



## Frequently Asked Questions

Directo a México<sup>SM</sup> (Direct to Mexico) is a joint marketing effort between the Federal Reserve Banks and the Banco de México, the central banks of the United States and Mexico, respectively. This program is designed to help U.S. financial institutions increase their share of the rapidly growing U.S. to Mexico remittance market by encouraging and assisting their customers in using the Federal Reserve Banks' FedACH International<sup>®</sup> Mexico Service.

### Key facts about Directo a México:

- Helps U.S. financial institutions reach and assist their customers in accessing a secure, fast, low-cost and convenient way to remit funds to Mexico.
- Provides U.S. financial institutions with customizable, Spanish-language marketing materials.
- Offers U.S. banking consumers an affordable alternative to costly money transfer organizations.
- Assists U.S. financial institutions in capitalizing on the growing U.S. to Mexico remittance market.

Frequently asked questions regarding Directo a México are presented in the following categories:

- Program background and benefits.
- Program components.
- Related definitions and additional information.

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## Program Background

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### ***What is the relationship between Directo a México and the Federal Reserve Banks' FedACH International Mexico Service?***

The Directo a México marketing program was introduced in Fall 2005 to help U.S. financial institutions create awareness for and facilitate use of the Automated Clearing House (ACH) channel to remit funds to Mexico. Specifically, its goal is to encourage use of the Federal Reserve Banks' FedACH International Mexico Service. The Directo a México marketing materials are provided to all U.S. financial institutions that subscribe to the FedACH International Mexico Service.

### ***Why is the Directo a México effort being developed?***

Directo a México was developed to help narrow the gap between the market potential of the FedACH International Mexico Service and actual market penetration. In 2005, the amount of funds transferred to Mexico reached just over \$20 billion, up from \$16.6 billion in 2004, and has experienced double-digit percentage growth for the past several years. Population trends indicate continued strength. However, U.S. banks and credit unions currently account for only a small share (likely no more than 3 percent) of the remittances sent to Latin America. Most remittances from the U.S. to Mexico are now handled by money transfer organizations.

Directo a México helps U.S. financial institutions overcome a number of barriers. The program's Spanish-language promotional templates help small and medium-sized institutions (among the most likely to benefit from using Directo a México) to produce professional materials with minimal investment. The materials feature the consumer benefits that financial institutions can provide using FedACH International Mexico Service to transfer funds: security, speed, low cost and convenience.

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## Program Benefits

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### ***How does Directo a México benefit U.S. financial institutions and their customers?***

Directo a México helps U.S. financial institutions capture a larger part of the rapidly growing U.S. to Mexico remittance market. The program also supports customers by providing a secure, fast, low-cost and convenient money transfer product for financial institutions to offer to their customers. The service that supports Directo a México, FedACH International Mexico Service, is priced so that U.S. financial institutions can offer it at extremely competitive rates. The service is offered to financial institutions at the very low, per-item surcharge of \$0.67. Of course, financial institutions add value to the payment and are expected to charge a higher, but still extremely competitive fee to customers.

The wholesale foreign exchange rate applied to every payment – regardless of amount – means that the receiver gets more pesos for every dollar sent. The Directo a México exchange rate can benefit all parties to the transfer, especially receivers in Mexico. Compared to the foreign exchange rates in a recent study\*, the Directo a México rate would have resulted in the transfer beneficiary receiving an additional 55 pesos (approximately \$5 USD) on a USD \$350 payment. Additionally, the funds are available in the receiving account in Mexico on the next banking day.

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## Program Components

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### **What are the components of Directo a México?**

- *Promotional Tool Kit* – Customizable, Spanish-language electronic templates for a brochure, poster, lobby/tent card, statement insert, foreign exchange information sheet and text for a 30-second radio spot.
- *Customer Guide* – Information and ideas regarding remittance to Mexico along with help determining local market potential.

### **What topics are covered in the Directo a México Customer Guide?**

The Directo a México Customer Guide provides the following:

- Information on the U.S. to Mexico remittance market.
- Tools and Web addresses to help financial institutions determine their local market potential.
- Information on providing banking services to the Mexican community in the U.S.
- Detailed tips for easily and economically marketing Directo a México.

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## Related Definitions and Additional Information

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### **What is the FedACH International Mexico Service?**

The FedACH International Mexico Service is offered as part of the Federal Reserve Banks' suite of FedACH® services. Depository financial institutions in the U.S. originate cross-border transactions via FedACH in U.S. dollars. Payments are transferred from FedACH to the Banco de México, the Mexican gateway operator, where they are distributed via the local payments system. Payments are posted to the receiver's account in pesos on the next banking day – with every payment receiving a wholesale foreign exchange rate regardless of amount.

### **What is ACH?**

ACH stands for Automated Clearing House. The ACH network is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the National Automated Clearing House Association (NACHA) *ACH Operating Rules and Guidelines*, which provide for the interbank clearing of electronic payments for participating depository financial institutions. The Federal Reserve Banks are the nation's largest ACH operator and provide central clearing facilities through which financial institutions transmit or receive ACH entries.

ACH payments include:

- Direct deposit of payroll, Social Security and other government benefits, and tax refunds.
- Direct payment of consumer bills such as mortgages, loans, utility bills and insurance premiums.
- Business-to-business payments.
- E-checks.
- E-commerce payments.
- Federal, state and local tax payments.
- Cross-border payments (both commercial and person-to-person remittances).

### ***Why is using the ACH network a good way to send money to Mexico?***

ACH is an extremely, low-cost payments channel and is already in place in almost every financial institution in the U.S. Thus, there are no set-up costs for most financial institutions that choose to offer the program. ACH also uses standardized formats, which make it possible for the payments to be channeled to Mexico in an automated fashion and delivered electronically to bank accounts there. The efficiencies of ACH make it possible to offer this service to financial institutions at the very low, per-item surcharge of \$0.67. Of course, financial institutions add value to the payment and are expected to charge a higher, but still extremely competitive fee to customers.

### ***What is a remittance?***

Money transfers, or remittances, are person-to-person payments generally to family members living in an individual's country of origin. Remittances are a large and growing global phenomenon. However, several important characteristics of the U.S. to Mexico remittance market make it an attractive business consideration for financial institutions. The amount of funds transferred into Mexico is the second largest in the world – only India receives more remittance funds. It is notable that almost all remittances to Mexico originate in one country – the U.S. – and are growing at a very fast annual rate. Remittances to Mexico topped \$20 billion in 2005 and have experienced double-digit percentage growth for the past several years.

### ***How can I learn more about Directo a México and the Federal Reserve Banks' FedACH International Mexico Service?***

To learn more about Directo a México and the Federal Reserve Banks' FedACH International Mexico Service, visit <https://frbservices.org/financial-services/ach/fedglobal/index.html> or contact your FedACH Sales Specialist at <https://frbservices.org/contactus/fedach-specialists.html>.



[www.frbservices.org](http://www.frbservices.org)

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\*Creating a Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market, Appleseed Network, December 2005. Available online at: <http://appleseeds.net/servlet/PublicationInfo?articleId=48>.

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