



The Mexico-US ACH

Global Payments Week 2006
Sydney, Australia
October 3 – 6, 2006



Background

- In September, 2001, President George Bush and President Vicente Fox launched the *Partnership for Prosperity* with the vision of “unfettering the economic potential of every citizen, so each may contribute fully to narrowing the economic gap between and within our societies.” This public-private alliance was charged to find ways to foster an environment in which no Mexican resident feels compelled to leave his home for lack of jobs or opportunity and to identify several overarching strategies fundamental to the Partnership’s success:
 - Expanding and broadening access to capital;
 - Sharing best practices and technical expertise;
 - Linking institutions with shared goals; and
 - Building capacity for growth.

Background

- The plan deemed it essential to “work to lower the cost for Mexicans working in the United States of sending money home by, in part, encouraging more banks to market aggressively the opening of accounts to Mexican workers and to offer remittance features in their accounts.”
- Early in 2002, the U.S. Federal Reserve Banks and Banco de México agreed to study the possibility of interlinking their payment systems.

Background

- The objective was to have an efficient and low cost interbank mechanism to carry out payments between both countries that will be available to all financial institutions, and promote the use of low-cost banking services.
- An interdisciplinary project team started to work on the solution, analyzing implications in both countries:
 - Legal issues
 - Operating manuals and formats
 - IT development
 - Payment systems

Legal, Operating and IT implications.

- Operating Rules of each central bank govern their respective payment systems. This provides the service with a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework.
- The Central Banks signed a service contract that includes Technical Specifications and Operating Rules.
- These documents establish clearly the operating rules, formats, timeframes and exceptions (Rejections, Cancellations, Complaints).

Directo a MéxicoSM

- In October 2003, the Federal Reserve Banks and Banco de México interconnected their payments systems for sending payments to US pensioners who live in Mexico (most of them Mexican origin)
- In February 2004, the service was extended to all US Depository Financial Institutions that want to participate.
- By the middle of 2005, it was decided to commercialize the interconnection under the service mark **Directo a MéxicoSM**. And the delivery time frame was reduced to one banking day (48 to 24 hrs.)
- Transfers are only allowed to bank accounts: Directo a MéxicoSM is available only to customers of the US Depository Financial Institutions that have subscribed to the service with the Fed.
- A marketing campaign has been taking place in more than 20 US cities with Mexican origin population, 100 banks has been enrolled.



Directo a México features

- The Federal Reserve Banks and Banco de México act in each country as “Gateway Operators” in order to carry out transmission and reception of payments.
- Beneficiaries receive payments in their accounts at any Mexican bank. Mexican banks do not apply any surcharge.
- Ideal for bank to bank regular payments such as payments to pensioners, payroll, remittances, etc.
- Currently only payments from U.S.A. to Mexico are processed.
- The payment is initiated in a local currency (dollars) and the payment for the beneficiary is settled in local currency (Mexican pesos)



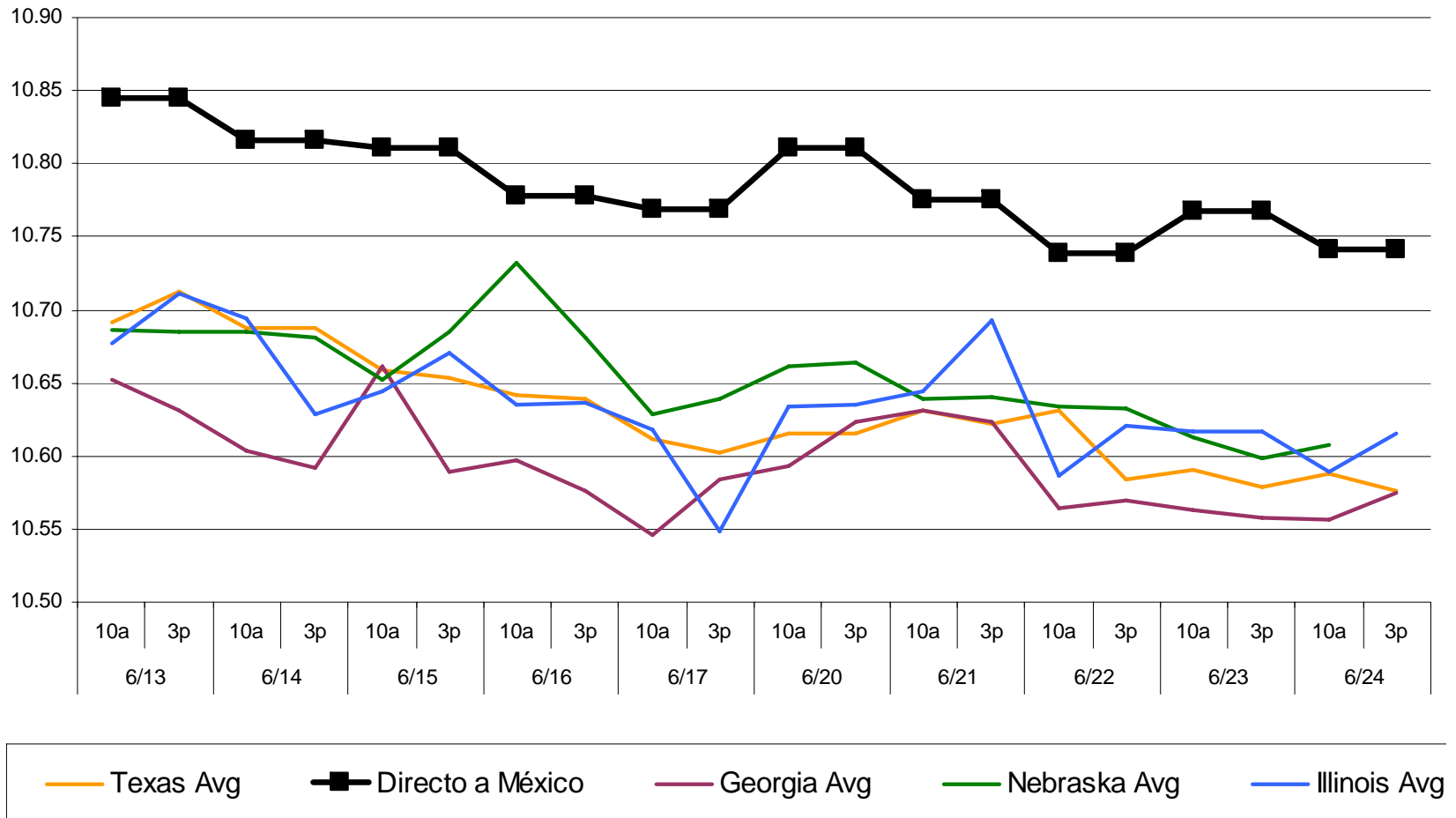
Directo a México features

- Directo a MéxicoSM allows participating banks to offer lower fees and an exchange rate that is very close to the one banks get in large value transactions.
- The Fed surcharge of \$0.67 USD per item to U.S. Originating Depository Financial Institution includes the processing fees of Banco de México.
- The FX Rate to consumer is the wholesale reference rate (FIX, calculated and published by Banco de México on the settlement date), less 0.21%.
- Banco de Mexico executes the foreign exchange operation through a FX Agent.



Foreign Exchange Savings in Directo a México

Directo a Mexico FX rates compared to data in Appleaseed study on FX rates of other transfers for 2 week period in 2005.



Current situation in Directo a México

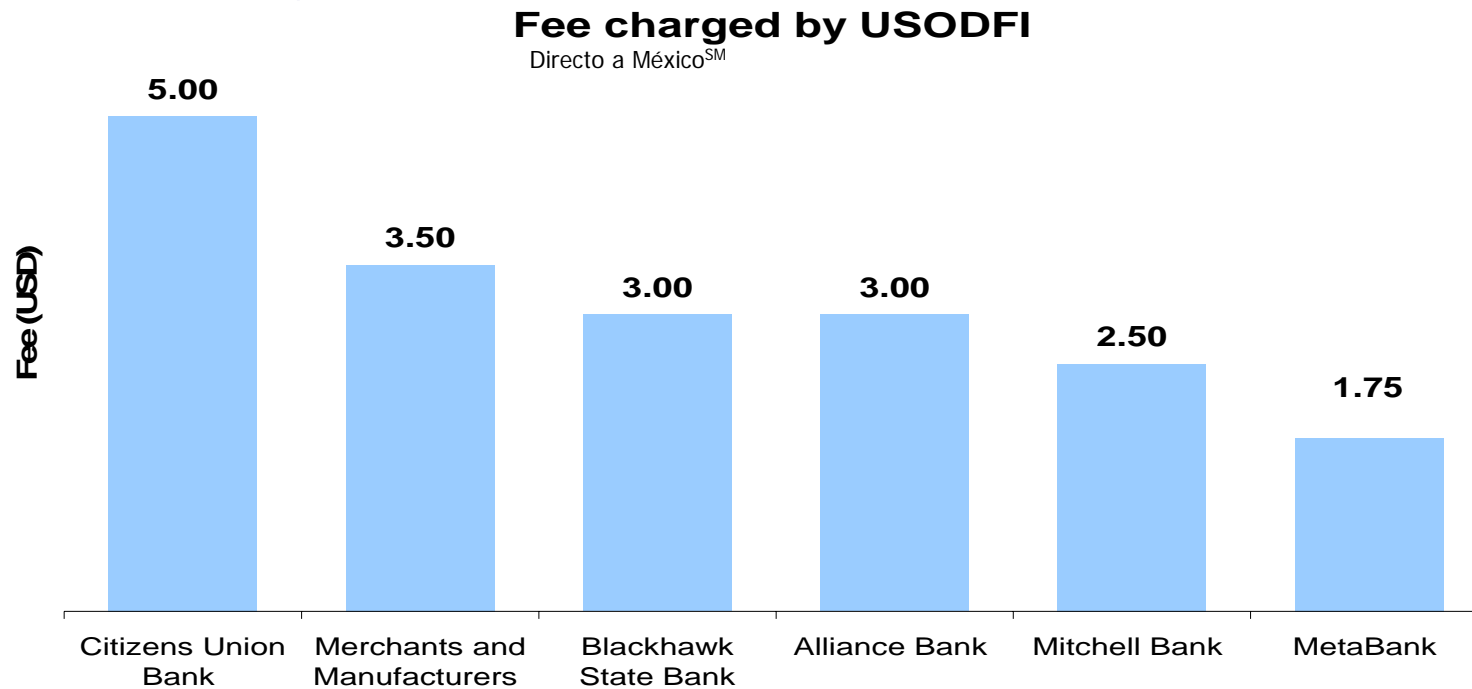
- The participant USODFI¹ generally charges up to 5 USD fee to the Originating customer.
- Currently, there are 100 US banks and credit union ready for production, and more than 50 banks are in testing.
- More than 735,000 payments for an approximate value of \$297 USD million have been processed since October, 2003.
- Due to the lack of bank accounts by Mexican beneficiaries commercial payments are increasing slowly.

¹. US Originator Depository Financial Institution



Directo a México fees

- USODFI participants in Directo a México, generally charge less than \$5.



BANSEFI's Beneficiary Account Registration

- In August, 2006, BANSEFI¹ released an Internet application to pre-open or register accounts, “Beneficiary Account Registration”
- BANSEFI has worked with the Federal Reserve Banks and Banco de México to enhance this service and make possible the facilitation of account pre-opening from a USODFI in Bansefi or a “Caja” in L@Red de la Gente. This means that if the customer in the US has a bank account but his beneficiary in Mexico does not, the customer may register the data to pre-open an account on behalf of the beneficiary in Mexico, subject to formalization by the beneficiary.
- Bansefi provides the USODFI access to a website where their employees can login and register account information on behalf of a migrant's beneficiary in Mexico.

¹ Banco del Ahorro Nacional y Servicios Financieros (National Savings & Financial Services Bank), Mexican government-owned development bank.

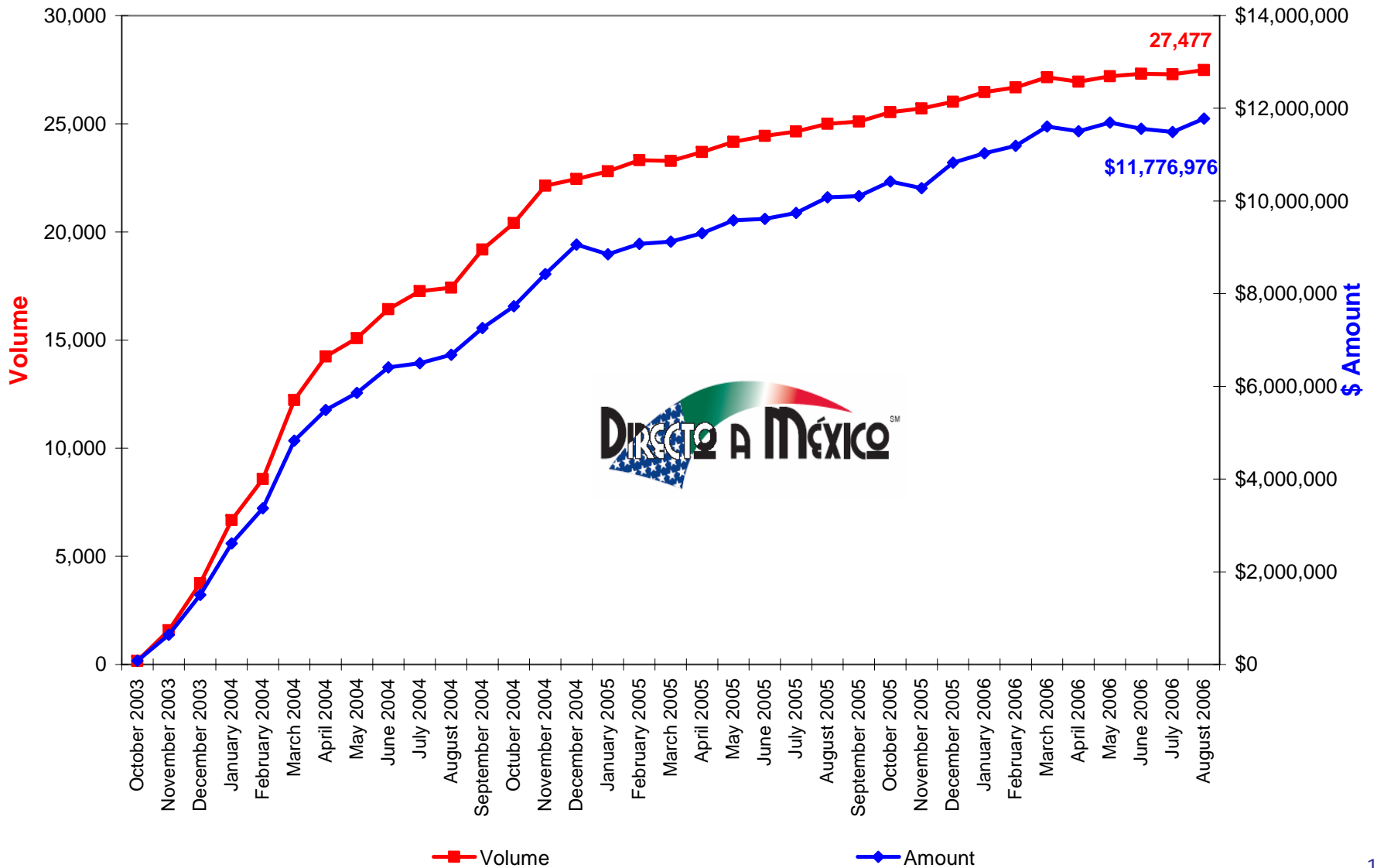


BANSEFI's Beneficiary Account Registration

- The website generates a CLABE number which uniquely identifies the registered account. The USODFI uses this number to send a remittance via the “Directo a Mexico” service.
- The beneficiary in Mexico has to formalize the account personally in the selected branch and afterwards he can withdraw the money.
- The fact that the money is waiting for them, makes it attractive to the beneficiary to go into the branch and open the account. Once formalized, he can continue to receive low-cost, account-to-account transfers.

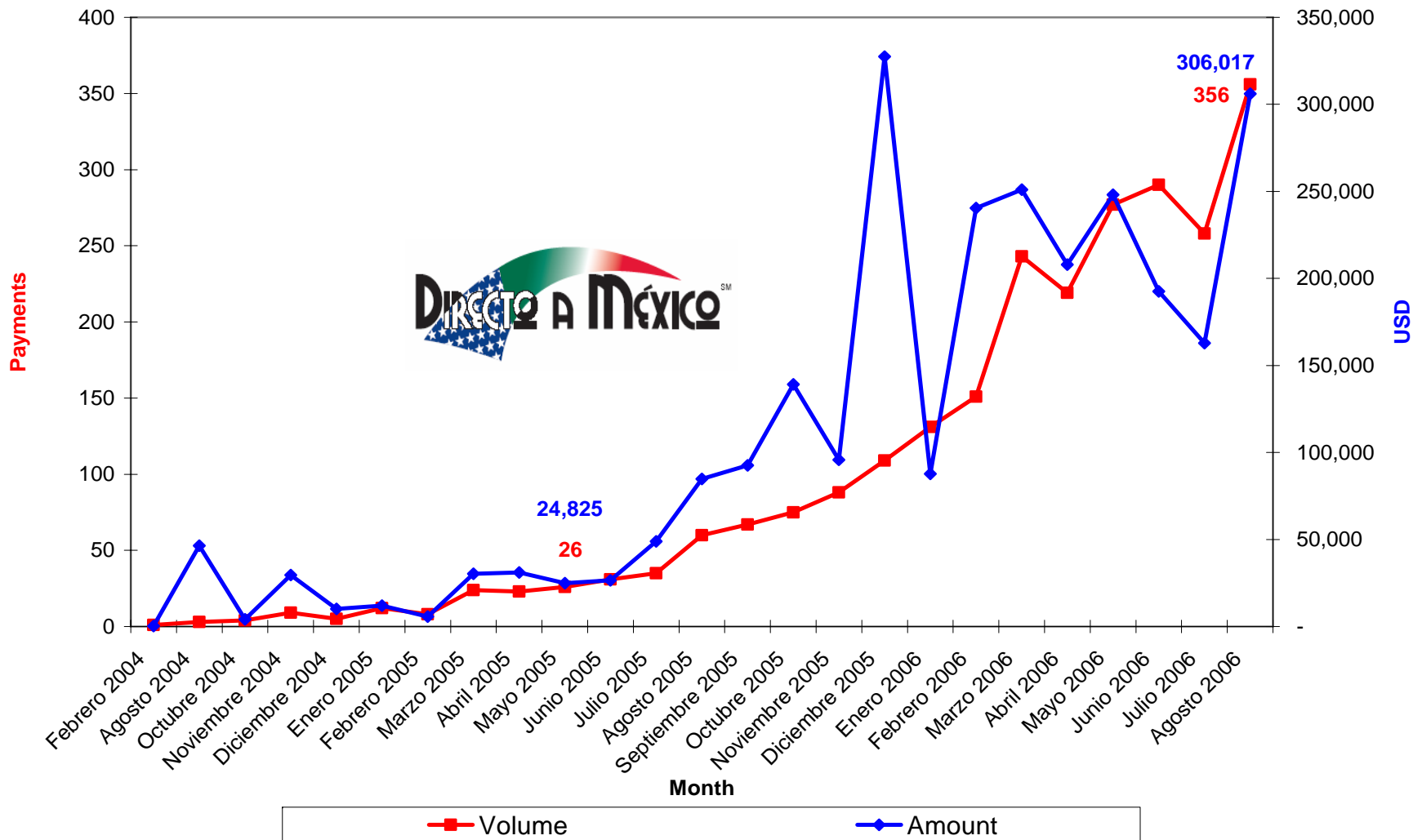


Volume and value operated



Volume and value "commercial payments"

Volume and Amount accumulated monthly through "Directo a MéxicoSM"
Commercial Payments



Lessons Learned

- Inter-connection and technology are the easy part
- Central banks can only encourage savings, better options in the marketplace. Introduction of new ideas requires behaviors to change:
 - Banks and credit unions can now offer low-cost cross-border transfers to their customers – they are not (yet) accustomed to doing that
 - Consumers must change habits too
 - Mexicans on originating and receiving end must use financial institutions to get the benefits – for a variety of reasons they are not (yet) fully comfortable with doing that
- Branding to Directo a Mexico important step in facilitating offer by financial institutions and commercial acceptance by consumers

