



THE UNBANKED: MARKET AND OPPORTUNITIES FOR GLOBAL REMITTANCE

February 2009

319 E. Warm Springs Rd., Suite 100 Las Vegas, NV 89119
702.588.5100 fax 702.588.5118
www.ecommlink.com

CONTENTS

Overview.....	0
The Remittance Market in the U.S. and Abroad	0
Prepaid Debit Cards as a Remittance Solution	0
The Mobile Payment Solution.....	0
Reaching Unbanked Remittance Senders and Recipients.....	0
Conclusion.....	0
About eCommLink.....	0
Footnotes.....	0

eCommLink has prepared this document for use by eCommLink personnel, approved vendors, and personnel. The information contained herein is the property of eCommLink and shall not be copied, photocopied, translated, or reduced to any electronic or machine-readable form, in whole or in part, without prior written approval from eCommLink.

© 2009 eCommLink All Rights Reserved

Overview

The United Nations estimates that 191 million immigrants worldwide send money to relatives back home. In some cases, remittances help supplement the incomes of some recipients; for others, the money may be their only source of cash flow. In many countries around the world, remittances are the most important poverty alleviation program and represent a considerable economic force (up to 10% of the GDP in countries like the Philippines).

The immigrant population and the remittance services they utilize represent a potentially huge new market for program managers, financial institutions and other financial services providers. At this time consumers still prefer cash-to-cash services, and recent research indicates that alternative remittance methods such as stored value cards have not yet gained significant market share. However, prepaid cards offer broad capacity and, when integrated with mobile technologies, they can be a powerful financial tool for the primarily unbanked immigrant population.

Prepaid cards with mobile capability allow immigrants to send money home to their families faster, more inexpensively, and more securely than previously possible. Through mobile technology, remittances can be sent even to rural districts in developing countries that lack adequate transportation and financial infrastructures. In addition, mobile-based accounts provide a gateway to the formal financial sector, opening the possibility for checking and savings accounts, credit cards, mortgages, and business loans.

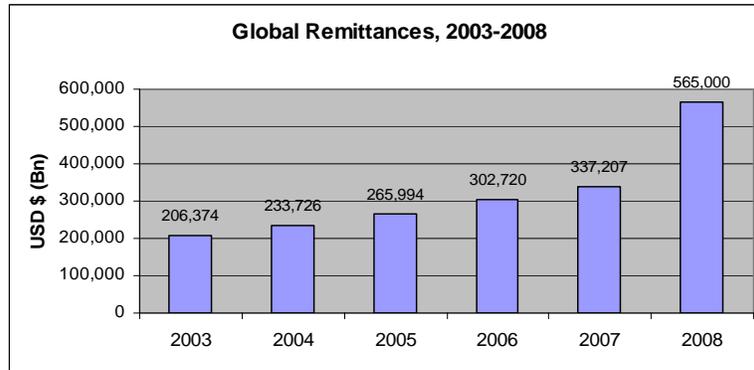
The remittance market is currently dominated by money transfer companies such as Western Union and MoneyGram; financial institutions have been slower to gain a foothold. Facilitating banking access to the immigrant population, as well as to remittance recipients, could shift the market away from money transfer companies and provide both parties with more options to manage, save and invest their money. Stored value cards linked to mobile technology can provide a smooth transition into the banking system and the opportunity to significantly impact local economic development.

The Remittance Market in the U.S. and Abroad

One in 10 residents in the U.S. is an immigrant. Over half are from Latin America and more than 60 percent of this population sends money to relatives back home an average of 8-13 times per year.¹ According to the independent organization United States Immigration Support, recent immigrants earn relatively low wages and usually remit \$200 to \$300 on a monthly basis. Those who have been in the U.S. longer send more money, but less frequently. Although immigrants are more likely to send regular remittances in the years immediately following their arrival in the U.S., 23 percent continue to remit for 20 to 30 years afterward.²

The dollar figure remitted has been growing strongly in recent years, both in the U.S. and globally. According to the World Bank (July 2008) the international remittance market has increased 63 percent over the last 5 years (unrecorded remittances can be up to 50 percent more), with over \$550 billion expected to have been remitted in 2008. According to the World Bank,

28% of global remittances are sent to India, China, Mexico or the Philippines, and the U.S and European Markets are the biggest source of remittance payments.



Source: World Bank (July 2008)

Most immigrants are unfamiliar and inexperienced with the banking system. Roughly two-thirds of Latin American immigrants living in the United States do not have a bank account³ and even higher rates of Mexican immigrants are unbanked. Around the world, immigration status and income relate to the use of banking services, with immigrants becoming more likely to establish a banking relationship as they move into citizenship or higher incomes.

Immigrants who lack a transaction account with a traditional financial institution rely on alternative providers, such as check-cashing stores and commercial remittance service establishments, to meet their financial needs. This explains why the cash-to-cash fund transfer model is so deeply entrenched — accounting for close to 90 percent of the remittance market — despite the higher fees and exchange rates that money transfer companies typically charge.

Banks and credit unions have been increasing their presence in the remittance market over the past few years; still, one estimate indicates that out of the total of over 15,000 insured financial institutions in the United States, only about 100 banks and credit unions offer consumer remittance services with meaningful transfer volume.⁴ Some banks have recognized the tremendous potential for growth and have gained traction in the remittance market. Citibank has formed partnerships with foreign banks and allows immigrants to send \$3,000 for only \$5, which is significantly lower than fees charged by money transfer companies. Bank of America has also introduced a similar program, called SafeSend, where remittances can be sent to Mexico at no cost. Both have found remittance products to be effective at attracting immigrant customers.

Prepaid Debit Cards as a Remittance Solution

Although stored value cards have not yet gained significant market share for remittance transactions, they have the potential to change how remittances are sent in the long-term. And because prepaid cards can be issued to non-customers, they are also a useful tool for reaching consumers who are not yet comfortable with financial institutions.

Prepaid debit cards represent a quick and efficient way for financial institutions and program managers to enter the international remittance market. Immigrants can sign up for the card

program without a credit check or extensive documentation requirements. They can receive a fully branded Visa or MasterCard for their own use in country and another card that can be sent to the remittance recipient.

The worker can push funds to the linked card and the recipient can utilize the card at any POS or ATM location, or can sweep the funds at a bank or participating retailer. The cost to transfer funds via the cards is a fraction of what is charged by the traditional remittance solutions and the funds are delivered immediately.

Prepaid debit cards offer broad capabilities and can be used for multiple transactions beyond remittances, including point of service transactions, phone calls, and bill payments, providing both the sender and the recipient entry into the credit culture. By offering this type of card product, financial institutions and program managers have the potential to reach individuals who choose not to use conventional banking services. They also have the opportunity to grow this relationship overtime to include more traditional bank offerings.

The Mobile Payment Solution

The ubiquity of the mobile payment infrastructure is expected to bring about a revolution in the financial services sector. According to the United Nations, half the world's population – about 3.3 billion people – has access to mobile phones. This year mobile penetration in developing countries is expected to cross the 50 percent mark.

Most mobile phones deployed over the past 5 years are equipped with functionality that can enable remote mobile payments, for the first time allowing access to banking for many rural poor. All parties are familiar with text messaging; they know how to use cell phones and are likely to feel comfortable making transactions. What's more, the untethered nature of the mobile infrastructure allows immigrants to send money home using their phones without having to visit a money transfer office location or be in front of a PC. Remittance recipients can receive funds at any time and any place. Projections suggest that such use of cellular networks could increase the value of remittances to over \$1 trillion in the next 5 years.⁶

Here are two examples of how mobile communications networks can deliver financial services to those without prior access to the formal economy.

- By March 2008, after just 11 months in service, Safaricom's M-PESA in Kenya had attracted more than 1.6 million subscribers and handled transactions totaling KES.9.3 billion (US \$148 million).
- With a program that's been five years in the making, Glendale, Ariz.-based Rechargeplus USA Inc. has built a cardholder base of 160,000, along with a network of 30 financial institutions and more than 2,000 merchants or "business centers," where remittance recipients can pick up their companion prepaid cards and available funds.

Foreign workers enroll in the Rechargeplus program through their employers, community groups or government agencies to have their salaries loaded to a card account. Cardholders can transfer any portion of their pay to the linked card or cards of up to five

beneficiaries in their home countries. Recipient(s) can use the Visa-branded card at any POS system that accepts Visa, withdraw funds from an ATM, or obtain cash from participating merchants around the world.

By combining a prepaid remittance card with mobile capabilities financial institutions and program managers can offer a powerful remittance solution that directly and effectively appeals to large immigrant populations.

Reaching Unbanked Remittance Senders and Recipients

Remitting immigrants. Offering remittance services is an important step toward establishing long-term relationships with immigrant customers who could benefit from a range of financial products and services. One of the challenges financial institutions face is convincing remittance senders to try new services when they're comfortable with the methods they're already using.

Marketing is crucial because remittance services are typically associated with retail outlets. Some financial institutions have used large banners on the side of their branches to promote their remittance products, but to capture this market, banks must gain the confidence of this population and address the barriers to services.

Staff training, program accessibility and transparent fees are critical pieces of a successful marketing program. Participants in recent focus groups consistently indicated that they would prefer to use remittance services providers that give upfront information about fees, exchange rates and services terms.⁵ Length of time to transfer money and available destinations are other areas of interest to immigrants.

Remittance recipients. Remittance recipients typically live in cash-based economies and are also largely unbanked; however, a significant portion of this population receives remittances at a financial institution. According to the survey reported in an Inter-American Development Bank press release (November 6, 2007), about 56% of the Central American remittance receivers picked up their transfers at a financial institution.

Surprisingly, these persons were rarely offered bank accounts, even though survey respondents showed significant interest in financial products and services. In fact, 53 percent said they were "very interested" in a service such as a savings account; 44 percent indicated an interest in life or health insurance, and over a quarter of respondents expressed interest in loans such as small business loans, mortgage or home construction loans, and education loans. Yet more than 90 percent of remittances remain outside the formal financial system, thus limiting the potential economic impact of the money sent by expatriates.

Recipients' interaction with the banking system presents an opportunity to increase bank participation in communities receiving remittance monies. Barriers to services are similar to those financial institutions face in attracting immigrant customers; remittance recipients may not trust that banks are secure or feel they are geared only to the wealthy. Financial institutions will have a better chance of tapping into the remittance market of receiving countries if they establish relationships with pick up locations in rural areas as well as the easier to reach urban areas. These types of relationships are easily supported with a prepaid remittance card program.

Conclusion

Unbanked immigrants represent a huge untapped customer base for financial institutions, program managers and providers of financial services. Mobile-based accounts tied to prepaid debit cards provide a gateway product to the formal financial sector, opening the possibility for savings, interest, and microcredit. Mobile money transfers from prepaid cards—even if they capture just a sliver of the global remittance market—could eventually mean big business for financial institutions, program managers and other financial service providers.

Generating foot traffic with remittance products gives financial institutions the opportunity to position themselves as a trusted provider of financial services. Remittance products can be an effective tool for attracting immigrant customers into bank branches. Connecting remittance recipients to formal financial services improves financial welfare of country's citizens, in turn accelerating the speed at which the economy can grow.

Offering an international remittance product is an essential way for financial institutions to reach out to an important and growing market. Anyone who isn't serving the remittance market will lose out on what is likely to be a huge opportunity in the long run.

About eCommLink

eCommLink is a value added prepaid processor that supports the full array of prepaid debit card programs, including payroll, general spend, travel, teen and gift card programs. The company's flexible prepaid processing platform, innovative features, and industry experience allow clients to create customized prepaid programs for their specific markets while ensuring quality, security, and time to market.

eCommLink was among the first companies to process a mobile prepaid program and has been building upon its capabilities and functionality ever since. eCommLink works with a variety of mobile commerce and mobile banking applications, including mCash, Obopay, Monitise and Rechargeplus. Through these partnerships, eCommLink supports SMS, WAP, Brew, Java, RIM and Xcode and offers solutions that work with every major carrier.

eCommLink's mobile programs allow customers' mobile phones to operate like a virtual bank account, enabling:

- International remittance
- Mobile-to-mobile payments or funds transfer
- Bill pay
- Balance inquiry
- Transaction history
- Purchases
- SMS notifications

Through its experience, eCommLink has created an extensive network of clients and partners within the financial markets, including Discover®, Sodexo®, PULSE, Transfirst, First Bank of

Delaware and Palm Desert National Bank. The company is also currently working to expand its international partnerships with such key players as Bank of Valletta and Central Bank of UAE.

eCommLink is certified with Visa, MasterCard and Discover as a third-party processor, as well as the following ATM networks: PULSE, NYCE, Interlink, Plus, MoneyPass, AllPoint, Maestro, Cirrus and STAR. It is a licensed partner of American Express Incentive Services and certified to issue MasterCard's PayPass technology. eCommLink is PCI DSS 1.2 and TG-3 compliant, as well as SAS 70 II certified.

Footnotes

¹ Pedro De Vasconcelos "Sending Money Home: Remittances to Latin America and the Caribbean," Inter-American Development Bank, 2004. <http://www.iadb.org/publications/>

² Roberto Suro, Remittance Senders and Receivers: Tracking the Transnational Channels, Multilateral Investment Fund and Pew Hispanic Center, November 2003. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=548518>.

³ Weighted average based on data from Manuel Orozco, "Cross Border Remittances and Financial Access Issues: Topics to Understand the Market Base of MSBs." Presentation to the Chicago FDIC Committee on Economic Inclusion. October 25, 2007.

⁴ Manuel Orozco. International Flows of Remittances: Cost, Competition and Financial Access in Latin America and the Caribbean—Toward an Industry Scorecard." Inter-American Dialogue. May, 2006.

⁵ Manuel Orozco. Between a Rock and a Hard Place: Migrant Remittance Senders, Banking Access, and Alternative Products. Inter-American Dialogue Draft Report. October 2006.

⁶ "Telecom: Pilot Program Allows Cellphone Money Transfers," The Washington Post, February 13, 2007. <http://www.washingtonpost.com/wpdyn/content/article/2007/02/12/AR2007021201467.html>.