

Testimony of

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on behalf of the Consumer Bankers Association

on

“Remittances: Reducing Costs, Increasing Competition, and
Broadening Access to the Market”

before the Committee on Financial Services

of the

United States House of Representatives

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I. Introduction

Chairman Oxley, Ranking Member Frank and members of the Committee, my name is Alice Perez. I am a Vice President, Hispanic Market Manager, with U.S. Bank. On behalf of the Consumer Bankers Association and U.S. Bank, thank you for the invitation to testify today on expanding consumer access to mainstream financial institutions and reducing the costs and increasing the competition in remittance services. I look forward to sharing with you information about the Consumer Bankers Association's action in this area and U.S. Bank's perspective and efforts as we continue to meet our customers' needs.

A. U.S. Bank

U.S. Bancorp, with assets of \$195 billion, is the eighth largest financial services holding company in the United States. The company operates 2,199 banking offices and 4,575 ATMs, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. U.S. Bancorp is the parent company of U.S. Bank. The retail banking area of U.S. Bank includes 24 states, extending from Ohio and the Midwest to the West Coast. U.S. Bancorp is home of the Five Star Service Guarantee which assures customers of certain key banking benefits and services or customers will be paid for their inconvenience. In my role at U.S. Bank, I lead the development of programs, products, and services that will benefit the Hispanic market. U.S. Bank is striving to be the bank of choice for Hispanic consumers.

B. Consumer Bankers Association

U.S. Bank is testifying today on behalf of the Consumer Bankers Association (CBA), the recognized voice in retail banking issues in the nation's capital. CBA member institutions are the leaders in consumer financial services and include most of the nation's largest bank holding companies as well as regional and super community banks that collectively hold two-thirds of the industry's total assets.

II. Consumer Bankers Association: Dedicated to Reaching Under-served Communities and Populations

CBA has been actively involved in issues of financial access for many years. In 1997, the CBA partnered with the Office of the Comptroller of the Currency to cosponsor a forum entitled "Financial Access in the 21st Century," a conference to explore ways to improve access to financial services for the millions of "unbanked" households in the U.S. "Unbanked" is a description used for consumers who have not been involved with traditional retail banking institutions. The forum was an opportunity for academics, industry, and consumers to share ideas for expanding access to mainstream financial services. The forum suggested the need for improved financial literacy among all

populations, but most critically among low and moderate-income consumers and minority and immigrant populations.

A. Financial Access, Education, and Literacy

In 2000, CBA began to undertake a series of annual surveys to determine the level of financial literacy efforts of its member banks. Over the years, the findings demonstrated that banks have dramatically stepped up programs aimed at expanding access to the unbanked and combating predatory lending through financial education programs.

Bankers who responded to the 2003 survey reported that 98 percent offer financial literacy programs or work with partners that support such efforts. In addition, many institutions have introduced Spanish speaking tellers, Spanish language web sites and ATMs, marketing materials in languages other than English, and other means of reaching out to Hispanic, Latino and other immigrant communities. Indeed, 70% of the respondents provided financial literacy materials in one or more foreign languages.

B. Forum on Hispanic Outreach: Spring 2004

Financial illiteracy is but one barrier to expanded access. In order to better understand other obstacles that may exist, and to share innovative programs and services being developed to serve the Hispanic and Latino marketplace, CBA is developing a conference for the spring of 2004, to be devoted to financial outreach in Hispanic communities.

The purpose of the conference will be to provide a forum for sharing ideas that are proving successful. CBA expects to highlight newly developing remittance programs. In addition, the forum will include discussions about marketing and educational issues that arise when banks reach out to Hispanic communities.

III. Remittance Services: Valuable to Financial Institutions as a Way to Meet Customers' Needs and Attract New Customers

Financial institutions are committed to providing services to consumers who need to transfer funds to relatives in their country of origin. The benefits to institutions include the ability to serve their customers' needs and the opportunity to turn an unbanked consumer into a customer of the bank – providing the consumer the benefits of the financial system. Many banks offer very cost-effective alternatives to the traditional money transfer agents, and are pleased to fully inform a consumer of the costs and benefits of their services.

A. Low-cost Bank Remittance Services

Banks are increasingly offering low-cost alternatives to traditional wire transfers. Bank remittance services have proved to be of tremendous value to bank customers and non-customers, particularly in immigrant populations, where many people send money to

relatives in their country of origin. Remittance services meet the needs of Mexicans and other Hispanics in particular, who often wire money on a regular basis.

B. Characteristics of the Remittance Market

The Inter-American Development Bank estimates that U.S. remittances to all of Latin America totaled \$25 billion in 2002. Mexicans and Mexican Americans alone reportedly send as much as \$10 billion to Mexico annually. According to the U.S. Treasury, the average amount sent in a remittance is between \$200 and \$250 and the cost of the traditional wire transfer can be as high as 20% of the value of the remittance (i.e., between \$40 and \$50).

C. Serving the Needs of the Unbanked Populations

At the same time, many consumers in immigrant communities do not have mainstream relationships with banks in the United States. According to the Inter-American Development Bank, despite the enormous purchasing power of Latin Americans in the U.S., nearly half have no formal account relationships with mainstream financial institutions.

Cultural barriers may be obstacles, as many come from countries where the population lacks the trust in the banking system that is commonly found in the United States. Banks have been seeking ways to overcome these obstacles and to encourage unbanked consumers to enter and benefit from the banking system. The results benefit the consumers by 1) encouraging greater savings and wealth-creation, 2) reducing risk of theft, and 3) providing alternatives to the higher-cost fringe banking system, including check cashers and payday lenders. Banks are increasingly recognizing that offering low-cost solutions for money transfer saves consumers money up front and encourages them to begin other mainstream banking transactions that will provide benefits in the long run.

IV. U.S. Bank Provides Remittance Services and Programs Designed To Successfully Attract and Retain Customers in the Growing and Important Hispanic Market

At U.S. Bank, our vision is to become the best bank in America for Hispanics. To deliver on our commitment of providing unparalleled products, service, and support to the Hispanic market, we focus our strategies on four areas: staffing, marketing, products, and community involvement. The following is a description of our remittance programs and our programs for the unbanked and under-served.

A. U.S. Bank Remittance Programs

U.S. Bank developed two remittance programs to provide consumers with safe, low-cost alternatives to traditional wire transfers. Our “Secure Money Transfer” services offer low transfer fees and competitive foreign exchange rates, enabling consumers to get more money into the hands of their family members. The programs provide consumers a

choice in how the beneficiary receives the funds: cash at an ATM, cash at a bank branch, or funds deposited directly into a savings account.

The first program, available in all 24 U.S. Bank retail branch banking states, enables individuals to send funds within the United States and to Mexico via the Visa/PLUS ATM network. The sender brings funds to any U.S. Bank branch and an ATM card is sent directly to the beneficiary. The beneficiary can use the card to withdraw funds at any of the 364,000 Visa/PLUS network ATMs in the U.S. or the 20,000 Visa/PLUS ATMs in Mexico. Not all funds need to be withdrawn at one time, providing an added level of safety for the sender and recipient. Remitted funds are immediately available to the beneficiary each time money is sent. The program is available to both U.S. Bank account holders and non-account holders. The transfer fee is \$8 for account holders and \$10 for non-account holders. We provide consumers with an extremely competitive foreign exchange rate. Each transfer provides the recipient with one free withdrawal and one free balance inquiry at the ATM.

Our second program, which is being piloted in San Diego, Los Angeles, and Chicago, enables individuals to send money directly to any branch of L@Red de la Gente (The People's Network) in Mexico. L@Red de la Gente is a commercial banking alliance developed by the Mexican savings bank BANSEFI and 17 other entities of the Mexican Popular Banking Sector. The service gives consumers the option to have remitted funds directed to savings accounts or picked up as currency at any branch of L@Red de la Gente. The partnership was created to provide low-cost remittances and to encourage more people to become bank account holders and savers on both sides of the border. The service is priced at \$6 when the transfer is directed to an account at the L@Red de la Gente and \$8 when the funds are picked up in cash. We provide consumers with an extremely competitive foreign exchange rate.

Combined, the U.S. Bank remittance services allow individuals to reach family or friends in both metropolitan areas of Mexico where many ATMs are located and in rural areas of Mexico where many of the L@Red de la Gente branches are located. U.S. Bank continues to investigate other money transfer partnerships and expansion opportunities to ensure our services provide consumers with the best pricing, safety and convenience.

B. U.S. Bank Programs for the Unbanked and Under-served

Individuals who do not have a banking relationship are of high importance to U.S. Bank in a number of customer segments. U.S. Bank is among many financial institutions that have made opening a checking or savings account extremely easy and often free. Even individuals with negative banking history have options for deposit accounts.

U.S. Bank offers a variety of safe and convenient stored value cards for consumers who do not have a banking relationship. Through partnerships with state governments and private companies, U.S. Bank has a series of stored value cards on which regular payments such as child support payments, unemployment disbursements, or weekly payroll are automatically deposited. The individual can use the stored value card to make

purchases or to withdraw cash from an ATM. It is an alternative that saves time and money for the consumer and the business or government entity because the process of cutting, mailing and cashing a paper check is eliminated.

U.S. Bank also offers credit products to individuals without an established credit history. With our Secured Visa Card and Credit Builder Secured Loan, customers enjoy the benefits of a credit card or an installment loan and begin building a credit history with a financial institution. Once credit has been established, customers can qualify for our traditional credit products.

V. Conclusion

Low-cost, competitive alternatives to wire transfers are offered by many financial services institutions. Banks are increasingly recognizing that offering low-cost solutions for money transfers saves consumers money up front and encourages them to begin other mainstream banking relationships that will provide benefits in the long run.

Providing safe, efficient, and affordable money transfer services is the goal of U.S. Bank and our peers in the financial services industry. Our customers validate our programs every day. They tell us how assuring it is to be able to walk into the bank, deposit funds with “Secure Money Transfer,” walk out the door, call their loved ones in Mexico, and know that the money is already there - safely, quickly, and affordably. We have heard the needs of our customers and we have answered their call.

On behalf of U.S. Bank and the Consumer Bankers Association, thank you for the opportunity to present our initiatives and our progress to date.

Please refer to the CBA website www.cbanet.org for:

Multilateral Investment Fund of Inter-American Development Bank Study of Remittances to Latin American and the Caribbean. Feb. 2003

Multilateral Investment Fund of Inter-American Development Bank Paper: "*Improving Access to the U.S. Banking System Among Recent Latin American Immigrants*", Sheila C. Bair, Center for Public Policy and Administration, U. of Mass. – Amherst

Consumer Bankers Association Financial Literacy Survey of 2003.