

BCP Bank Pedro Belo

The subject of remittances and financial inclusion can be further illustrated by the role that the flows of remittances from the Portuguese expatriate community played on the development of the financial services industry in Portugal. This case, and in particular the way bcpbank has been serving the Portuguese expatriate community in the US, brings a valuable experience with some solutions and policies that can be widely adopted. I'll focus my presentation on the merits of the remittances on the way we promoted financial inclusion (on the recipient country) and the impact it had on overall economic development.

To put into perspective our experience in this market, allow me just a couple of lines to refer to the Portuguese case. Portugal has a very long history in terms of migrations, almost since the fifteen Century, but for the purposes of this conference it is just relevant the large emigration flows that occurred during the sixties and seventies. We are a small country with a population of just 10MM people, while people living abroad range from an official count of 5MM to rough estimates that put this number close to 8MM. Any of these figures as a percentage of total population is quite impressive.

With such relative numbers, it was critical for Portugal, in particular at the end of the 70's, to develop in partnership with the financial industry, a comprehensive system to stimulate and bring liquidity to the remittances market. During the beginning of the eighties these inflows represented 3.5% of GDP, surpassing the revenues from tourism and from foreign direct investment.

Successive Portuguese governments were quick to recognize the positive impacts of these flows and approved several incentive packages ranging from tax breaks to the elimination of the sales tax (Sisa) on real estate transactions, as well as a subsidy on a form of more competitive interest rates for the acquisition of properties in Portugal.

The administration and control of all incentives was delegated on the financial institutions that created specialized departments to monitor and develop this line of business. It was critical to find ways to speed up the transfers and to do it at the lowest possible cost, while at the same time adding value to the user by leveraging the remittance. The success of these initiatives were quickly measured by the weight of the deposits from emigrants in the Portuguese banking system, that represented during the nineties (its peak) 20% of total country deposits.

The decision to incorporate bcpbank in New Jersey was supported by the volumes of business of an already discontinued money remittance office catering for these flows in Newark, NJ and our assessments that only by servicing all of the financials needs of these customers, could we bring value to this market and assure a sustained operation in the US.

We have been offering to the Portuguese expatriate community in the US the convenience of an enlarged network of branches and representative offices, the trust and reliability of a large financial Institution, the value added of an extended product line leveraging the remittances, all of this at an unbeatable price.

The value has been perceived by our customers and, at a time when the market has been shrinking we keep increasing not only our market share but also the total amounts transferred.

Along the way, we have been learning valuable lessons, some of them becoming part of our distinct competitive advantage. As an individual institution, the customer prefers the concept of “one stop shopping”, electing to conduct business through a Bank that offers the remittance services while covering other financial needs as well; Convenience has been a critical factor so the localization of our network has been carefully planned and implemented; Loyalty has been achieved and reinforced through the remittances market. In the Portuguese case we (financial industry and public sector) were able to channel the proceeds of the remittances to economic development, by facilitating the flows and providing incentives for specific financial products.

We are also servicing other ethnic groups in the US (mainly the Brazilians) through partnerships with Institutions on the recipient country with extensive branch networks and committed to leverage the remittances and promoting financial inclusion.

To lower the costs of the remittances we had to come up with a proprietary software for the processing of these orders and the monitoring of present and future compliance demands. It wouldn't be possible to bring liquidity or to stimulate this market at the average costs of the traditional cross border payment system. As we were assured of a regular flow of orders, we could afford to invest on the development of such software, with a daily file transfer that could be automatically processed by our Bank in Portugal, avoiding the traditional costs of a SWIFT transaction. Due to the repetitive nature of these orders the processing gets reduced to minimal input, allowing for very competitive pricing. The sophistication of our customer base provides for a transition to more automated transfer systems, ranging from full internet banking to contact centers and convenient card offering, all of them reducing dramatically the transaction costs.

As a final remark, I can state that our experience just confirms the benefits for all of the participants (senders, beneficiaries and recipient Countries), of having the formal financial system as a major player on the remittances market, putting a downward pressure on pricing and adding credibility and compliance to this market. This will ultimately lead to benefits to the consumer, to the Institutions and most of all, to the Country economies dependent on these monetary flows.

IADB has been actively looking for a more general participation of the financial Institutions on this market (at least in the US), but to stimulate banks to be more active, we have to be assured that we can compete on an even field with the non-bank operators, i.e., the same level of compliance must be applied to all participants.