

Community Investments Vol 15, Issue 3 The Keys to the Kingdom of Financial Empowerment for the Unbanked

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In Mexico, bank accounts are not federally insured as they are in the United States. Legends abound among immigrants about a friend or relative who deposited his or her life savings into a bank only to find the doors locked and the business gone the very next day.

Banks here in the U.S. face that same distrust from Mexican nationals. "It's hard to get workers into [a financial] institution. They like to see their cash, to be able to count it, and to feel it in their wallet," says Terrie Olivera, a financial counselor with the Idaho Credit Union League. Credit union and community bank education programs are now teaching about cost effective methods to remit money and make bill payments that may help change much of this thinking among workers here.

Olivera teaches financial management classes targeted to migrant workers at the Idaho Migrant Council. Her primary goal is to get workers affiliated with a financial institution. But first, she has to show them how not having a bank account can eat up their paycheck, little bites at a time. She continues, "Farm workers earn little to begin with. For example, let's say the average wage is approximately \$6 per hour in Idaho. Workers often spend 12 to 16 hours a day in the field during the summer, without the benefit of overtime pay. A 60-hour week in the field would gross \$360. Take-home pay after taxes would be about \$300. Fees from check cashing and payroll loan outlets

can add up quickly. Cashing a \$300 check would cost about \$10. Used only occasionally, the fees are nominal; but making it a weekly habit can cost more than \$500 a year—nearly two weeks pay."

An Unfortunate Reality

Nearly 10 million U.S. households do not have a bank account. This represents 9.5 percent of all U.S. households, 22 percent of low-income families, and 8.4 million families earning less than \$25,000 per year who do not have either a checking or savings account. In fact, 83 percent of those who are unbanked earn under \$25,000 per year. Among low- and moderate-income families, households are more likely to be unbanked when they have less wealth, have less education, are not working, are younger, have more children, rent their home and are a racial or ethnic minority. Broadly speaking, the common reason for lacking a checking account is being unable to afford the costs of the account.¹



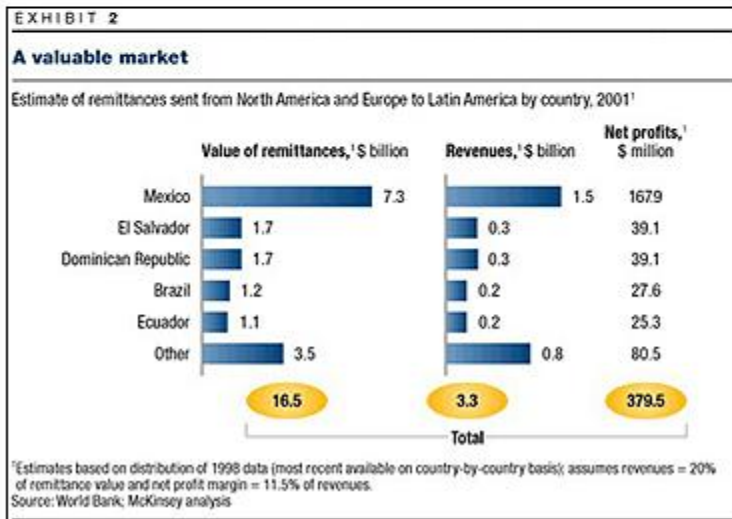
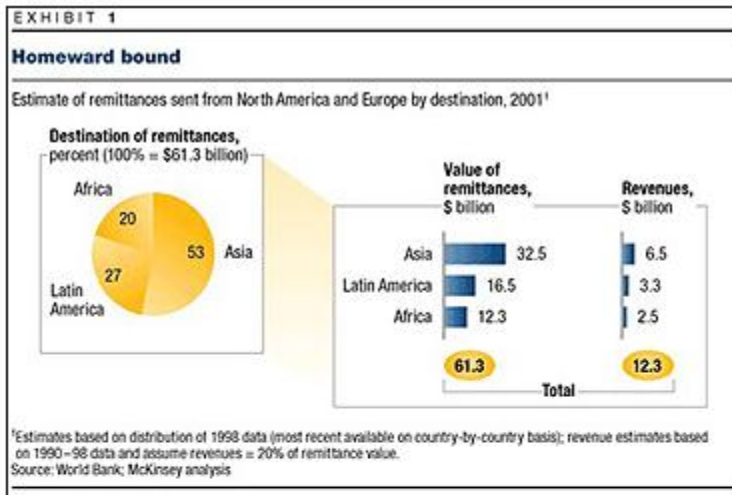
Olivera adds, "Bankers take note, the magic here is to find a low-cost delivery system that will keep an account within your organization. We've all too often heard many a wife lament, 'If our money is not in my husband's pocket on payday, he's not going to spend it.' Both employer and employee relationships with banks can be strengthened by low-cost services that reduce cash handling and keep funds on deposit.

Wiring money to their home country is another significant expense migrant workers face. The rates may even vary from day to day. The cost for sending an immediate transfer of \$1,000 to a recipient in Mexico (via a well-known national money wire house) was recently quoted at \$50. Olivera said she has seen fees as high as \$70 per \$1,000. Some wire services also charge the receiver a fee. Even after the check is cashed and the money wired to Mexico, exchanging U.S. dollars for pesos can cost another 10 to 20 percent.²

Many workers who send money abroad to relatives are dissatisfied not only with the reliability and speed of the present informal remittance networks but also with the exorbitant fees they charge: 6 to 15 percent of the remitted amount for the transaction, as well as a hefty exchange rate margin of 3 to 5 percent. They take the cash to a neighborhood agent located, for instance, in a convenience store. These agents, mostly representing small remittance companies in the immigrants' home countries or, in a few cases, multinational operators, pocket half of the transaction fee and then deliver the cash to the office of the remitting company, which wires the money at a previously negotiated exchange rate through its own bank account to a bank in the country of destination. The recipients there can collect the cash from local agents or local branch offices representing the remitting company or its partners or they can pay to have the cash delivered to their front doors. McKinsey and Co. estimates that remitters collected about \$12 billion in fees last year and that the remitters' revenues are growing at a compound annual rate of around 8.5 percent.³

Money remittances are big business. Official statistics vary; however, general estimates are that immigrants in North America and Europe send more than \$60 billion to their home countries each year (Exhibit 1 & 2), transmitting the funds largely through small and informal neighborhood players. Just over half of all global remittances originate in the United States, with 65 percent of that money going to Latin America. And while it

appears that banks and other major financial institutions are getting into this high-margin business, the cost associated with pursuing and adding unbanked account holders is relatively high for many banks. This experience may be changing as grassroots organizations, technology companies, and even community bankers see opportunities in sensitive economic regions-- such as the San Joaquin Valley in California — to address the special needs of unbanked workers through third parties.



New Technology as the Opening Wedge

Many analysts and market watchers suggest that innovations in technology, rapid rates of adopting new technology, and creating strategic partnerships may be the best solutions for decreasing the costs of foreign remittances and bill payment services for the unbanked.



One such company, The Minotaur Group, offers a cost-effective payroll card that can be used for "cash back" at any POS device or ATM. Branded "Con Dios Financial" to appeal to the largely Hispanic unbanked market, the card features a companion debit/ATM card for receiving remittances anywhere in the world. Over 50,000 Con Dios-type payroll cards have been issued to date. Con Dios is one of several private-label products available from the Minotaur Group, which was founded by ex-bankers and payment systems experts.

A Confluence of Events and Caring Constituents

While there are several payroll debit card companies in the marketplace, Con Dios is unique in its approach to distribution. As a first step in the initial rollout, Con Dios partnered with Maderans Making a Difference (MMD); a community-based nonprofit seeking to better the lives of those in the city of Madera and the Central Valley of California through education, financial empowerment, and access to asset-building opportunities. This partnership enabled Con Dios to develop ties within the Hispanic and Asian communities, which facilitated delivery of financial education through trusted sources. This and other innovative approaches are changing habits and behaviors away

from high-cost payroll check cashing to low-cost payroll debit cards. Community groups are able to keep a small share of the revenue earned from card usage fees or, in some cases, from a monthly per-card royalty, creating a sustainable stream of money that flows back to help each community.



Recently MMD hosted "Fiesta en Madera," a unique festival with Oaxacan music, dancing and food for the many Oaxacans in Madera. A number of vendors, including financial institutions, sponsored education tables. Mike Fuller, founder and director of MMD, reported that a respected leader in the Oaxacan community called to tell him that people from the Oaxacan community were very happy with Fiesta en Madera. He continued, "Our community-based affinity groups are able to share in a win-win-win proposition because we're working toward financial empowerment, education, and a better quality-of-life for everyone."

The second part of Con Dios' unique strategy is to work directly with key community employers whose longevity and success are tied to the well being and economic prosperity of their employees. Using a model developed by the Central San Joaquin Valley Federal Inter-Agency Economic Development Task Force,⁴ Con Dios and eligible employers have begun offering a "split funded" payroll option for employees. Payroll is deposited by employers to employees' new debit card with a small portion earmarked for a specialty account. Employees may choose to fund a regular or periodic allocation to an individual development account (IDA) that earns match funds. These savings

accounts are dedicated to securing the down payment on a first-time home purchase. Cyndi Abbott, CTO and director of Minotaur Group said, "Con Dios sets up the easy-to-use employer check lists and the bank-sponsored trust accounts. As an ex-banker, I believe there's a great opportunity for bankers to help move their best clients into further bank services."

The third and potentially most influential key to the sales process is Con Dios's cost model for employers that can save up to two-thirds of present paycheck issuance and distribution costs on weekly or semi-monthly payrolls. Funds are simply uploaded into a sponsoring bank's trust account, and as the cards are used for bill payment, cash back, ATM withdrawal, or as a remittance vehicle, transactions are authorized, cleared and settled exactly as with any PIN-based product. Clearly, employees benefit from making remittances and transactions costing cents rather than dollars each week, and they can save much more readily for their future with the addition of matched funds from entities sponsoring IDAs on their behalf.

Conclusion

Ronald Rawson, CEO of The Minotaur Group said, "Our goal for Con Dios Financial is to provide an [user-friendly] employer-sponsored debit card payment vehicle (other than checks and cash) so workers can send low-cost remittances to their home countries, access the cash-back feature from any point-of-sale terminal, or use ATMs worldwide, all on existing payment networks. We know connectivity, cash access, and cost-effective remittance payments are essential for improving life for unbanked and foreign workers in the U.S."

Changing the behavior and financial education levels of millions of low-income and unbanked households takes vision and time. Raising the financial well-being of these individuals requires help from community-based nonprofit organizations, financial education from bankers and credit unions, support from employers, forward thinking from new technology companies

and federal resources. Perhaps most importantly, the availability of new financial empowerment opportunities must be communicated to these consumers and to their families back home.

Sources for more information:

The Minotaur Group, Con Dios Financial

Cyndi Abbott – Director

Contact information for Terrie Olivera, 1-800-627-1820,
<http://www.Idaocul.org>

Maderans Making a Difference
<http://www.accessmadera.org/home.html>
Mike Fuller, Chairman of the Board

Central San Joaquin Valley Federal Interagency Economic Development Task Force
Rollie Smith, 2003 Chairman

Ronald C. Rawson, CEO, Minotaur Group

The Office of the Comptroller of the Currency has published a study about the growth of payroll cards and their potential for use with unbanked consumers. The study can be downloaded from:
<http://www.occ.treas.gov/cdd/payrollcards.pdf> (PDF off-site)

¹ Michael S. Barr, a working paper prepared for the Brookings Institution Center on Urban and Metropolitan Policy, July 2003: University of Michigan Law School

² Geralda Miller, "Money Transfers to Mexico a Growing business," *Reno Gazette-Journal*, March 17, 2003

(<http://www.hispanicvista.com/html3/032403fi.htm>)

³ Andres Maldonado and Alejandra Robledo, "Sending Money Back Home," *The McKinsey Quarterly*, 2002 Number 4

⁴ The Central San Joaquin Valley Federal Inter-Agency Economic Development Task Force was established by Executive Order 13173, under President Clinton. Rollie Smith, Operations Specialist at HUD in Fresno, CA., serves as lead of the rotating federal partner management and currently chairs the task force. Rollie has brought together the leaders of many community groups and institutions to jointly resolve intransigent quality of life challenges in the central San Joaquin Valley. This group has declared among others-the goal of providing financial education that will help to financially empower low-income workers. The group also seeks to utilize private sector business and technology in promoting task force objectives.

(http://www.archives.gov/federal_register/executive_orders/2000.html)

Biography



Ronald C. Rawson is CEO of Minotaur Group, providing specialized payment solutions for companies with employees who don't have access to bank accounts by choice or circumstance. Minotaur offers an FDIC-insured, employer sponsored payroll debit card.

Prior to taking this present assignment, he was president of R. C. Rawson Co., a family business and industry leader in the marketing and strategic

business development of both debit and credit card payment products since 1952. R.C. Rawson has facilitated many marketing and product usage programs for card issuers, associations, and merchant acquirers, which include Bank of America, American Express, Chevron, MasterCard, and Visa International.

Mr. Rawson continues to develop business strategies and strategic alliances within the card payment industry and the seed capital investment community, and is currently working with clients in specialty payment products, in multi-application loyalty, micro payments, and smart card (integrated circuit chip) strategies for business and consumers using e-commerce interactivity. He consults to venture capital partnerships, has been a speaker at financial industry conferences and seed capital venture investor meetings. Mr. Rawson also is active in writing articles for publication, reviewing content for film and television production, and serves in an advisory and board of directors' capacity with early stage companies.

He earned a BFA degree in film and television from UCLA and an MBA from Golden Gate University, and resides in Orinda, California.