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Businesses form to supply remittances

By Francine Drevetti
Business Writer

AS RECENTLY as a decade ago, consumers would have to stand in line at a Western Union office to send money home. Or go to a bank and pay many times more in service fees.

Now even the word "wire" has no relevance when you can sit at your computer, sign up for an account with a service dedicated to transferring money and never leave your home or office.

Some of the traditional money transfer organizations have started offering online services like Lucky Money and LBC Express for the Philippines.

But new entrants also are emerging for this purpose that are not banks or old-time money transfer organizations.

DEMAND | Business 2

Startups serve rival niches

DEMAND,
from Business 1

Launched in 2003 by investors on both sides of the Pacific, Remithome Corp. offers transfers to the Philippines. The Oakland-based company recently teamed up with Yehey.com, one of the Philippines' most popular portals, to expand its reach.

"Yehey is a site that Filipino Americans use to find out news and entertainment. Both of us have noticed an increase of traffic since we made the link," said Remithome President A. Dennis Reis Jr., formerly a vice president of the Bank of America's treasury operations and charged with electronic transfer payments.

At 3 million, Filipinos are the second-largest Asian immigrant group in the country and probably number more than a million in California, Reis figures. Remithome charges a \$10 flat fee per transfer, with a limit of \$11,000 a day. By comparison, Western Union charges \$16 to send \$300 to the Philippines, or \$68 to send \$1,000.

"We have plans to go to China and Vietnam and some other Southeast Asian countries," Reis said. Because of all the students who come here to study, his company is considering a reverse transfer type of business in the future.

Xoom Corp. (pronounced zoom) was launched in San Francisco in 2002 and started with the same intention of serving the end customer. It will have locations in 60 countries by the end of this year, said Xoom President and Chief Executive Officer John Kunze.

Xoom's fees vary by destination. For a beneficiary in Mexico, for instance, Xoom charges \$7 to send \$100, \$14 to send \$300 and \$29 to remit \$1,000 by Visa, MasterCard,



A. DENNIS REIS JR., president of Remithome Corp. remittances services in downtown Oakland, specializes in assisting Filipinos in sending money to their families in the Philippines.

Discover or PayPal, while fees are only \$5 for electronic withdrawals from a U.S. checking account. Xoom's venture capitalists apparently cottoned to the fact that although Western Union has tens of thousands of transfer agents worldwide, it is still serves only about 20 percent of the market.

"There are opportunities for new companies who can find consumers in different ways. That's what Xoom intends to do," Kunze said.

Besides offering online transfers to consumers, Xoom has taken the back door. To the providers of transfer services, it offers a turnkey product to banks, credit unions, retailers and money transfer operations to expand their businesses, taking care of the logistical, technical and legal tasks itself.

"We are marketing to financial services entities like banks and credit unions so that in

their market they can offer very competitive remittance services and compete with the alternatives that are out there," the executive said.

Xoom already has announced such a deal with MetaBank.

Referring to Western Union's imminent spinoff as a public company from First Data Corp., he said, "We have a way of blessing ourselves around that to build out a company through cooperative ventures. There is going to be Western Union, there's going to be MoneyGram; and there's going to be this giant co-op of companies that offer remittance services from a platform like Xoom's to compete along with us against those two big guys."

Also, there are online sites geared toward particular ethnic groups. Check out www.thamel.com, which serves the Nepali community, and www.money2india.com, which serves the subcontinent. While acceptance of the Internet has been fairly rapid in the Philippines, India and China, that's not the case in Mexico.

"There's been slow acceptance of the Internet with the older generation. Even though Western Union is more expensive, people trust it because they have been using it a long time," said Carlos Baradello, professor with the school of business and management at the University of San Francisco.

However, this doesn't seem to have stopped Bank of America and its SafeSend online offering to customers with relatives south of the border.

Celent Communications predicted that 42 percent of foreign-born households will be banking online by 2007, up from 32 percent in 2005.

"That's a big opportunity for businesses that serve those who send their money to grandma.

Business Money Moves

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Demand for overseas cash transfers grows

By Francine Drevetti | Business Writer

RUDOLFO DE GUZMAN sends money home to the Philippines two or three times a month to support the education of his nieces and nephews in Manila and to pay for his family's mortgage. Felicitas Galo of Fairfield sends money to the Philippines frequently to advance her work as a mortgage broker.

Both use an Oakland-based online service called Remithome, www.remithome.com

Both contribute to the booming remittance market in which individuals in one country send money to someone in another country. A typical remittance amount is only \$250 to \$400, but it all adds up. The global remittance market reached \$250 billion in 2005 and is growing at more than 10 percent annually, said Dan Schatt, senior analyst with Celent Communications. And with some 34 million foreign-born people living in this country, representing 12 percent of the population, the demand doesn't seem to be stopping, as many send money home.

Mexico is a major recipient of remittances, receiving \$20 billion in 2005, with

about three-fourths coming from the United States, according to the American Society and Council of the American. Other key remittance recipients include India, China and the Philippines.

The remittance industry might even be a great place to invest your money if there were more publicly listed companies in the field, other than the banks, of course. Soon there will be.

First Data Corp. will be spinning off Western Union, the big mother of remittances, later this month, the company said. This factor and technological advances are changing the whole complexion of how money is being transferred from the United States to the motherlands of the foreign-born.

"When you've been running a business one way a long time — people walking into a bricks-and-mortar business paying cash at high fees — it makes sense that lots of smart people with ideas for alternative services will find new ways of sending money, such as online, and at better prices," said John Kunze.

MONEY | Business 2

Consumers enjoy increasingly greater options

DEMAND,
from Business 1

Western Union, the largest distributor of remittances in the world, has about 20 percent of the market, which leaves a lot of unappreciated opportunity for others. This is due to the development of prepaid debit cards and the Internet to make it worthwhile for the new competitors to push their presence into fields where Western Union had been dominant.

For instance, consumers can go to a Home Depot store and buy a prepaid card branded MasterCard Visa and send money from the retailer's floor. But this is available only in Home Depot stores on the East Coast.

We're also going to see more companies offering payroll deductions with a debit or value-added card as a means of transferring money — as do Bank of America and ADP, the large payroll administration firm, according to those companies' respective spokesmen.

However, this doesn't mean the customer is going to have unlimited choice. Share the Sept. 11, 2001, terrorist attacks, the USA Patriot Act and amendments to the Bank Secrecy Act have made reporting and auditing strictures much more severe and more ex-

ensive for entrants in this field. Money-and-pop assets may decide this is too costly and look to an established provider," Schatt said. And this goes for new online providers as well.

He said consumers may go to the "gray market" — hiring others to go overseas to deliver money for them. For instance, readers here wanting to send money to the Middle East may increasingly depend on the established hawala network. While those sending money to Latin America may continue using travel agents as couriers.