



Capitalizing on Remittances
How to engage with the main players in Italy?

Luigi Passamonti

**Albanian Association of Banks
Executive Committee Presentation**

Tirana, July 27, 2006

Context

Convergence is providing proprietary-elaborated market data to help the Albanian banking community capture an increasing share of the remittance flows from Italy

- Size of potential bank remittances on a territorial basis at the first mile
- Banks active in the regional markets

The Italy-Albania Remittances Market

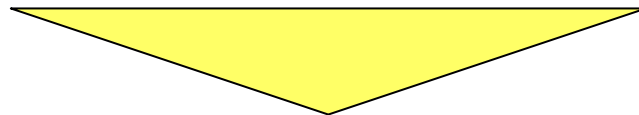
Annual remittance flow from Italy to Albania
(2004)



EUR 260 million

Of which: Bank Transfers

EUR 23 million



Important flow leakages for both Italian and Albanian banks

The Business Opportunity Dimension

	<u>2004</u>		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Potential Remittances Volume (Mln, eur)	260	+12%	327	327	327	327	327
<i>Top 5 Regions</i>	204.3		223.2	223.2	223.2	223.2	223.2
<i>Other Regions</i>	95.4		104.2	104.2	104.2	104.2	104.2

Remittances Captured by the Banking Channel:

	Total (mln, eur)	23	60	94	141	169	195
% Capture		10%	20%	40%	60%	70%	80%
<i>Top 5 Regions</i>			53.3	81.7	122.6	143.0	163.4
%	2%		6%	12%	18%	25%	30%
<i>Other Regions</i>			6.3	12.5	18.8	26.1	31.3

Increase in Deposits as % of Increase in Remittances 60%

New deposits (Mln, eur) 35.7 56.5 84.8 101.4 116.8

Cumulative Deposit Amount (Mln eur) 36 92 177 279 395

Increase in Domestic Credit as % of Increase in Remittances 30%

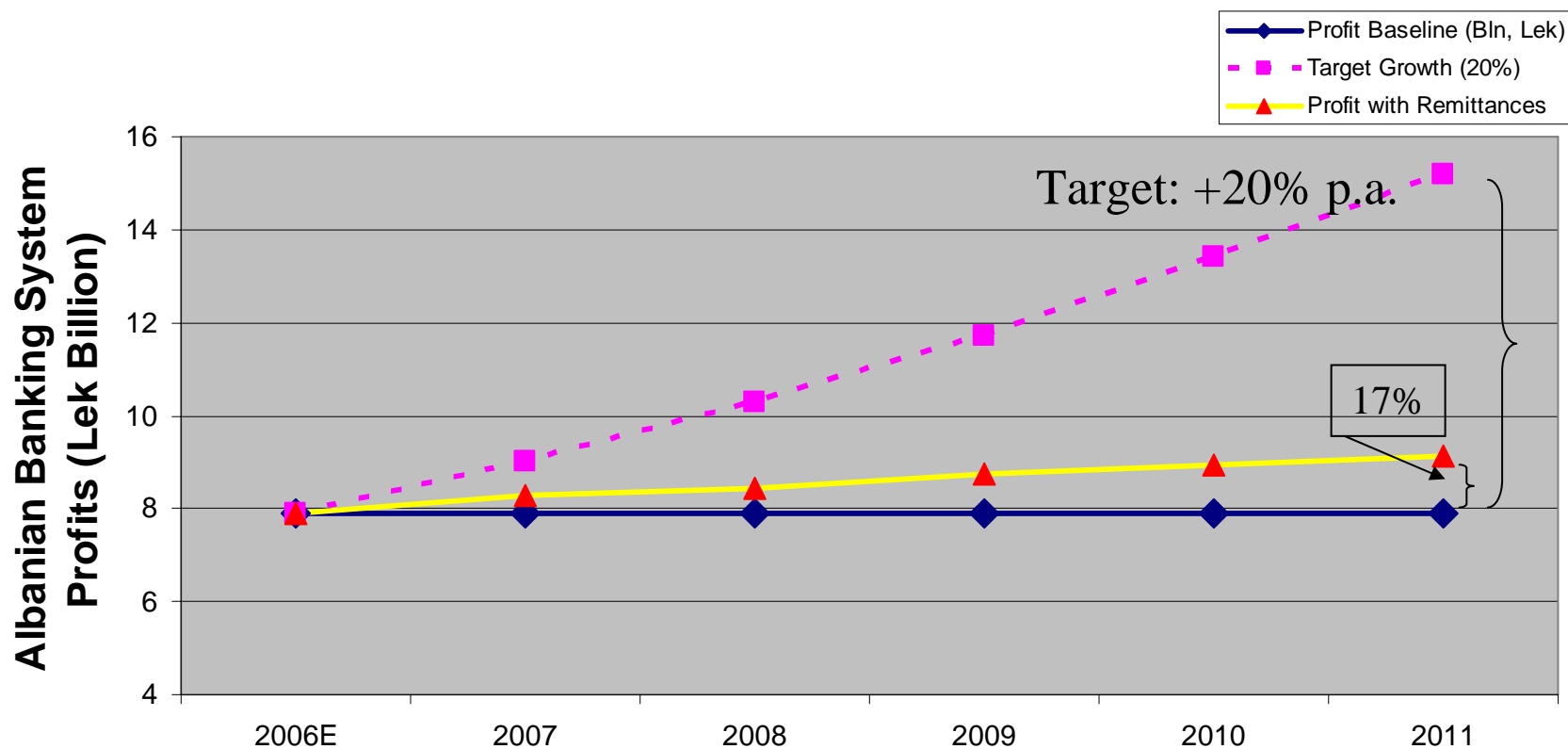
New loans (Mln, eur) 17.9 28.3 42.4 50.7 58.4

Cumulative Loan Amount (Mln eur) 18 46 89 139 198

Bank Loans Growth (%) 1.5% 3.8% 7.0% 10.3% 13.2%

Remittances Could Make A Large Profit Growth Contribution To Albanian Banks

Italian Remittances Profit Contribution



Distribution Channel Management Is The Challenge

- Bank transfer channel must be made more attractive to remittance providers
 - Easier to engineer than to stimulate volume growth!
- Stronger incentives for Italian banks to promote bank transfer services over other transfer modes
 - Must be convinced that Albanian banks offer competitive package of services to remittance recipients
- To win the distribution challenge requires a focused marketing approach by Albanian banks to the Italian banks with highest potential for remittances products

AAB Business Development Directions

- To increase market coverage of remittance agreements between Italian and Albanian banks
 - Less than 40% potential market covered
- To ensure these agreements capture several additional service dimensions
 - Beyond mere cost of transfer
 - Bank-domiciled non bank transfer products
 - Tactically, to start capturing dominant non-bank flows
 - Also domestic first and last mile products?
 - To better match clients “corridor” needs with bank offering
 - Cash dispensing services in Albania

AAB Business Development Directions

First Mile Implications (ABI Survey)

- More growth potential seen for domestic products than for remittances
- Two out of three clients do not use a tailored product package
- Albanian non-current account clients use savings account facilities 50% more frequently than remittance services to Albanian banks
 - Pre-paid card use double that of remittance services
- Albanian current account clients use domestic payment services much less than the average Italian client
 - Transaction “leakages” not limited to remittances

AAB Business Development Directions

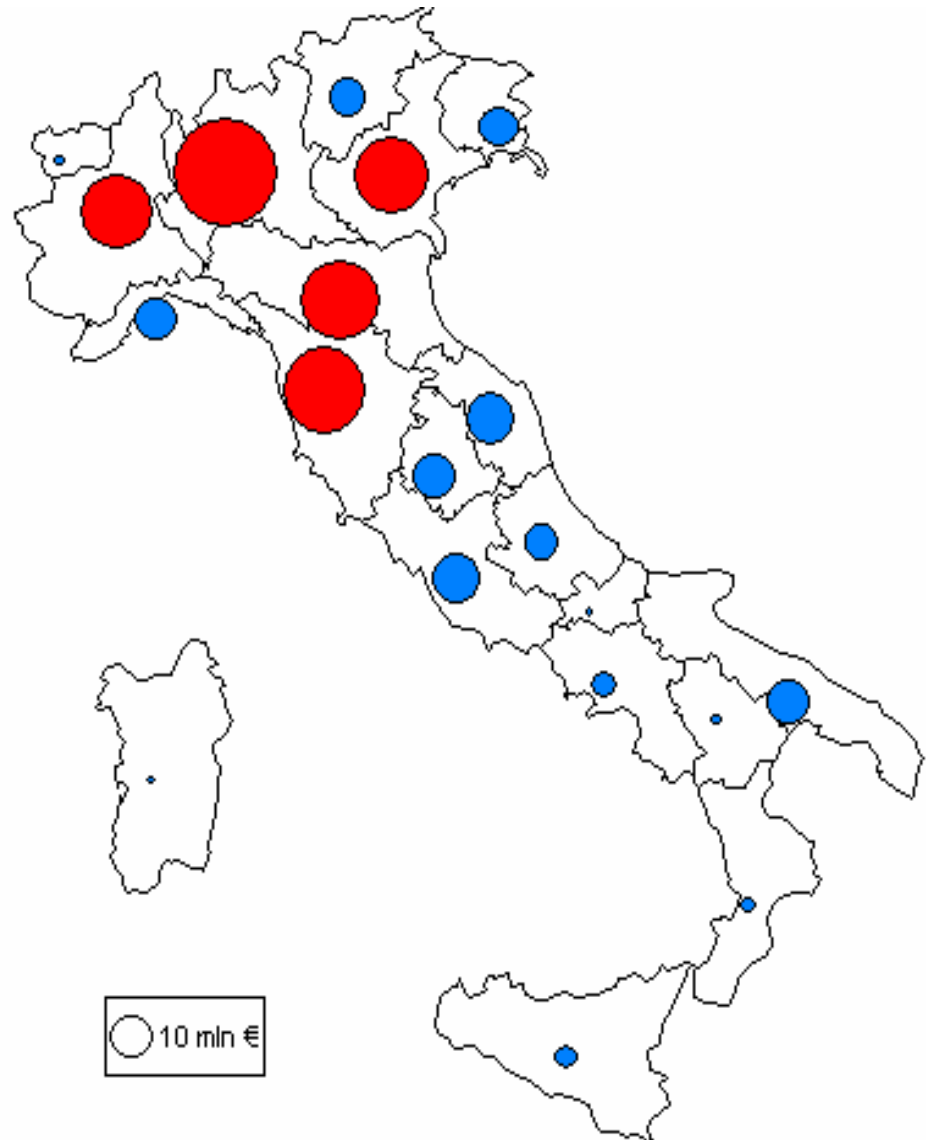
Last Mile Implications

- To negotiate better remittance agreements with Italian banks, AAB members need to:
 - Understand nature of “last mile” banking products that Italian banks would need to offer to increase appeal of their remittance service package to Albanian clients
 - Actively promote these products to remittance recipients through wide-reaching financial literacy campaigns.

Remittance Potential: Five Key Regions

Italy-Albania estimated remittances

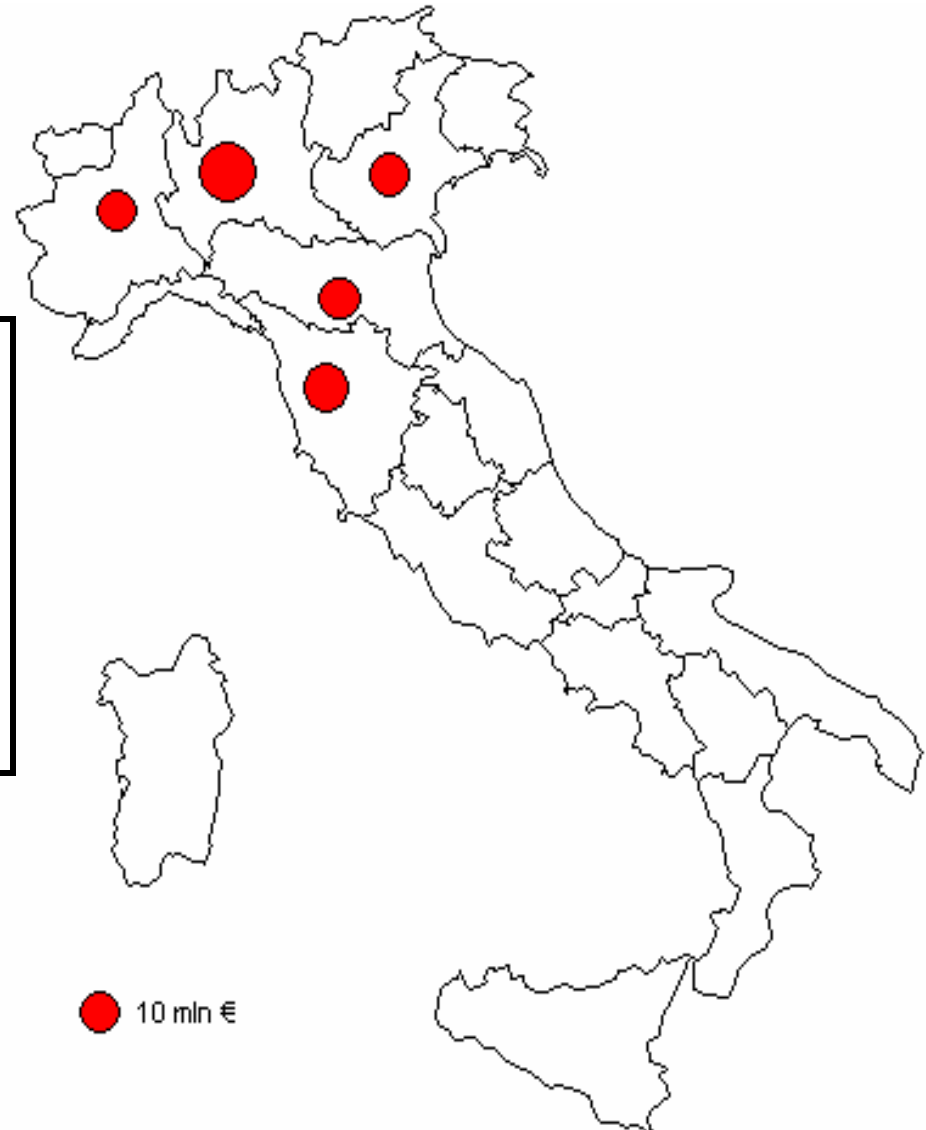
	Million Euro 2004	% in total	Cumulated %
LOMBARDIA	64,2	21,4	21,4
TOSCANA	40,5	13,5	34,9
EMILIA- ROMAGNA	36,6	12,2	47,2
VENETO	32,1	10,7	57,9
PIEMONTE	30,9	10,3	68,2
MARCHE	14,9	5,0	73,1
LAZIO	13,4	4,5	77,6
LIGURIA	10,8	3,6	81,2
PUGLIA	10,7	3,6	84,8
UMBRIA	10,6	3,5	88,3
FRIULI V.G.	9,3	3,1	91,4
TRENTINO A.A.	8,1	2,7	94,1
ABRUZZO	7,4	2,5	96,6
CAMPANIA	3,5	1,2	97,8
SICILIA	3,2	1,1	98,9
CALABRIA	1,3	0,4	99,3
BASILICATA	0,8	0,3	99,6
MOLISE	0,5	0,2	99,8
VALLE D'AOSTA	0,5	0,2	99,9
SARDEGNA	0,3	0,1	100,0
ITALIA	299,7		



Source: Convergence elaborations (Methodology in Annex)

An Attractive Business Opportunity For Albanian Banks

<u>Region</u>	Sum 5-year PV Potential Profits (mln Euro)
Lombardia	8
Toscana	5
Emilia-Romagna	5
Veneto	4
Piemonte	4
Total Top 5	26



No Obvious Main Business Partner

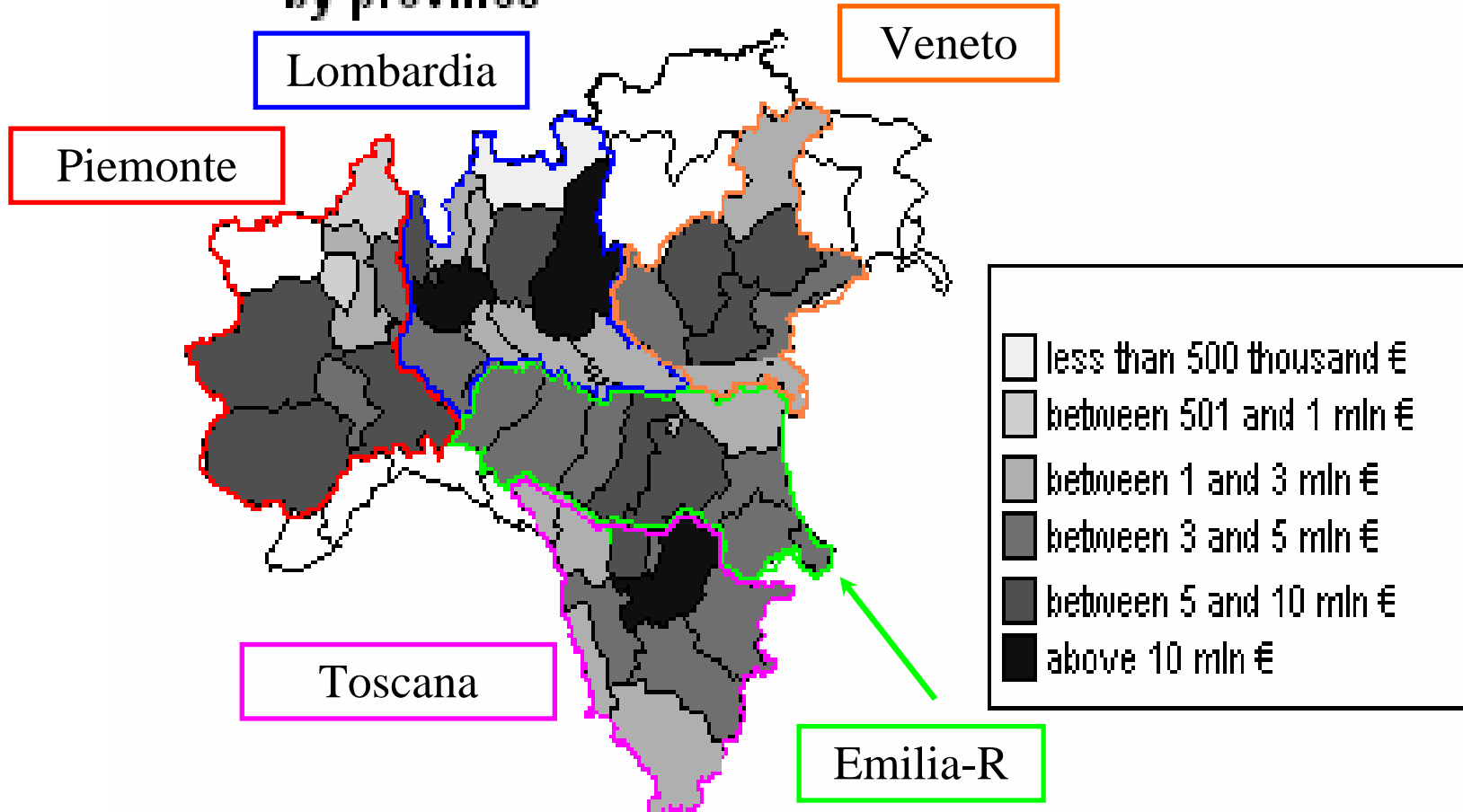
<u>BANKS</u>	REMITTANCE VOLUME POTENTIAL (mln €)						
	ITALY	LOMBARDIA	TOSCANA	EMILIA-ROMAGNA	VENETO	PIEMONTE	OTHER REGIONS
Unicredit	29	3.3	1.6	5.1	5.8	4.8	8.4
SanPaolo IMI	27	6	0.8	2.2	4.5	4.2	9.3
Intesa	27	8.4	1.5	3.1	3	2.8	8.2
Monte Paschi	20	2.8	9.7	1.2	0.5	0.5	5.3
<i>Top Four (% of total market)</i>	34.4	31.9	33.6	31.7	43.0	39.8	32.7

Rank#1
Rank#2

Unicredit is the largest followed by SanPaolo-IMI

Potential Not Evenly Distributed Within Each Region

Estimated Italy - Albania remittances
by province



Bank Partners: Strong Local Presence Is Key

Source: Convergence elaborations (Methodology in Annex)

How Could AAB Approach This Market?

Local Banks Are Key

Region	LOMBARDIA	TOSCANA	EMILIA-ROMAGNA	VENETO	PIEMONTE
5-year Profit Potential	8	5	5	4	4
Banks with strong focus	Intesa SANPAOLO IMI BPU Banca Lombarda BIPIEMME BP Verona e Novara Unicredit	Monte Paschi CR di Firenze BP Italiana	Unicredit BP Emilia Romagna Intesa	Unicredit SANPAOLO IMI Intesa	Unicredit SANPAOLO IMI BP Verona e Novara
	Other Banks	Monte Paschi BP Italiana Capitalia BP di Sondrio Credito Valtellinese Antonveneta	BP di Vicenza Unicredit CR San Miniato Gruppo ETRURIA Intesa Capitalia	SANPAOLO IMI BP Verona e Novara Capitalia CREDEM Unibanca Monte Paschi CR di Ravenna CR di Forli Antonveneta	Antonveneta BP di Vicenza BP Verona e Novara Veneto Banca

Main four banks

Strong focus: Expected Potential Remittances (EPR) > 3 mln €

Other: EPR between 1 and 3 mln €

Further Steps

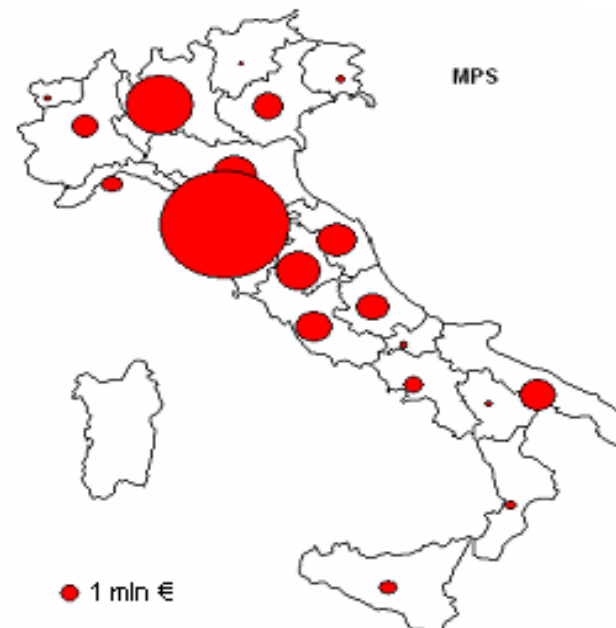
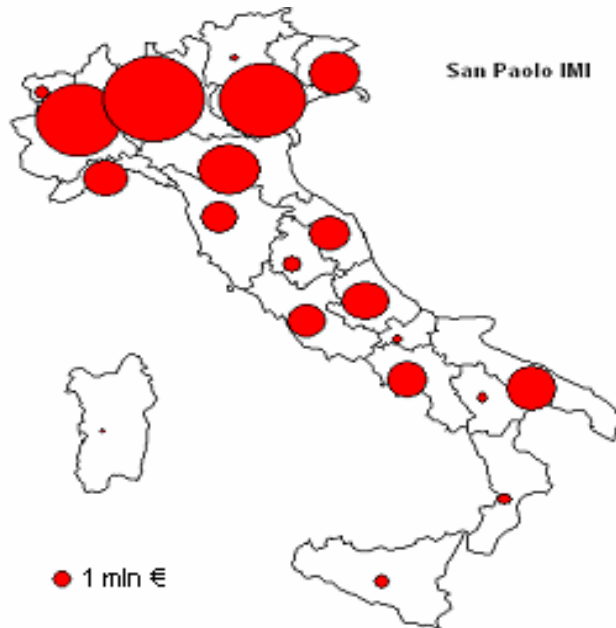
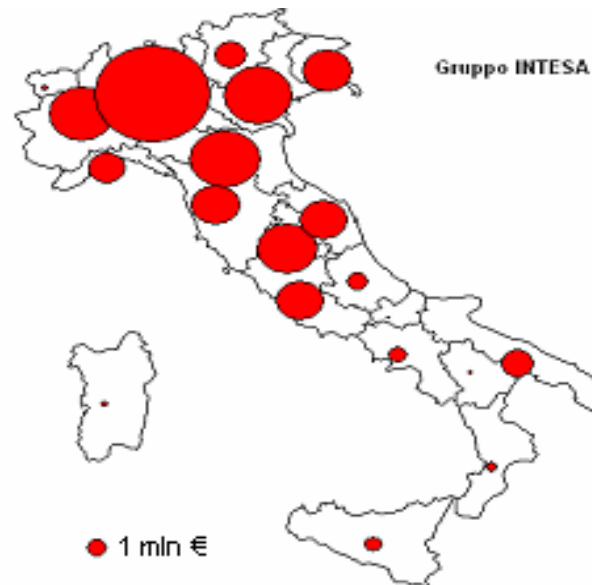
- AAB could seek ABI's assistance to frame a *standard* remittance agreement and open discussions with banks with dominant local presence (about twelve are key, many others are important)
- AAB could approach directly the two Italian banks with broadest territorial coverage to start negotiating a *comprehensive* umbrella remittance agreement (50% of top five regions)
 - Unicredit (Emilia-Romagna, Veneto and Piemonte)
 - SanPaolo-IMI (Lombardia, Veneto and Piemonte)
- AAB should encourage its members to expand their product offerings to become attractive partners for Italian banks.

Conclusions

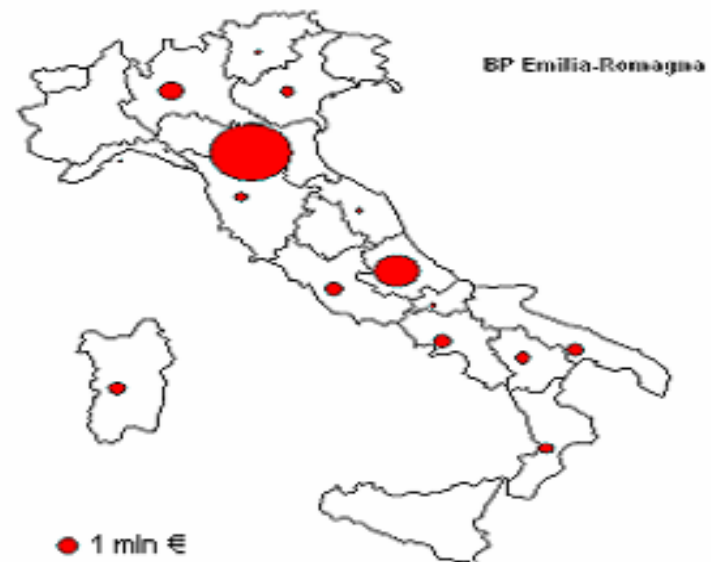
- Growth of bank remittance intermediation is more complex than domestic business
 - It depends on coordinated industry actions in originating and receiving countries, resulting into a compatible financial infrastructure
 - Serving client needs on a cross-border basis
- Convergence can facilitate this coordinated approach, by acting as a joint advisor to both AAB and ABI.

Annex

Main 4 banks



Banks with Strong Regional Focus



National Rankings (1)

Table 1a. Italy - Albania Estimated potential remittances (EPR) and regional rank
Thousand € yearly flows 2004

	Gruppo Unicredit		Gruppo Intesa		San Paolo IMI		Gruppo Monte dei Paschi di Siena		Capitalia		Gruppo Banca Lombarda	
	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>
PIEMONTE	4793	1	2792	4	4239	2	463	17	777	9	2681	5
LOMBARDIA	3250	7	8409	1	6015	2	2776	8	2594	10	5557	4
VENETO	5789	1	2986	3	4462	2	549	10	646	8	264	16
EMILIA- ROMAGNA	5113	1	3128	3	2235	4	1224	9	1619	6	228	28
TOSCANA	1641	5	1473	8	835	12	9683	1	1004	9	58	55
ITALY	28900	1	28895	2	27029	3	19953	4	12978	5	9764	6

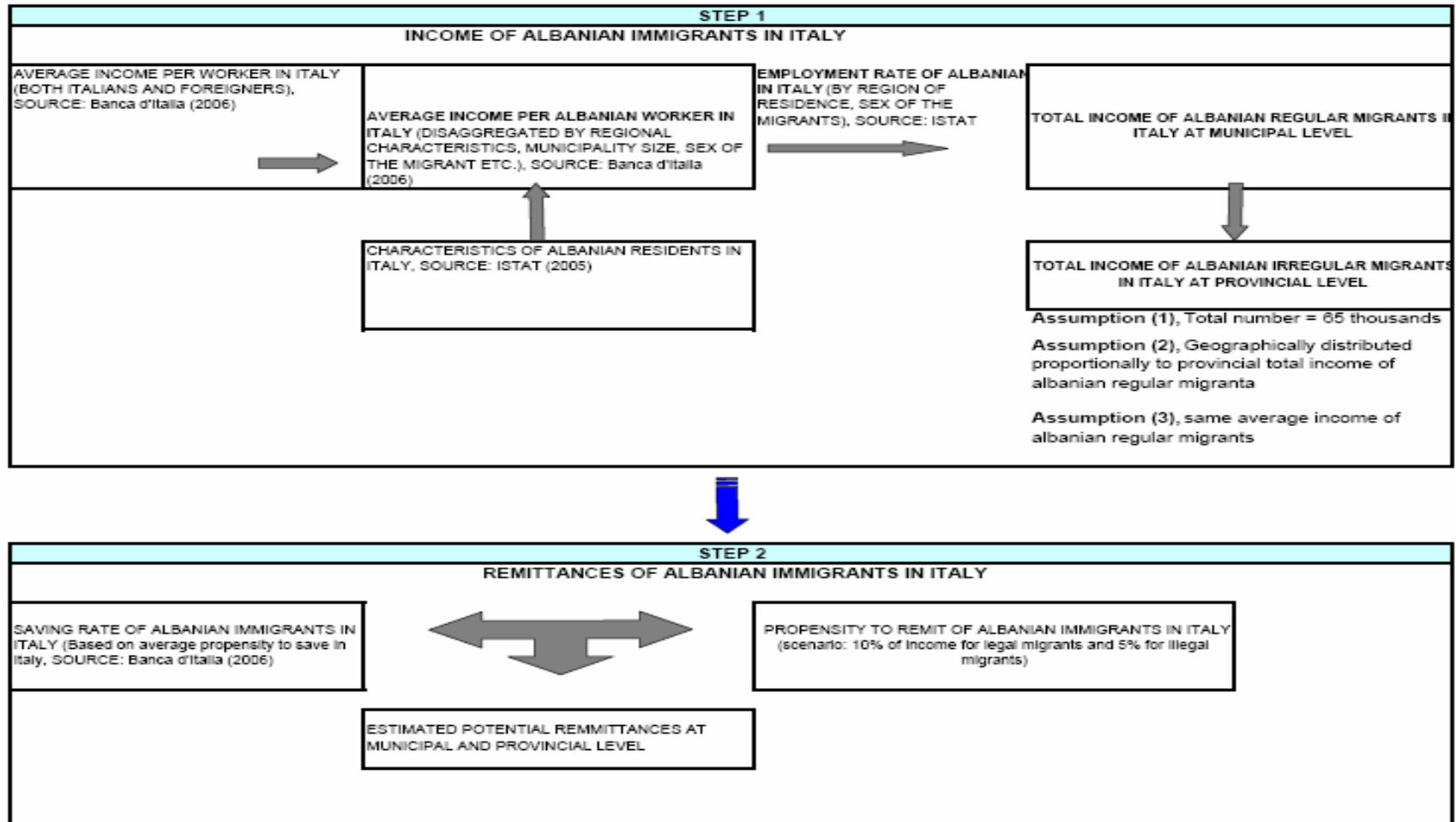
National Rankings (2)

Table 1b. Italy - Albania Estimated potential remittances (EPR) and regional rank
Thousand €, yearly flows 2004

	Gruppo Banca Cassa Ristarmio di Firenze		Gruppo Banca Popolare di Milano - BIPIEMME		Gruppo Banca Popolare dell'Emilia-Romagna		BNL		Gruppo Credito Emiliano – CREDEM		Cassa Rurale - Banca di Credito Cooperativo di Treviglio - Societa' Cooperativa	
	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>	<i>EPR</i>	<i>Rank</i>
PIEMONTE			1627	7			511	14	206	25		
LOMBARDIA	63	68	4463	5	331	26	884	16	652	17	356	23
VENETO	7	86	50	61	109	38	556	9	160	24		
EMILIA-ROMAGNA	339	23	227	29	3403	2	573	18	1469	7		
TOSCANA	6535	2	139	35	88	50	863	11	222	23		
ITALY	8472	7	7133	8	6040	9	5955	10	3629	11	356	..

Remittance Volume Potential Methodology

Figure 1 - Estimation of Italy-Albania remittance potential: metodological steps



DATA SOURCE:

Banca d'Italia (2006), I bilanci delle famiglie italiane nell'anno 2004, Anno XVI Numero 7, 17 Gennaio 2006, supplementi al bollettino statistico

ISTAT (2005), Gli stranieri in Italia: analisi dei dati censuari, 14 Censimento generale della popolazione e delle abitazioni.

ISTAT, DEMO database

Remittance Profit Potential Assumptions

	2004-2007	2008	2009	2010	2011
Remittances "inertial growth Rate	9%	0%	0%	0%	0%
%age of Remittances Captured by Banking Channel:					
Top five Regions	20%	40%	60%	70%	80%
Other Regions	6%	12%	18%	25%	30%
Net Yield on remittances transactions in Albania	2%	2%	2%	2%	2%
Bank Spread on Deposits	1.00%	1.00%	1.00%	1.00%	1.00%
Bank mark up on loans	6.00%	6.00%	6.00%	6.00%	6.00%
Interest Rate (for NPV)	5.30%	5.3%	5.3%	5.3%	5.3%

This a Convergence Analysis

“**Convergence**”¹ is a financial sector development program for South-East Europe focused on:

- Undertaking, as an “honest broker”, analytical tasks of micro-institutional issues as a basis for identifying solutions tailored to country circumstances
- Taking EU integration as a strategic perspective
- Building awareness of market participants, involving them in the search of market-building solutions, and fostering their dialogue with authorities
- Using the experience of regional former policy makers and local experts whenever possible
- Working in partnership with other institutions

Contact: Convergence@worldbank.org