalize on another department that could also benefit

Together these areas can provide valuable input for the business case, define how the service will be offered, and ensure a successful implementation. Key components of the business case might include: potential demand for the product; pricing; customer retention; and cross-selling opportunities.

Help in estimating potential demand for the service can come from several sources. Just as community development and business banking representatives have local knowledge of the different community groups and small businesses that could utilize the service, financial institutions can also take advantage of U.S. Census data that details populations of Hispanic origin at the state and county level. This data is located at: www.factfinder.census.gov and http://www.iadb.org/mif/remesas_usaMAP.cfm?&parid=5



Any business case should factor in local knowledge of where branches are located relative to known Latino communities or workplaces, as well as estimated changes to these figures over the coming decade. Information to help determine the right price for the service can come from a variety of sources.

Country	Surcharge to financial institutions		Average cost to consumers
	Account (A2A)	Unbanked (A2R)	
Account to:	Account (A2A)	Unbanked (A2R)	
Mexico	\$0.67	\$3.45	\$12.59
Brazil	.	\$4.40	\$13.34
Colombia	.	\$4.40	\$21.05
El Salvador	.	\$4.40	\$11.08
Guatemala	.	\$4.40	\$13.64
Honduras	.	\$4.40	\$10.34
Peru	.	\$4.40	\$15.27
Europe	\$1.25	.	\$30-\$70
Panama	\$0.72	.	\$30-\$70
Source: www.remittanceprices.worldbank.org/countrycorridors . August 2010			
Not official data for Europe and Panama costs is available. Anecdotal data based on limited customer data			

Banks and credit unions often struggle to determine how much they should charge for the value that they add to a service. The table to the left compares the surcharges for the use of FedGlobal to financial institutions with the industry averages for remittances to some of the countries reached by the service. The difference between the surcharges to financial institutions and the industry average—a price charged to consumers—can give you a sense of the range within which your price to customers should be in order to remain competitive in the marketplace. The price to your customers might include the

surcharge, your overhead, and any compliance-related costs specific to cross-border transactions.

In calculating the price to the customer, it should be noted that the industry averages are generally for traditional cash-to-cash remittances. Banks and credit unions often employ relationship pricing where the transaction itself is not the primary revenue objective but rather the financial institution’s overall relationship and cumulative sum of business revenue with the customer.

Defining the revenue potential of the overall customer relationship involves two key calculations: 1) quantifying customer retention and new customer acquisition; and 2) estimating the revenue potential for cross-selling opportunities. Customer retention and remittances are very closely related because each time the customer is forced to seek outside financial services, there is a growing possibility that the customer will decide that a different provider can meet that customer’s existing or future needs better. Adding remittances will also be a distinguishing factor to help your financial institution stand out when potential new customers are comparing what is available in the market. Although remittances may be used primarily by migrants or new citizens, non-migrants may also to send money across borders, such as business owners with international payroll and foreign business providers and missionaries. By offering a remittance product, the financial institution can meet a more complete range of needs for existing and new customers in both personal and business banking.

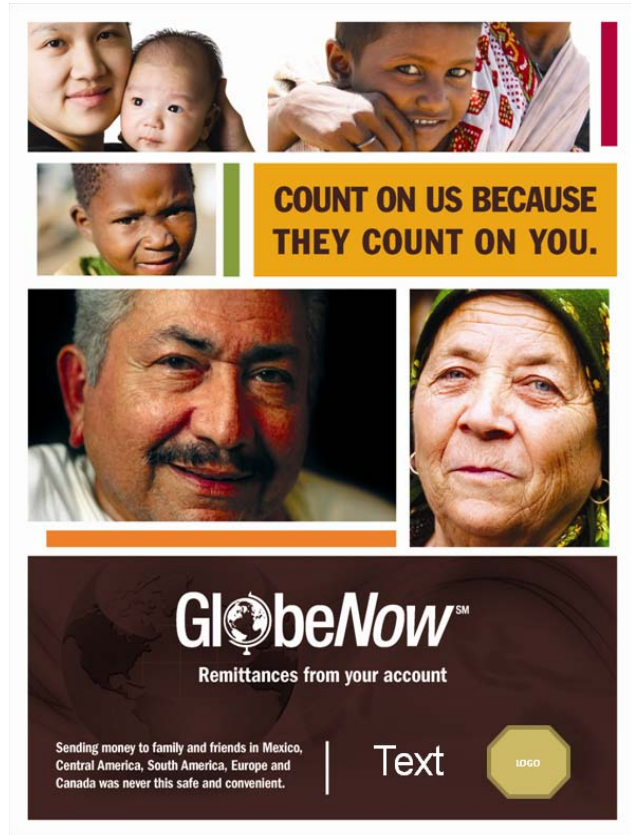
Estimating the value of customer retention can be calculated as the revenue loss to the financial institution of losing an existing customer plus the cost to acquire and set up a new customer. Cross-selling is another important consideration in deciding to offer remittances and in determining the price to the customer. New customers in particular will need a range of financial services, starting with checking accounts, savings accounts and credit cards. Once the new customer is an established customer, loans for cars or other purposes can be offered. A simple approach to measuring this potential is to multiply a revenue estimate for each new service by the estimated number of new customers. A remittance service is not only an offering; it is also part of a larger customer relationship that will create revenue for the financial institution.



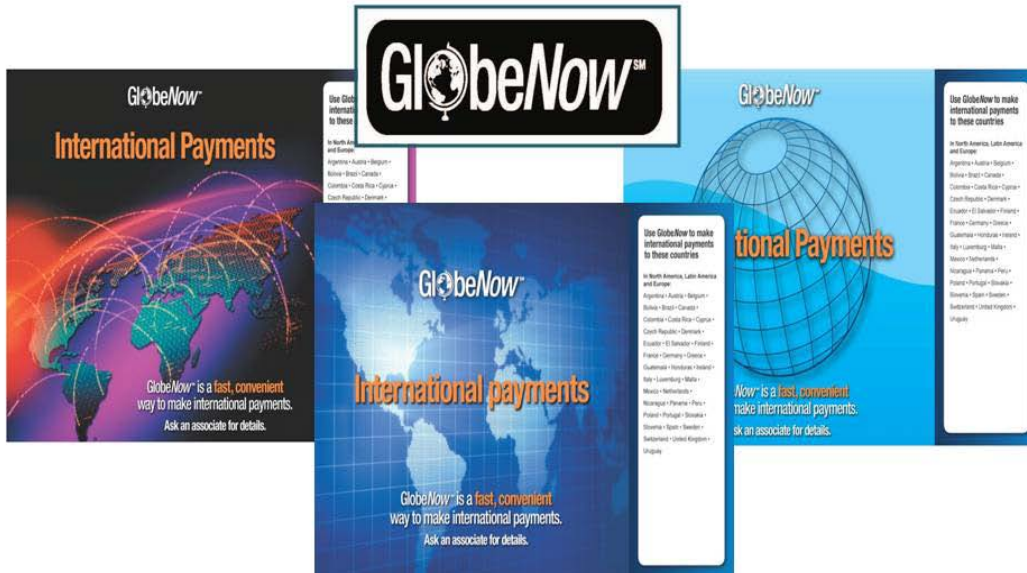
Marketing is a critical component of any successful service implementation. However, it does not have to be a major undertaking.

Financial institutions offering remittance payments can quickly and easily take advantage of the The **Directo a México**® and **GlobeNow**SM brands—the comprehensive, white-label marketing materials for financial institutions enrolled in any of the FedGlobal ACH Payments services. Canada Connection® marketing materials will continue to be available for enrolled financial institutions as well.

Materials are available today. Banks and credit unions can choose from different attractive “looks.” The image to the right is focused on person-to-person remittance payments (it is available both in English and Spanish), while the images below promote international payments more generally.



All that is needed for any of the posters is customization and printing. Just insert any combination of the financial institution’s logo, name, and address(es) in the remaining white space and customize the list of available offerings.



Marketing materials aside, any new service requires banks and credit unions to effectively deploy a marketing plan. Through observing our customers, we have noticed that successful marketing efforts generally share the following core principles:

Be Visible – Place marketing materials where potential users of the service can see them. Posters and brochures are effective in the lobby or teller line, but they may also be needed in less traditional locations. For example, there are many customers who may not often go inside a bank lobby and, as a result, these customers might be better reached by advertisements placed near ATMs or drive-thru windows, or inside retail establishments. Additionally, employers might want to facilitate safe and affordable remittance transfers for their employees and might be interested in advertising in their places of employment. In general, marketing materials are most effective if visible by customers.



Partner with the Community– Banks and credit unions often have extensive relationships in the community with entities including the Chamber of Commerce to local employers, religious organizations and civic groups. Any of these groups might be very interested in helping to promote your offering because affordable financial services are a public good. Employers may be especially helpful because employees who become bank or credit union customers no longer require paper checks, can build credit records, save money on financial services by using electronic payments and affordable remittances, and are generally less at risk because they are not carrying around cash.

Promote Word of Mouth – Success sells, and happy customers and members share good news with friends and colleagues. Encourage customers and members to share the news by offering them an incentive for referrals. Incentives could come in many forms, including a loyalty card for free transfers or a reward deposited directly to the account holder for successfully bringing in a

new customer or member. Customers and members love to be rewarded, and a meaningful monetary reward can often be less expensive than a media campaign.

Banks and credit unions located in the proximity of a Mexican Consulate should contact the Consul of the Institute for Mexicans Abroad (IME). There are over 50 Mexican Consulates in the United States, and they have been promoting the Federal Reserve’s Directo a México program in the local Mexican community and are happy to offer their support. The service makes it possible for financial institution customers in the U.S. to send payments to family and colleagues (in Mexico and most of Latin America) who might not yet have a bank account—making the service more attractive to a broader set of customers.

Today, carrying out regulatory compliance is a central part of day-to-day banking. Customer identification procedures, as well as OFAC and anti-money laundering monitoring, are already part of every federally insured financial institution's compliance policy for its domestic payments. Cross-border payments, such as wires and international ACH can be incorporated into the existing core compliance policy. The policy should also take into consideration that cross-border payments of any kind are a higher risk than are domestic payments, because one of the counter-parties is outside the territorial jurisdiction of the United States. U.S. laws and regulations provide guidance to banks and credit unions on carrying out cross-border payments in a regulatory compliant manner. The NACHA international ACH format (IAT) used by FedGlobal facilitates compliance by allowing all the required data on the sender, the receiver, and intermediary financial institutions to travel with the payment end-to-end.

There are several pieces of legislation that drive the majority of key regulations that financial institutions need to incorporate into their compliance policy. These include:

- Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act of 1970 – More commonly known as the Bank Secrecy Act (BSA), the Act required financial institutions to assist in the detection and prevention of money laundering, tax evasion, and other criminal activity. For example, the BSA requires that a Currency Transaction Report (CTR) for any cash transaction over \$10,000.
http://www.fincen.gov/statutes_regs/bsa/
- Money Laundering Control Act of 1986 – This Act made money laundering a federal crime and criminalized the structuring of transactions to avoid BSA provisions. Cease and desist orders were made a requirement for non-compliant banks.
http://www.ffiec.gov/bsa_aml_infobase/documents/regulations/ML_Control_1986.pdf
- The Office of Foreign Assets Control (OFAC) is another key compliance regulation for financial institutions. OFAC requires that all financial institutions check that their account holders and whoever they are interacting with internationally are not on OFAC's list of Specially Designated Nationals (SDN) or in sanctioned countries. For more information about OFAC requirements and to see the SDN list, go to: <http://www.treas.gov/offices/enforcement/ofac/>
- USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) of 2001 – Key provisions of the PATRIOT Act amended the BSA to require enhanced due diligence on U.S. financial institutions that maintain correspondent accounts for foreign financial institutions or private banking accounts for non-U.S. persons (Sec.312), it specifically prohibits the use of shell bank accounts (Sec.313), and requires the establishment of a customer identification program (CIP).

The CIP provision (Sec. 326) is especially important for financial institutions offering remittances because it expanded the previously existing Know Your Customer (KYC) requirements to also require a formal procedure to verify the identity of customers opening accounts or carrying out other transactions (for example, a remittance payment made by a customer). The CIP program must be in writing, be approved by the financial institution's Board of Directors, and be incorporated into the AML/BSA policy.

Minimum customer information required for opening an account is name, street address, identification number, and date of birth. What constitutes an identification number can be a source of

confusion but Section 326 lists a number of acceptable government-issued identity documents. These include:

- U.S. Person: - SSN or taxpayer identification number
- Non-U.S. Person:
 - taxpayer identification number
 - Passport number and country of issuance
 - Taxpayer identification number
 - Alien ID card number
 - Number and country of issuance of other government document showing nationality or residence and bearing photograph (such as the *Matricula Consular* issued by Mexican and other consulates)

http://www.fincen.gov/statutes_regs/patriot/index.html

The Federal Reserve Bank of Atlanta (FRBA), the U.S. Gateway Operator for FedGlobal ACH Payments, monitors the payments processed by FedGlobal and maintains a compliance officer and compliance program. The FRBA compliance program includes: 1) OFAC and Anti-Money Laundering policies and procedures; 2) transaction monitoring in support of AML and OFAC due diligence and as a first line identifier of fraud if it should appear in the FedGlobal service; 3) establishing compliance obligations for payment processing in agreements with gateway operators and third-party service providers; and, 4) risk assessments of FedGlobal service offerings that include evaluations of gateway operators and third-party service providers as well as country risk assessments. None of this, however, eliminates the financial institutions' duty to monitor for compliance with applicable laws.

Your local **Regional Payments Association**⁷ can help financial institutions better understand compliance implications and educate them on what steps to take for a comprehensive analysis.

Starting the Service

If you are interested in the service, you can find out more information on:

http://www.FRBservices.org/serviceofferings/fedach/fedach_international_ach_payments.html.

Find your FedACH[®] Sales Specialist for additional questions at:

http://www.FRBservices.org/contactus/fedach_specialists.html

There are no upfront costs, so get started today by signing up to the service by simply filling form 6A:

http://www.FRBservices.org/files/forms/fedach_services/pdf/fedach_part_6a_seca_rv.pdf

¹ U.S. Census 2010. <http://2010.census.gov/2010census/data/>

² PEW HISPANICS DATA. <http://pewhispanic.org/files/reports/40.pdf>

³ Survey of the Interamerican Development Bank from 2006, http://www.iadb.org/news/docs/remittances_EN.pdf

⁴ 2007 data http://www.census.gov/newsroom/releases/archives/business_ownership/cb10-145.html

⁵ Manuel Orozco, Oct. 29th, 2009, Opportunities and Challenges in Remittances Services

⁶ *Hispanics: A People in Motion*. A report by the Pew Hispanic Center, 2005. The report is available at:

<http://pewhispanic.org/files/reports/40.pdf>

⁷ Regional Payments Associations list. <http://www.nacha.org/c/RegPayAssoc.cfm>

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