

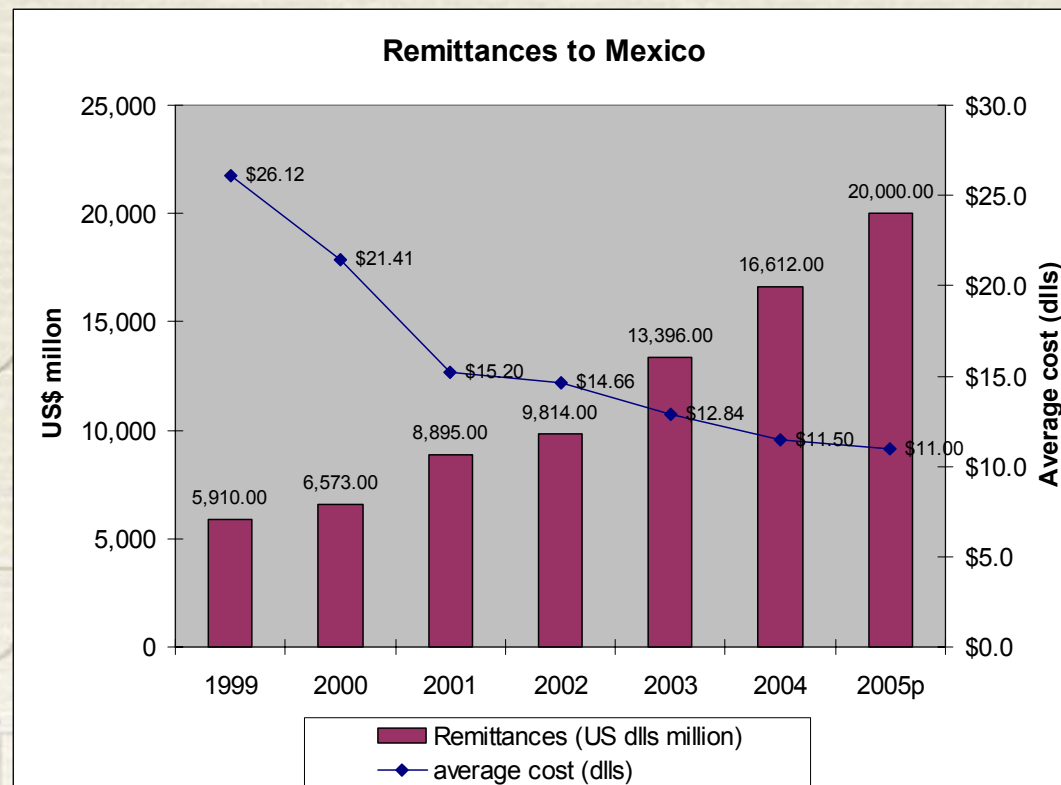
# **National Savings and Financial Services Bank (BANSEFI)**

***“Remittance Markets and the Social Bank”***

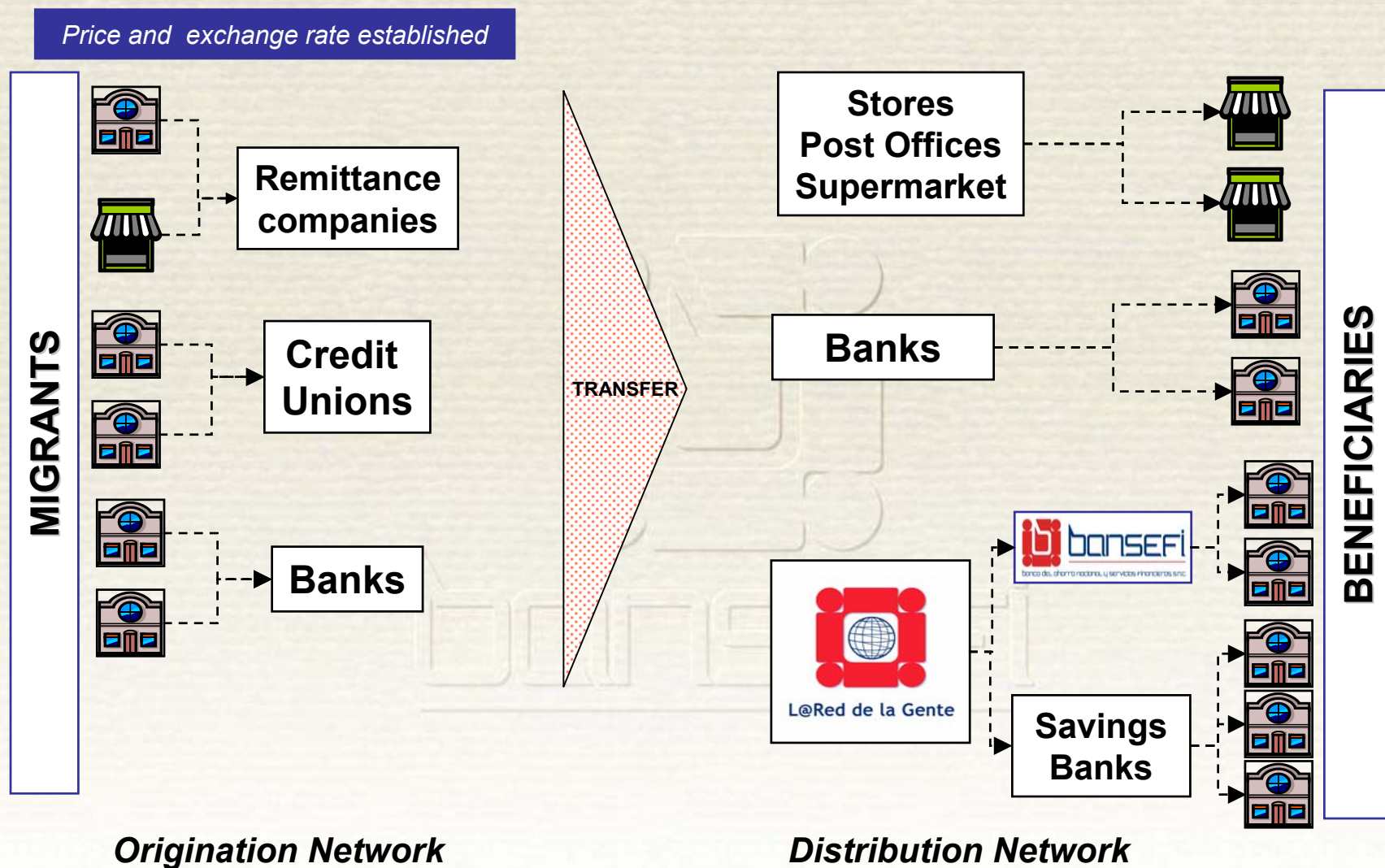
**June, 2005**

# Remittances to Mexico

- Mexico ranks among the top three remittance recipients in the world. In comparison with other recipients, which receive inflows from more than one country, the unique bilateral relationship with the United States, makes the US-Mexico remittances the largest annual flow between any two countries.
- From 1998 to 2004 remittances became increasingly important in Mexico's economy. In 2004, remittances were Mexico's second largest source of external finance after oil, eclipsing foreign direct investment and tourism receipts.



# Remittances: Market Structure



## Remittances: Cost Structure

**The cost of sending remittances from the U.S. to Mexico has seen important reductions but the market could be more efficient**

The total cost is composed of two elements:

- 1) The service fee
- 2) The exchange rate

City	Aug-99	Jan-02	Jun-03	Oct-03	Jan- 04
Chicago	31.76	15.83	10.26	12.06	11.56
New York	26.08	14.61	12.15	13.61	13.41
Dallas	29.83	17.26	12.08	13.84	12.18
Miami	32.43	19.19	12.09	14.12	14.05
Houston	39.03	17.90	11.64	11.13	11.01
<b>Average</b>	<b>31.83</b>	<b>16.96</b>	<b>11.64</b>	<b>12.95</b>	<b>12.44</b>

Source: Profeco.- Quién es quién en el envío de dinero. This information is provided in a voluntary basis by the remitters and can not be certified.

- 1) There is still room to have lower prices given the scale, growth of the market and technological innovation in financial services



## Bilateral Initiatives

- The initiative by the Mexican and US Governments is expressed through the Partnership for Prosperity, under which both Governments created a working group on remittances. The aim of the group has been twofold:
  - Lower the cost of money transfers between the two countries, by encouraging more competition and improving market efficiency, and;
  - Transform remittances and the income of senders into patrimonial and productive investments; provide a broad access to financial services, so that the immigrants and their families can be bancarized on both sides of the border.

## Cost Reduction:

- **Promoting Competition and Innovation:** Banks are now active players in the market offering account to account services with prices below \$6 USD, mainly with the acceptance of the Matricula Consular by more than 280 financial institutions as an identification document for the migrants
- **Literacy:** Financial Literacy programs in both sides of the border have been promoted to introduce more people to the use of formal financial institutions.
- **Information.** More information about market prices needs to be disseminated in order to allow participants to make better choices.

## Bancarizing people on both sides of the border:

- In the U.S, the acceptance of the Matricula Consular for opening accounts and to access a broad group of financial products.
- In Mexico BANSEFI and L@ RED de la Gente provide access to financial services to low income populations in urban and rural areas, **yet much more need to be done to fully bancarize the country, this is a pending issue.**

## Remittances and the lack of depth of the financial services.

- In developing countries such as Mexico, formal financial systems are characterized by lack of depth leaving the majority of the population without access to financial services. Low-income households use informal financial markets, that functions with high interest rates and no regulations, which makes transactions insecure.
- This situation has limited the link of remittances to financial services that in turn generate growth of the productive activities, as well as the economic development at the regional level.
- In order to address the problem of increasing financial services developing countries have opted for two formal solutions.
  - 1) **Market Solution** ⇒ trough the traditional financial sector.
  - 2) **State Intervention** ⇒ by creating development banks or targeted funds
- None of these options have been able to overcome this market failure and thus complete and deepen the financial system, therefore the demand for financial services for the poor remains unsatisfied.



## In México...

- This situation generates the creation of multiple entities with different legal status aiming at serving the demand for financial services of the poor. Many of these have been in the market for more than 50 years and most of them have not been regulated and supervised by the financial authorities.
- Thus the semi-informal solution has had a life of its own and has marginally been able to attend the demand. This Sector is formed by more than 480 privately or collectively owned financial intermediaries, strongly linked to their communities.
- Many of these entities are located in areas where banks are absent and in which the migrants used to live and have their families.



## **Public Policy to promote financial access.**

- President Fox Administration, with the help of Congress, design a Public Policy in order to transform the semi-informal financial sector into an opportunity the deepen the financial system.
- This policy includes the following:
  - Legislative action by Congress in order to approve an adequate Legal and Regulatory framework according to international standards: A law was approved in 2001, Ley de Ahorro y Credito Popular.
  - Creation by a law approved by Congress of a Developing Bank (BANSEFI) as the state vehicle to promote and coordinate the transformation of the semi-formal sector.
  - Governmental temporary investment through fiscal transferences in order to strengthen and upscale the institutional capacity of the sector:
    - Technical Assistance
    - Training
    - Technological Platform
    - Network Creation: L@ Red de la Gente

## Internacional Cooperation

The fact that Congress has approved laws to transform the sector and that the Government is actively supporting this transformation, has attracted the international community to participate in this endeavor.

**1. FOMIN/BID:** Grant 3.5 Million USD.

This grant triggered the project when it was in the design stage.

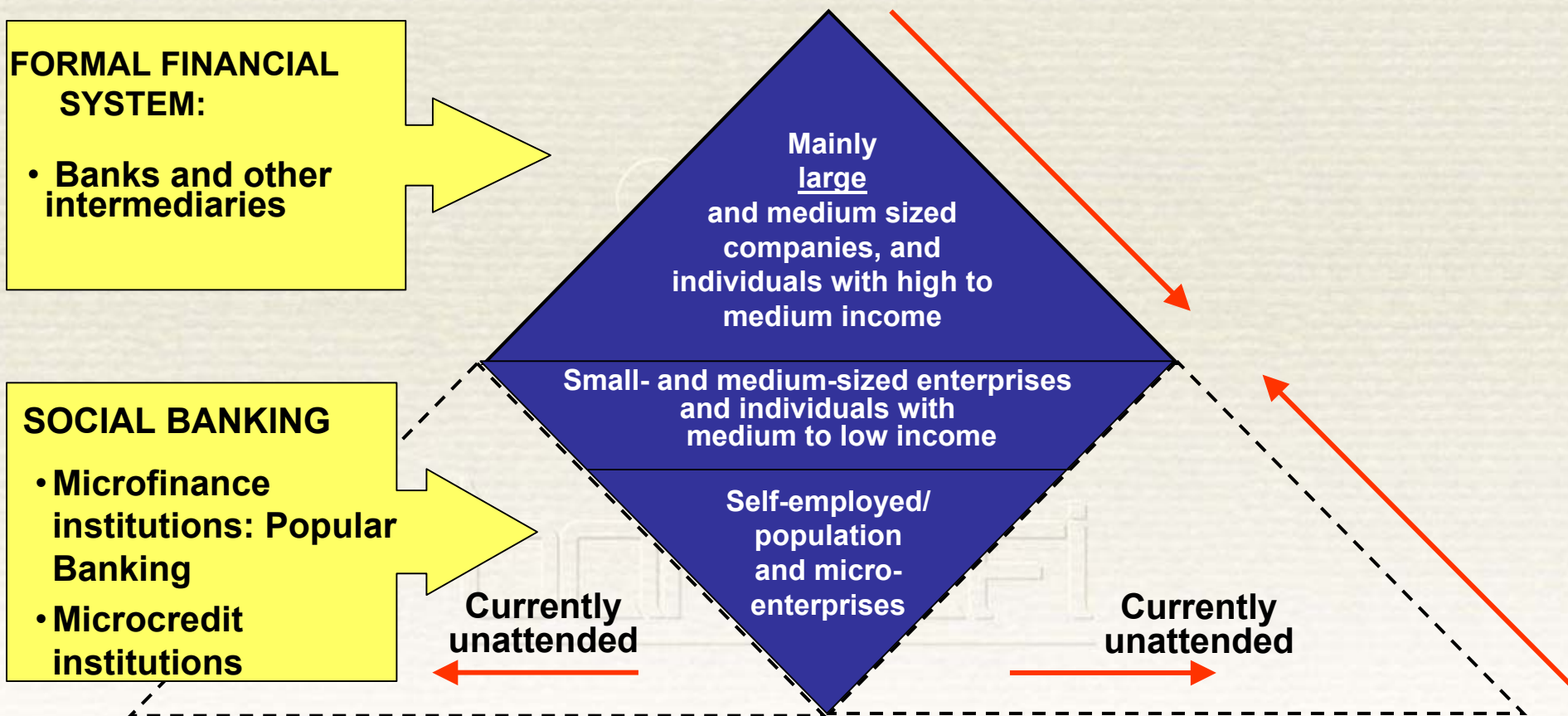
**2. World Bank:** Credit 140 Million USD

Credit to support the transformation of the sector and help their institutionalization process.

**3. Germany Government:** Grant 1 Million Euros

Technical Assistance for the Federations.

# Implementation of Social Banking will cover for actual market failures



Income pyramid of the Mexican population



## Network's Model

- The legal and conceptual model of the sector is based in networking systems. These systems have proven their success in social banking system such as the German, the Canadian and the Savings Cooperatives in Mexico.
- The Network's Model promotes a distribution of functions between the members of the Social Banking Sector that increases the efficiency and the competitiveness of the members of the system

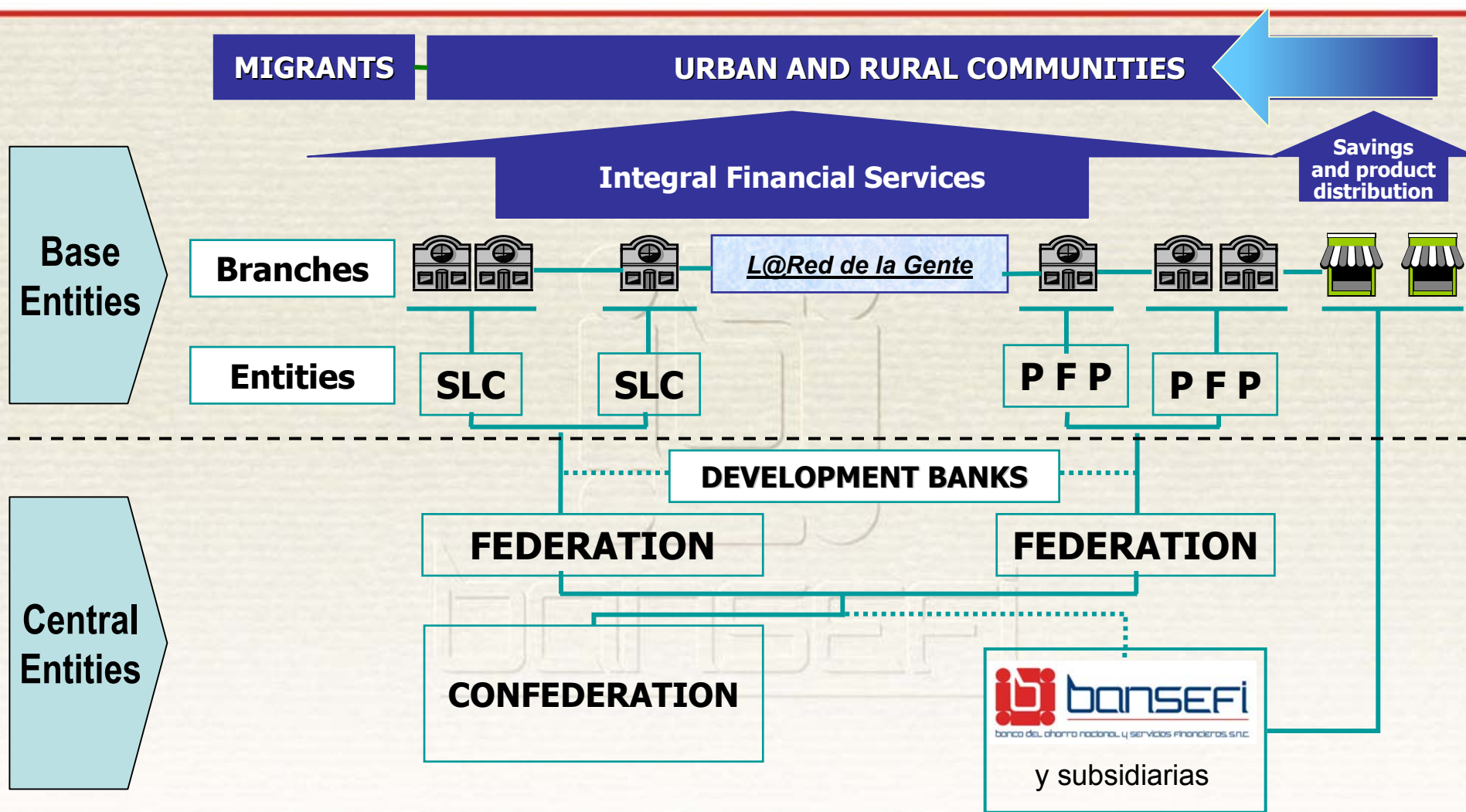
### Base Entities

- Are responsible for the main activities on the part of the net, are in direct contact with the market and provide main services (financial products). The small size of these entities is crucial to keep their competitive advantage.

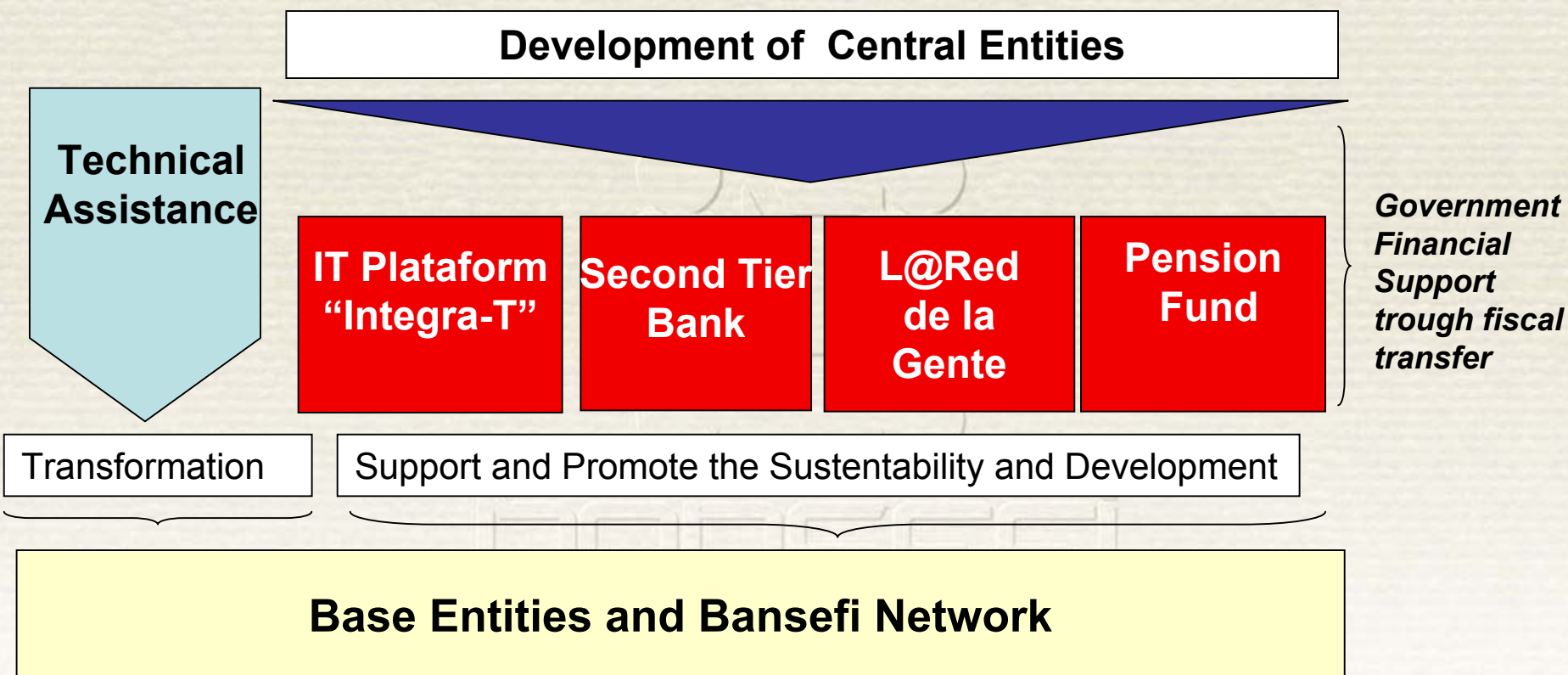
### Central Entities

- Provide those activities where economies of scale and scope can be used to strengthen and upscale the activities of the Base Entities.

# This legal framework aids achieving a new model



# Central Entities and Base Entities Structure





### **BANSEFI is coordinating government aid in many areas**

#### **1. Technical assistance.**

Technical assistance is being offered to help on the transformation of the Federations and their members. The country has been divided into 6 regions and experts such as the Savings Banks and DGRV in Germany and Desjardin in Canada are helping us with the transformation of the entities.

#### **2. Training.**

Different types of courses and training is being offered in order to build human capital such as: accounting, credit and risk management and governance.

**OBJECTIVE:** Design and development of the technological infrastructure and the adequate systems according to the needs of the Microfinance Sector and BANSEFI, in order to be able to offer financial products and services in an efficient way.

- The design of the technological platform will allow the Microfinance Sector to operate in network, as well as to centralize information to **improve decision making** processes and **minimize costs** of operation and supervision.
- A wide product supply due to fact that is **parametrizable**, wich allows to the Entities to grow their portfolio of products in a very simple way.
- The technological design is based in the **autonomy** of the institutions and is **scalable** according to their needs.
- The technology services will be provided monthly mostly through **outsourcers**.

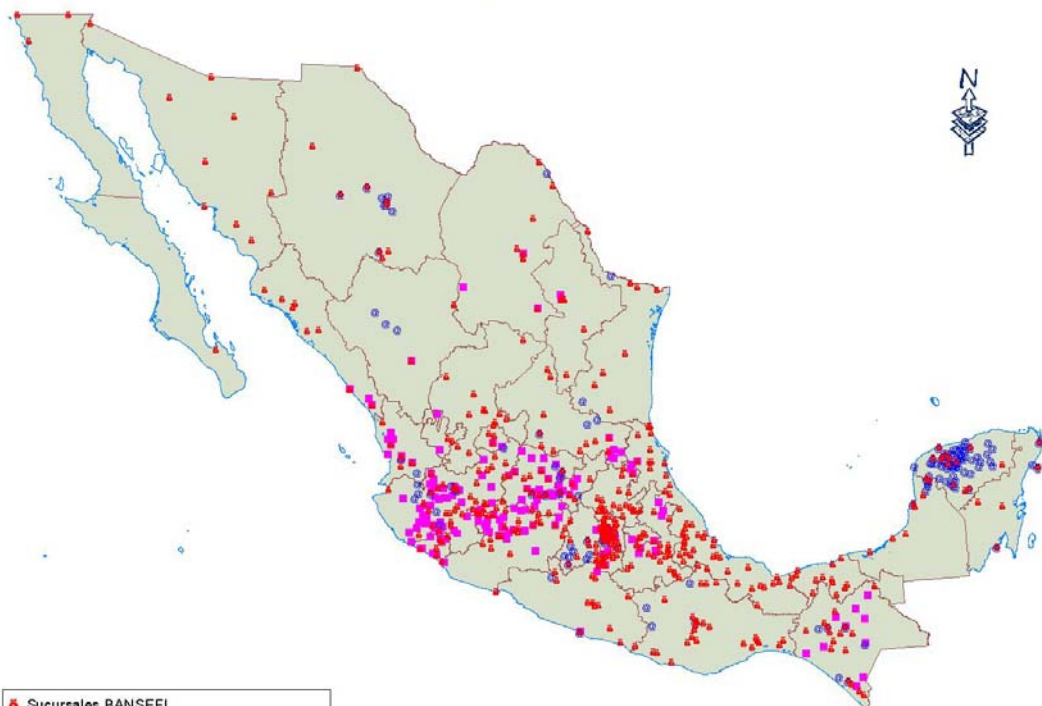
Right now we are in the implementation stage in BANSEFI and in the Savings and Loans Institutions are ready to start the roll-out in 60 entities.

- BANSEFI is moving to act as Second Tier Bank for microfinance institutions. In this regard Bansefi should be offering financial services to this institutions in order to promote the following:
  - Increasing their income by expanding the range of products available to their customers and members;
  - Reducing their costs of regulation and operation; and
  - Improving management efficiency and the quality of their services.
- The cost of the products and services offered by BANSEFI must be competitive since the institutions will be free to choose their providers.
- The products that the Bank will offer are link to the new technological platform such as: Debit Cards, Credit Cards, ATM's, Checks, Electronic Transfers, Clearing House Services, F/X, Derivatives. As well as, liquidity management, consulting in ALM, risk management and private banking.



## Creating a Commercialization Network

BANSEFI + L@ Red de la Gente



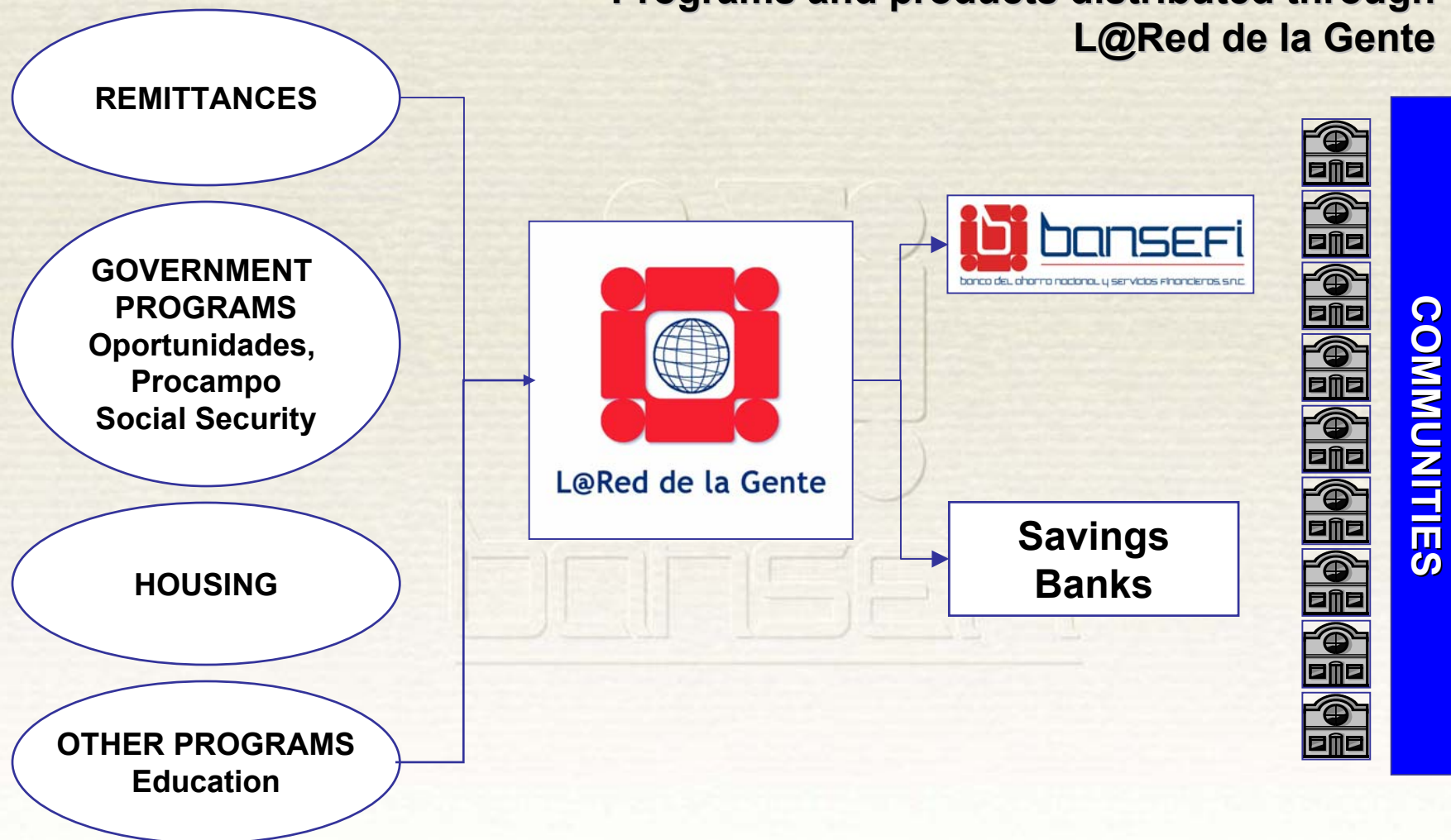
 Sucursales BANSEFI  
 Sociedades integrantes de L@ Red  
 Sociedades proyectos a L@ Red de la Gente

ELABORADO POR: DIRECCIÓN GENERAL ADJUNTA DE PLANEACIÓN ESTRATÉGICA Y EVALUACIÓN

- “L@Red de la Gente” is a commercial alliance between BANSEFI and the regulated intermediaries of the Microfinance Sector that join voluntarily. Now days there are 62 members with 1,070 branches.
- The location of these branches is in urban and rural areas, where commercial banks usually have no presence.

- This alliance will facilitate the sale and promotion of financial products and services in a sector of the population that does not have access to them, provide a broad network for remittance distribution as well as promoting the distribution of aid from government programs destined to relieve poverty and foster development in several parts of the country.
- Obtain economies of scale and economies of scope by being connected to the network:
  - The Sector is promoted through a single brand.
  - A single technological process is used to distribute products, governmental programs and financial services.
  - Efficiency and productivity are promoted in the distribution of financial products and services among intermediaries.

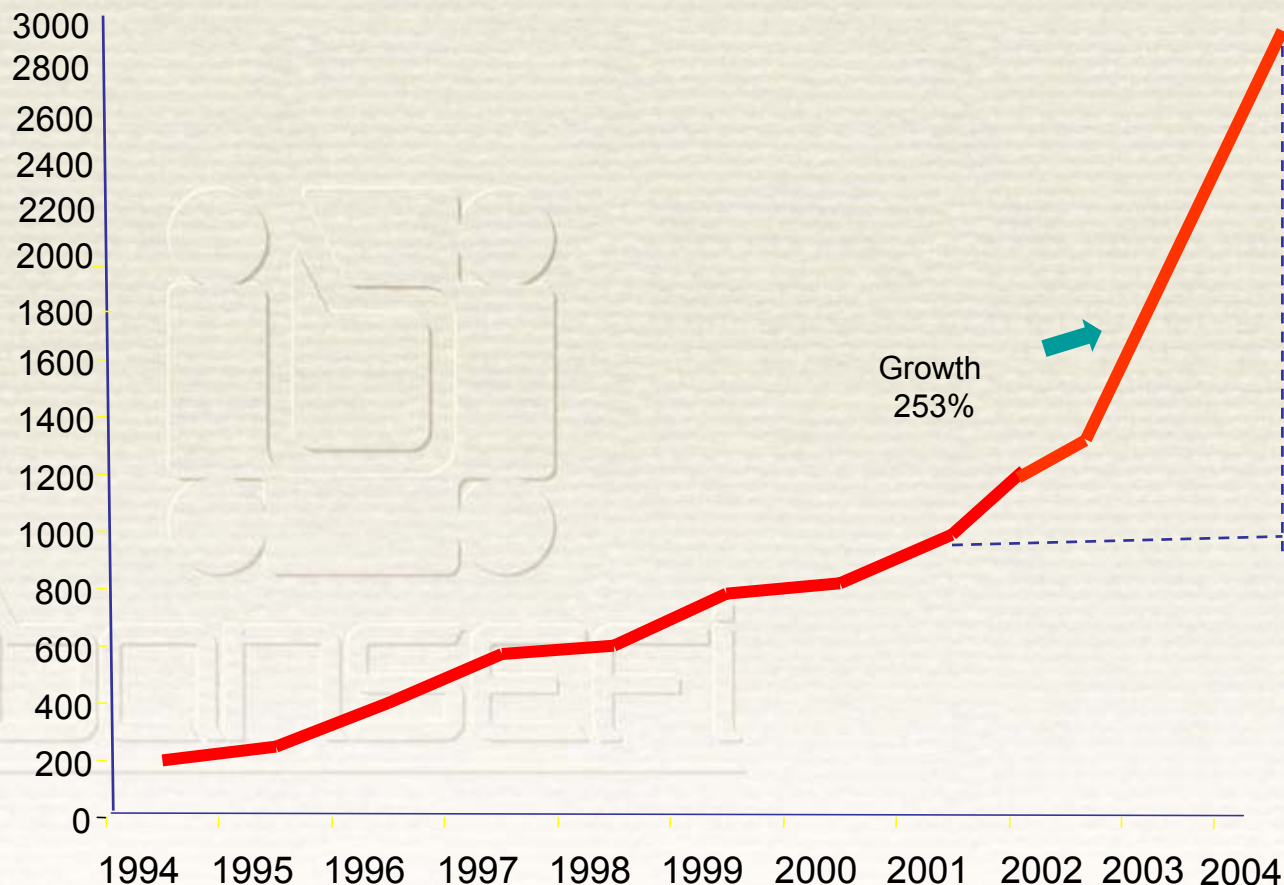
## Programs and products distributed through L@Red de la Gente





# Promoting a Savings Culture

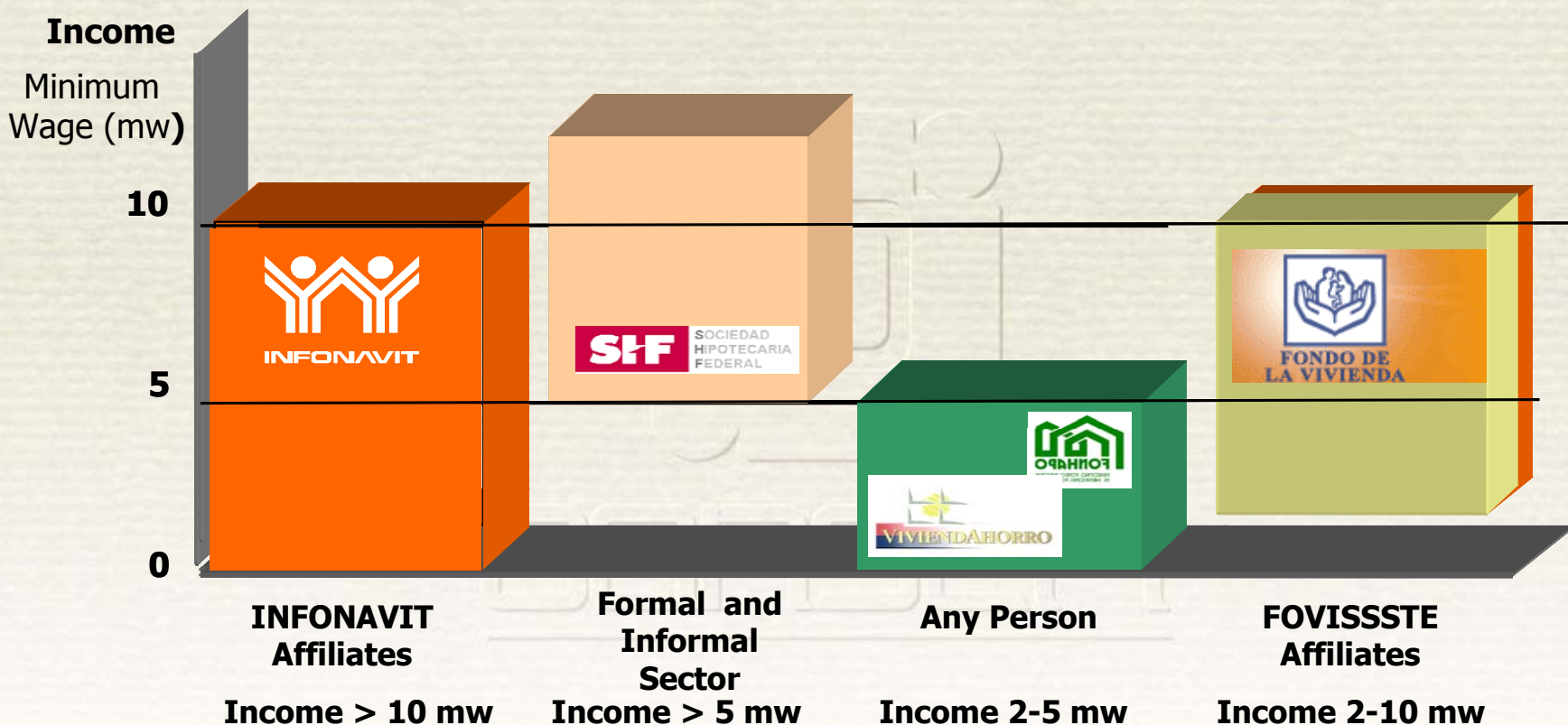
- Since the transformation of PANHAL into BANSEFI (January 2001), savings account has increased from 850,000 to more than 3.1 millions in March 2005 (253%).
- BANSEFI distribution network includes 545 branches.
- In order to promote saving behavior, it is possible to open and account with only \$5 USD, and no fees are charged and market interest rates are paid.



## Banking the population through government programs

- BANSEFI distributes through its branches and L@ Red de la Gente payments from the Federal Government programs (*Oportunidades* and *Procampo*), to the beneficiaries in order to guarantee the transparency in resource distribution of the programs and promote the bancarization of the population.
- The mechanics of the operation start with opening a savings account in BANSEFI.
  - “Oportunidades” implemented by SEDESOL, has been a successful program that aims at providing health, nourishment and educational support for 5 million of the poorest families. In May 2005, 1,180,000 saving accounts had been opened, and 1,189,211 families receive cash payments through BANSEFI.
  - “Jovenes con Oportunidades”: Students that finished high school through the support of “Oportunidades” received an additional government support up to 300 USD by opening a savings account that can be used to continue their studies or in other alternatives.
  - A similar mechanism is used by “Procampo”, which is a program addressed to aid farmers. More than 230 thousand farmers received their payment through a bank account in 2004.
- As a result, recipients of Mexican social policy are introduced into the **use of formal financial products**, most of them **for the first time**.

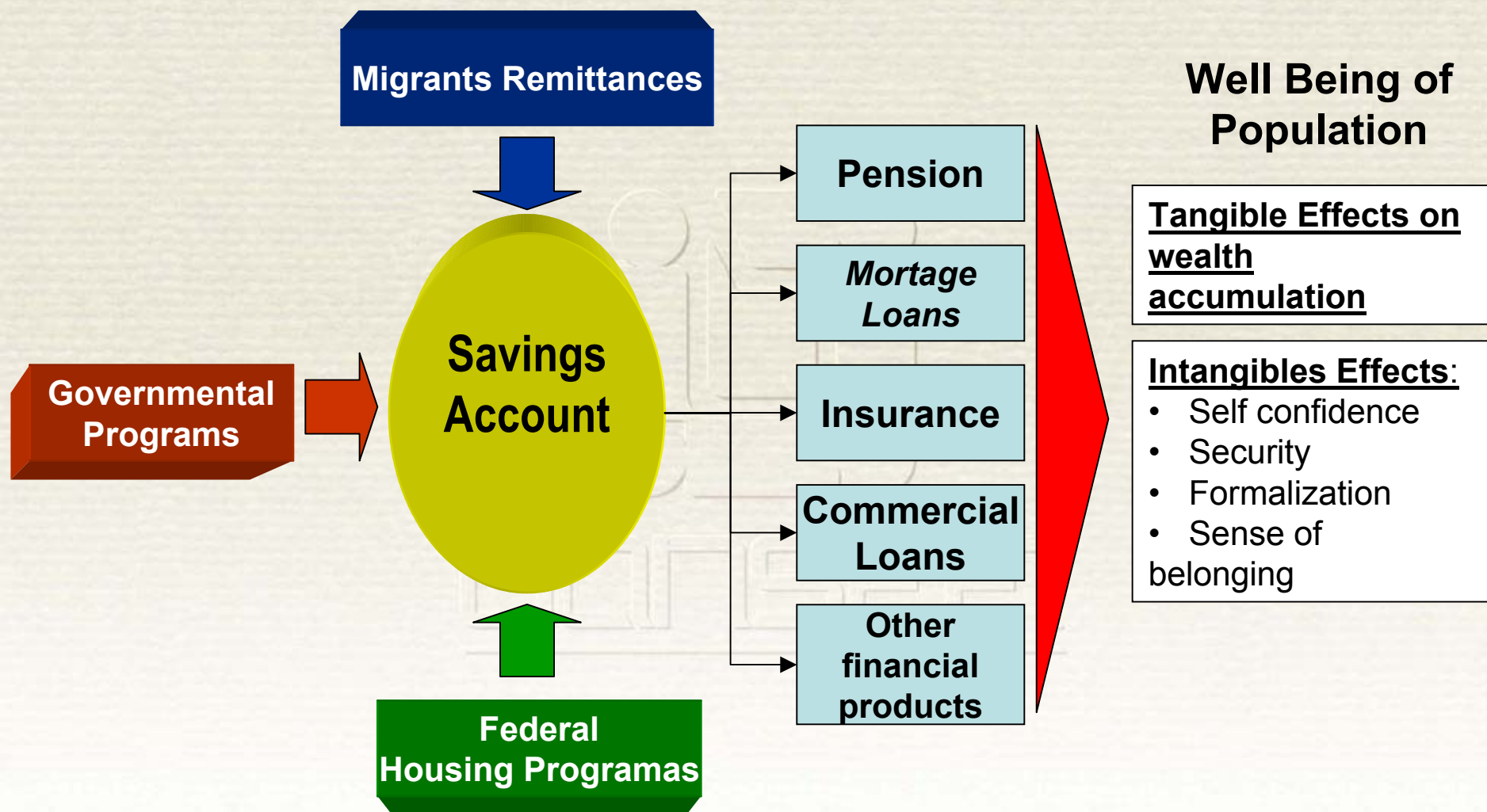
Bansefi has established agreements with the principal Housing Institutes in the country to promote savings to obtain a mortgage loan.



- In all these products a savings account is used to trigger the access to a mortgage loan.

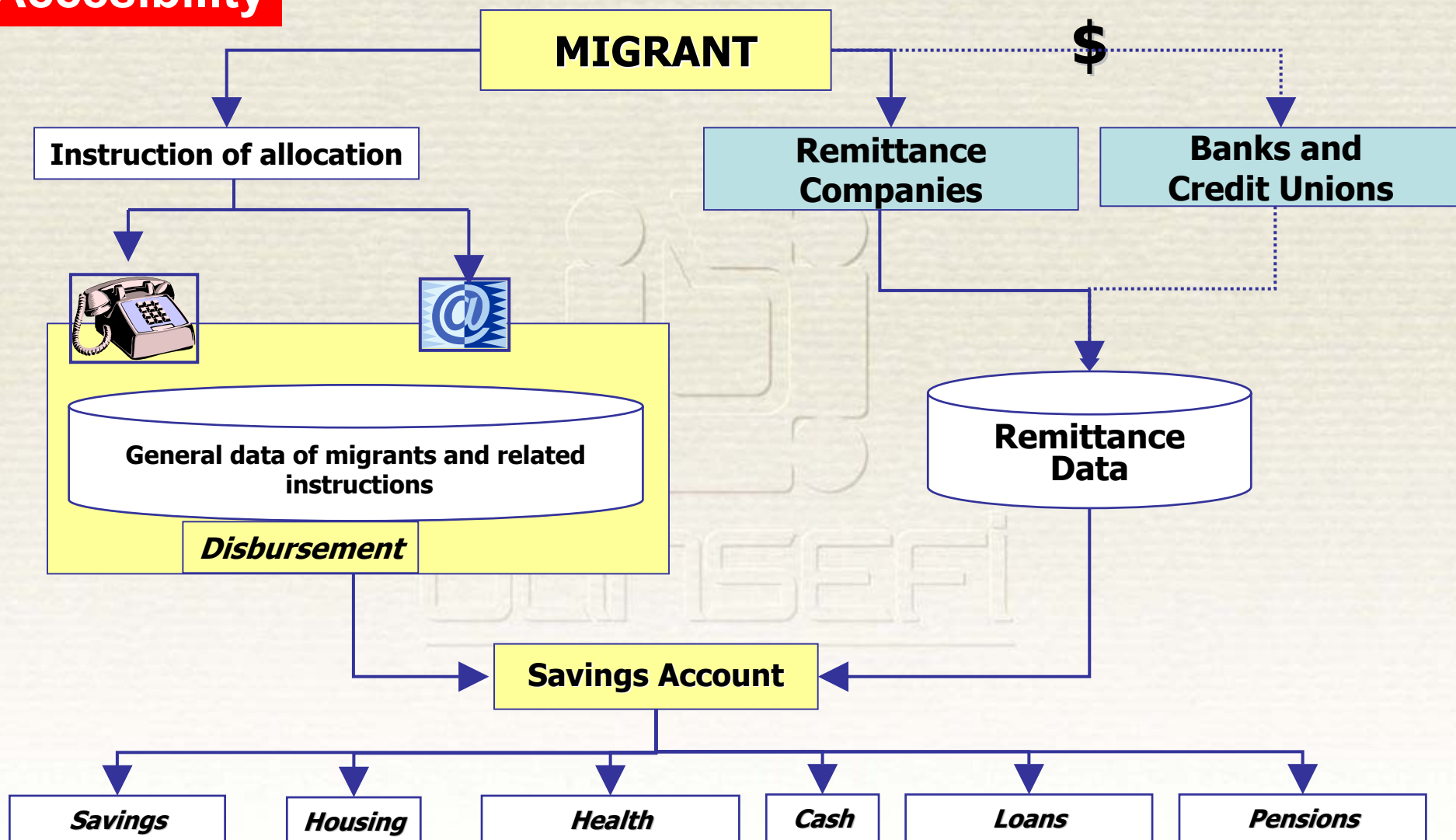


## How social bank networks and access to financial products increase the impact of remittances in the well being of the migrants



- Thus, the increase in the origination network with the participation of banks and credit union and in the distribution network with L@Red de la Gente expands the possibility to bank the unbanked.
- Banking in both sides of the border will be the effective solution to cost reduction which in turn will allow migrants to have access to financial products. Thus their income and remitted funds can be used to improve the standard of living through:
  - savings accounts,
  - health insurance,
  - pension funds,
  - investing to build or improve housing or employment-generating activities, such as starting a business and for community development projects.
- This in turn will allow them to better integrate to the American society if they decide to settle there or to create a patrimony back home if they decide to go back and improve the life of their communities where they leave.

## Accessibility





- The Social Banking System is destined to play an strategic role in the future Mexican Financial System. The Sector has a distribution network well positioned to cover the areas where commercial banks have no presence or knowledge of the local markets. This will be a powerful tool to bank the unbanked
- The “bancarization” of migrants and of their families back home will generate access to more integrated services that in turn, will benefit both sides of the border changing the remittances market from one based on transactions to one build upon long term relationships.
- It also serves a clear social purpose by giving low-income groups, who are the bulk of remittance senders and recipients, access to banking services which have traditionally been available only to elite groups in most Latin American countries.