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On Focus and In Depth

Wells: Remittance Slice Is Growing, Even if Pie Isn't

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MIAMI — Despite a slowdown in the growth of international remittance volumes that began last year, Wells Fargo & Co. said its remittance business achieved triple-digit growth in the 12 months through May, reflecting what it sees as an ongoing shift to banks from nonbank providers.

Daniel Ayala, the \$540 billion-asset San Francisco banking company's senior vice president for global remittance services, said in an interview Monday that despite adverse economic conditions, "we continue to see limited to no disruption to our activity."

At a conference on financial services for the underbanked Tuesday, Mr. Ayala said that banks' role in the market has been growing.

"Most major banks either have a program in place, they're optimizing the program they have, or they're about to implement one," he said.

"In two or three years, we'll see just about every bank with this product. It will be a standard product offering."

However, he also said that "remittance companies are" not "necessarily losing share to the banks. ... The market is integrating itself. You do see banks working with remittance companies. You see banks white-labeling" — outsourcing the work and marketing the service in their names.

In his presentation at the Underbanked Financial Services Forum, a conference in Miami sponsored by SourceMedia Inc. (the parent company of *American Banker*) and the Center for Financial Services Innovation (a nonprofit affiliate of Chicago's ShoreBank Corp.), Mr. Ayala said Wells' remittance volume had grown at a compound annual rate of 104.5% during the three years through 2007. During the 12 months that ended in May, its volume grew 106%.

He would not disclose absolute numbers. A Wells spokeswoman said year-over-year growth in the three months through May was similar.

Mr. Ayala cited an April forecast from the Inter-American Development Bank that remittances from the United States to Latin America would be flat this year at \$45.9 billion (with more than half going to Mexico) and a World Bank estimate that worldwide remittances grew 7% last year, to \$318 billion.

In terms of transaction volume, cash-to-cash remittances have been "the sweet spot of this business," Mr. Ayala said. Account-to-account transfers have made up about 5% of the market, he said.

But Wells Fargo has focused on account-to-cash transfers because the approach gives it a relationship with the party who sends the money.

In general, he said, "Because of the stress the market is facing in growth and in pricing ... there is a trend to shift from a transaction focus to a relationship focus."

According to a slide accompanying his presentation, from 2004 to this year the share of the remittance

market controlled by banks and credit unions more than tripled, to 26%. Over the same period, remittance companies' share declined by 20 percentage points, to 58%. (The figures are based on surveys of immigrants from Latin America by Bendixen & Associates, a public opinion research firm based in Miami that focuses on Hispanics.)

He gave several reasons for the shift, including tighter regulation; consolidation, sometimes through the acquisition of U.S. banks and remittance companies by foreign banks; and remittance companies forming alliances with certain U.S. banks.

In the interview, Mr. Ayala said that Wells Fargo's base charge for remittances to Mexico is \$5 but it waives the fee for account holders with high balances. According to a January report by the Washington nonprofit Appleseed, the average cost to send \$200 to Mexico in 2005 was \$12.

Wells entered the remittance business in 1994 and made significant investments in it during the last five years, Mr. Ayala said. "We are at a point where we are running a more mature business now." (Aside from Mexico, it also offers remittances to El Salvador, Guatemala, China, Vietnam, India, and the Philippines.)

Remittance customers are particularly attractive, he said, because they typically use more Wells Fargo products than the company's customers overall (who average 5.6 products), and because they tend to stay with its products longer.

Also, immigrant households are appealing because the growth rate in the "purchasing power" of "both Latino and Asian households far exceeds the purchasing power growth of the mainstream population," Mr. Ayala said.

In addition to the growing population of immigrants, "they're younger, the households are larger, and typically they are in their life stage where they may be about to buy their first car, their first home, start investing, start saving, thinking about their child's education," he said.

"Their need for financial services is high right now and increasing."

Also, though remittance is a point of introduction to some customers, in a large number of cases potential customers already have accounts that have been opened using *matricula consular* and other ID cards issued by embassies, Mr. Ayala said.

Observers have attributed the deceleration in remittance growth to the economic slowdown in the United States and immigration enforcement actions. Mr. Ayala said he believes "the primary reason is the economic situation in the U.S."

He cited a study published last week by the Pew Hispanic Institute that found "Mexican immigrants have suffered the effects of the construction downturn most keenly."
