



## The Argument for Remittances and Two Case Studies

### **The Need: Diversify the Revenue Stream**

In today's unpredictable market of diminished credit, persistent recession, and business contraction, retail banks have been forced to re-think their consumer strategies. Credit-related products, such as mortgages, business loans, and credit cards, have been de-emphasized or are being offered selectively — only to customers with higher credit ratings and on more stringent terms. As a result, banks are shifting their business focus to savings plans, wealth management, and other interest-related offerings. At the same time, banks need to discover new sources of revenue and ways to provide value to — and secure deposits from — a diversified client base.

### **The Market: The Immigrant Population in the U.S.**

There are more than 35 million immigrants in the U.S. today distributed throughout the country. They account for over 12 percent of the total population, and the number is growing: more than 1.1 million U.S. immigrants were granted legal permanent resident status in 2008. Significantly, immigrants are workers and wage earners<sup>1</sup>. Trends indicate that their wages are increasingly derived from higher-earning professions, making immigrants an attractive market for banks, especially in light of banks' need to develop new and varied sources of customers.

### **The Opportunity for Banks: Remittances**

International remittances are an ideal way for banks to engage the immigrant population. Remittances are retail, low-value, cross-border payments that typically flow from developed countries such as the U.S. to a sender's home of origin. In the U.S., remittance flows are largely to Mexico, China, India, and the Philippines, the countries with the largest U.S. immigrant populations. Collectively, this represents a growing, multi-billion-dollar global market and, even in today's slowed global economy, remittance volumes are strong. Yet U.S. banks have been slow to enter this market: approximately 90% of remittance payments occur outside of bank channels.

<sup>1</sup> The State Department received in excess of 9.1 million applications from qualified applicants for the Diversity Visa Lottery, or Green Card Lottery. Among other requirements, applicants for green cards must show at least two years of working experience within the previous five years. The Yearbook of Immigration Statistics, U.S. Department of Homeland Security/Office of Immigration Statistics, 2009.



The U.S. remittance market is currently controlled by large money service businesses. In many cases, these businesses can offer transfers that cost less and arrive sooner than those a bank can provide through traditional international wire services. But increased worldwide scrutiny and regulation of cross-border money transfers, aimed at preventing money laundering and other international crimes, have provided incentives for banks to enter this market. These regulations do not contribute to competitive service offerings directly or indirectly, but they do create business and legal frameworks for banks that make cross-border transactions feasible and accepted practices.

The business case for cross-border remittances as well as new models for bank participation provide an even greater motivator for banks to enter the market. Banks can call upon their international partnerships to build a wide-spread and secure system to handle remittance payments. New remittance customers can help build deposits within an institution and may become prospects for loans, mortgages, credit card, and other financial products. As a result, banks can effectively subsidize their money transfer fees, allowing them to be cost competitive with money transfer organizations, whose revenues derive solely from transfers.

Despite these incentives, many banks find significant barriers to entry into this market: front-end technology investments; necessary product development and marketing efforts; and compliance issues, or uncertainty about them. Additionally, many smaller retail banks have limited means to achieve the necessary scale for cost-effective distribution of remittances into receiver countries. To address these issues, BNY Mellon designed an outsourced remittance solution for retail banks.

**The Solution: Remit Worldwide<sup>SM</sup>**

Anticipating the needs of its domestic bank clients, BNY Mellon leveraged its worldwide network of correspondent banks, a customer-facing technology for easy entry of payment details, and the strength of its international funds transfer capabilities to create Remit Worldwide, an international person-to-person remittance offering that can be privately branded by each sending bank. A Web-based system, it allows for easy integration within a bank's branch and online banking platforms, requires little to no investment in technology, and can be implemented and functional within weeks. BNY Mellon handles the front-end technology interface and back-end processing of transactions, and it provides extended and redundant management of compliance. Every transaction is submitted to Office of Foreign Assets Control and Anti-Money Laundering screens after the client bank completes its own compliance processes, and Remit Worldwide has built-in limits on transactions for both Remitters and Beneficiaries. BNY Mellon's receiving banks accept and distribute the remittance payments either to an account or as cash payments, making Remit Worldwide attractive to a broad range of retail customers on the sending side. BNY Mellon also provides turn-key marketing materials, branded for the client bank, and strategies on best practices to assist in promoting the product in the marketplace. And, since BNY Mellon is a wholesale bank provider, it poses no competitive threat to bank clients in the retail markets.

## Two Case Studies: A Bank and a Credit Union

We have discussed both the reasons we believe remittances to be an attractive market for retail banks and why we believe Remit Worldwide can effectively provide entry into that market. The following case studies of two of our bank clients demonstrate Remit Worldwide's effectiveness in practice.

### *Bank A: Compelling reasons for getting into the remittance business*

*Bank A* opened for business in a large urban center nearly 150 years ago. Since that time, through a network of 100 full-service branches, it has been dedicated to serving the needs of its surrounding communities. Over time, these communities have experienced considerable growth and change, including the emergence of a diversified and expanding immigrant population, many of whom were not served by *Bank A*, despite efforts to engage them.

*Bank A* knew that a number of their current and probable customers sent cross-border remittance payments and did so outside the bank, most likely through a money service business or a competitor bank. A remittance solution could keep these transactions within the bank, but *Bank A* was unsure how best to create and offer a cost-efficient and effective program. A conservatively managed bank in a highly competitive and volatile time, *Bank A* needed a compliance-friendly yet low-cost solution that provided a high return. But *Bank A* lacked the technology and infrastructure required to build a competitive remittance solution.

*Bank A* did not consider partnering with a money service business for several reasons. First, it was concerned about the risks and compliance issues accompanying these organizations. Second, it wanted full control of pricing flexibility to market to specific ethnic groups and to offer competitive rates and services. Entering the remittance market by way of a recognized partner bank's infrastructure seemed the best solution, and *Bank A* chose to work with BNY Mellon.

As anticipated, Remit Worldwide proved easy to implement and required little development. BNY Mellon worked closely with *Bank A* to provide on-site train-the-trainer sessions, as well as follow-up training on the benefits and details of the service to extended staff and bank personnel. BNY Mellon helped *Bank A* create marketing materials in both English and Spanish, branded with *Bank A*'s logo and product name, and including statement inserts, posters, brochures, and displays at branches. Once *Bank A* finalized the marketing and training programs, it initiated a pilot roll-out for a few dedicated branches in key areas. Today, *Bank A* is live at those branches and plans a full bank-wide roll out during the second half of 2009.

### *Credit Union B: An Exemplary Implementation and Roll-out Case*

*Credit Union B* is located in Silicon Valley, south of San Francisco. It was founded by an industry association and today has nearly 100,000 members derived largely from high tech enterprises such as Google, Apple, Cisco, as well as smaller start-ups. Many of these members are from the key remittance countries of India, El Salvador, and the Philippines. *Credit Union B*'s branches are scattered throughout the Silicon Valley and extend into the East Bay where many expatriate workers reside.

*Credit Union B* was aware that banks in their region were offering cross-border money transfer services. To compete, *Credit Union B* needed a remittance solution to retain existing banking clients who were being won over by the offerings of these rival banks. *Credit Union B* lacked the necessary IT resources and understood that its response needed to be not only effective, but swift. Like *Bank A*, it turned to BNY Mellon and Remit Worldwide.

*Credit Union B* decided initially to offer the service from its branches, with plans to integrate it into the online banking platform later in the year. This upgrade would allow its members, technologically savvy and upwardly mobile individuals, to initiate remittances payments themselves, with full control and convenience.

As did *Bank A*, *Credit Union B* undertook substantial marketing efforts to make this new service known to its customers. It utilized low-cost email communications and included an introductory article on the remittance service in its member newsletter. In addition, with the help of BNY Mellon, the credit union stocked all branches with branded marketing materials and included descriptive publicity in statement communications to its customers. To raise awareness and encourage usage, *Credit Union B* followed these efforts with targeted promotions and communications to its member companies at community events and seminars. Extensive training was provided to branch staff to ease adoption issues and raise utilization. *Credit Union B* went live with its version of Remit Worldwide earlier this year, and it continues to see growth and satisfaction among its member base.



## Summary and Conclusion

Different banks cater to different sorts of customers. While the technology serving them may be similar, the access points provided (i.e., branch and/or on-line banking), and the messaging employed to attract and communicate with them, will necessarily vary. In the case of *Bank A*, primary efforts were on capturing as large a percentage as possible of the multi-cultural population it serves. Informational materials were provided in both English and Spanish, and the bilingual skills of the employees were leveraged to work with customers and walk-in users of the service. Issues of understanding and the addressing of compliance issues were bridged through the expertise of BNY Mellon and Remit Worldwide's systems which augmented *Bank A*'s own strengths in this area.

The case of *Credit Union B* illustrates the importance of both personalized marketing and a flexible remittance technology to address the needs of its customers most effectively. *Credit Union B*'s membership was courted and educated through proprietary newsletters and industry events. Further appeals to this population took the form of online banking access for setting up remittance payments. Whereas *Bank A*'s goal was extending their client base, *Credit Union B* used Remit Worldwide to provide improved service to its existing member group and opted to limit the service exclusively to its members.

As a wholesale "bankers' bank," BNY Mellon takes the position that it cannot profess to know and understand its clients' customers better than its clients can themselves. The Bank addresses its clients' requirements by working with them on an individual, consultative basis to understand and support the ways the client bank will market to, communicate with, and assist its customers. Ultimately, it is this discrete and specialized approach toward each client bank that contributes to the unique strengths of the Remit Worldwide service.