The Mexico-US ACH

Global Payments Week 2006
Sydney, Australia
October 3 – 6, 2006
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.
• 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:
  o Legal issues
  o Operating manuals and formats
  o IT development
  o 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).
• 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 Depositary Financial Institutions that want to participate.

• By the middle of 2005, it was decided to commercialize the interconnection under the service mark Directo a México℠. And the delivery time frame was reduced to one banking day (48 to 24 hrs.)

• Transfers are only allowed to bank accounts: Directo a México℠ is available only to customers of the US Depositary 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\textsuperscript{SM} 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 Depositary 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 Appleseed study on FX rates of other transfers for 2 week period in 2005.

Study available at: http://appleseeds.net/servlet/PublicationInfo?articleId=48
Current situation in Directo a México

• The participant USODFI\(^1\) 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.

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\(^1\) US Originator Depositary Financial Institution
USODFI participants in Directo a México, generally charge less than $5.

**Fee charged by USODFI**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Fee (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens Union Bank</td>
<td>5.00</td>
</tr>
<tr>
<td>Merchants and Manufacturers</td>
<td>3.50</td>
</tr>
<tr>
<td>Blackhawk State Bank</td>
<td>3.00</td>
</tr>
<tr>
<td>Alliance Bank</td>
<td>3.00</td>
</tr>
<tr>
<td>Mitchell Bank</td>
<td>2.50</td>
</tr>
<tr>
<td>MetaBank</td>
<td>1.75</td>
</tr>
</tbody>
</table>
BANSEFI’s Beneficiary Account Registration

• In August, 2006, BANSEFI\(^1\) 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 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

Amount

October 2003
November 2003
December 2003
January 2004
February 2004
March 2004
April 2004
May 2004
June 2004
July 2004
August 2004
September 2004
October 2004
November 2004
December 2004
January 2005
February 2005
March 2005
April 2005
May 2005
June 2005
July 2005
August 2005
September 2005
October 2005
November 2005
December 2005
January 2006
February 2006
March 2006
April 2006
May 2006
June 2006
July 2006
August 2006

Volume

$0

$2,000,000

$4,000,000

$6,000,000

$8,000,000

$10,000,000

$12,000,000

$14,000,000

Amount

$11,776,976

27,477

$0

$2,000,000

$4,000,000

$6,000,000

$8,000,000

$10,000,000

$12,000,000

$14,000,000

Volume

Amount
Volume and value “commercial payments”

Volume and Amount accumulated monthly through "Directo a México℠" 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:
  o Banks and credit unions can now offer low-cost cross-border transfers to their customers – they are not (yet) accustomed to doing that
  o 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