TO SOME CONNECTIONS BETWEEN REMITTANCES AND FINANCIAL INCLUSION

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ABSTRACT

Global remittances flow has been rising considerably over the last decade. Their share оф GDP reaches several tens of percent of GDP in some (especially developing) countries. Remittances, in terms of size, are not only one of the main capital inflows in developing countries, often even more substantial than ODA, but they also appear to have a robust positive effect on economic growth. This paper presents an overview of the nexus between remittances and financial inclusion. An estimated two billion or 38 percent of working-age adults globally have no access to financial services. Among the financially excluded are migrant workers and their families in their home countries. Without access to financial services, savings cannot accrue interest in deposit accounts, they cannot be lent out to be reinvested in the local economy. The economic potential of the funds is therefore largely untapped due to the inadequate engagement of the financial sector to the specific needs of migrants and their families. Because of the centrality of remittances to development, it is vital to develop the right array of policies and interventions targeting demand, supply and the market environment.

Keywords: *Remittances, financial inclusion, financial services*

INTRODUCTION

Each year millions of migrants send remittances, i.e. money earned abroad back to their country of origin. They participate in globalization by engaging in international labour markets, creating family bonds and obligations across countries. The development impact of migration and the ensuing international remittance flow have become increasingly the subject of research and policy discussions.

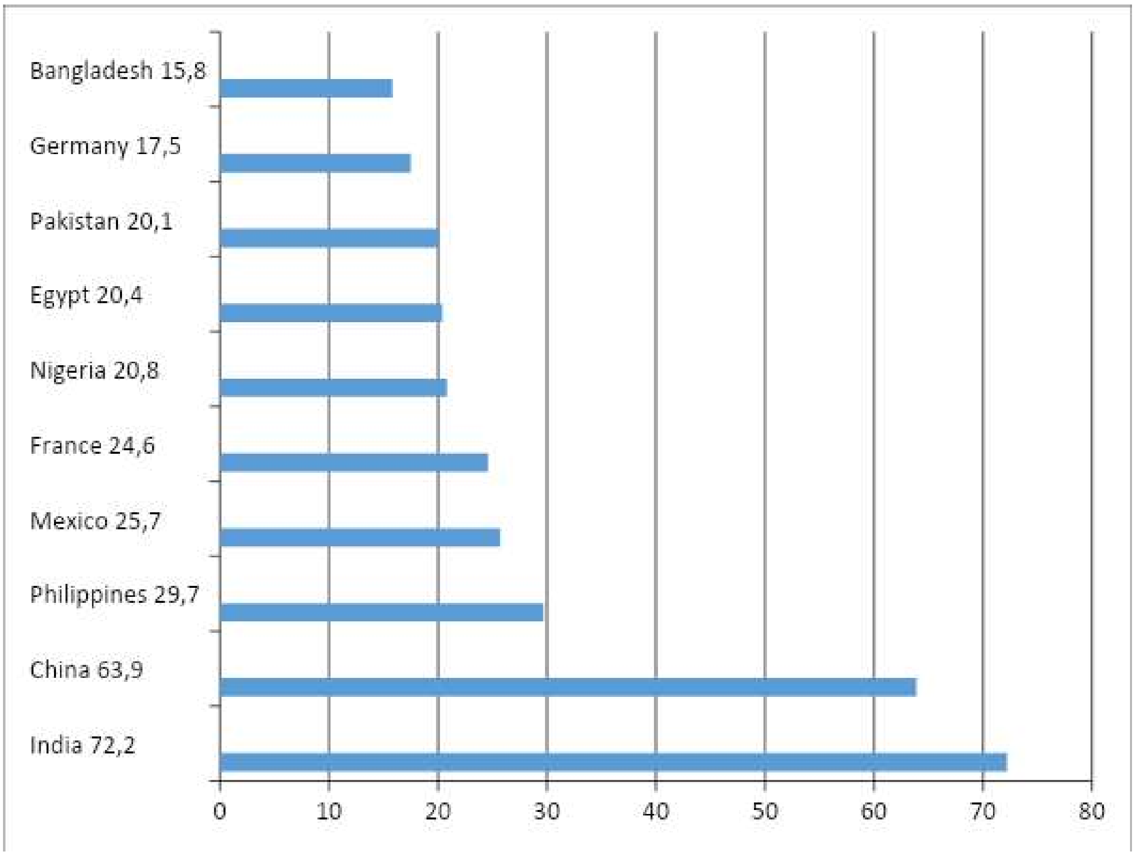
International organizations, as well as the scientific community, discuss in particular ways of the realization of these money transfers, as well as the economic impact of the given operations on the country of origin of the migrant.

The intensification of the research related to remittances is undoubtedly connected with the steep rise in their amount over the last 20 years.

While in 1995 the world remittances flow reached 102 billion USD, in 2015, the value equaled 601 billion USD. They are less important than FDI, but surpass by far official development assistance [5]. In some countries, the remittances reach several tens of percent of the GDP.

The causes of this trend are not only due to the increase of the number of migrants and the rise in their income, but also due to the higher quality of data collection and to the decrease in the costs related to money transfers to the country of the migrant´s origin. This trend is unlikely to reverse in the medium to long term. Migration is expected to continue and costs of remitting are falling, providing a lower threshold for migration.

The importance of the remittances as a potential source of economic development can be illustrated graphically.

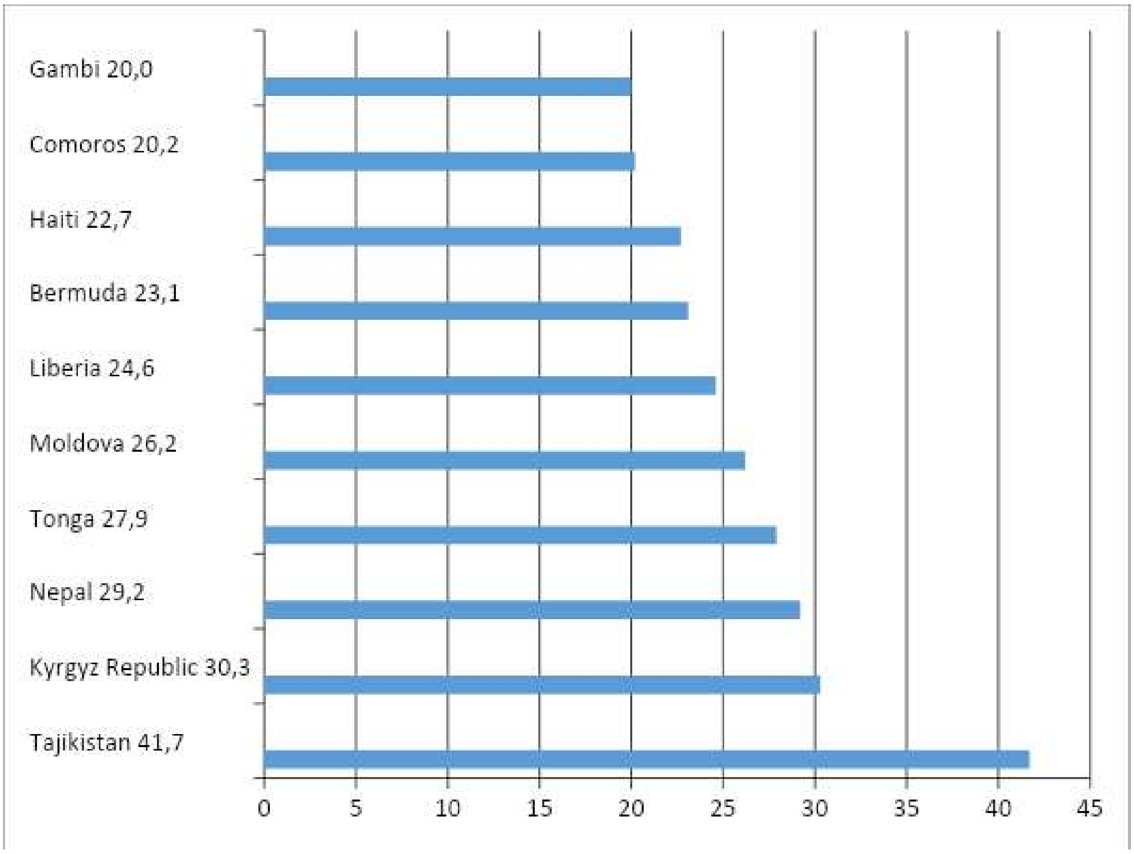


Graph 1 – Top Remittance – Receiving Countries, 2015, USD billions

Source: Development Indicators Group, Migration and Remittances Factbook, World Bank 2016

The data provided in Graph 1 refer to the absolute values of the current main remittance flows. In 2015, the top recipient countries of recorded remittances were India, China, the Philippines, Mexico, and France.

It is also useful to monitor the share of remittances in GDP. This is particularly important from the point of view of the potential risk of the development of dependency of the country concerned with remittance inflow. As a share of GDP, however, smaller countries such as Tajikistan, the Kyrgyz Republic, Nepal, Tonga, and Moldova were the largest recipients [6].



Graph 2 – Top Remittance – Receiving Countries, 2014, percent of GDP

Source: Development Indicators Group, Migration and Remittances Factbook, World Bank, 2016

THE EFFECT OF REMITTANCES ON FINANCIAL INCLUSION

Migrants send on average USD200, typically on a monthly basis. While this amount may appear small, it is often 50 percent or more of their family´s income back home. These flows constitute a critical lifeline for millions of individual households, helping families raise their living standards above subsistence and vulnerability levels. Moreover, these remittances lead to improved health, education, housing and levels of entrepreneurship. Remittances are often the first experience of financial inclusion.

Their countries of origin, benefiting 500 million people in developing countries [1]. However, a large portion of these remittance receivers remains unbanked, particularly in rural areas, which receive 40 percent of total remittances. In addition, migrant workers also face difficulties in using financial services adequate to their needs (ibid). Therefore, governments, the private sectors (full-service banks, postal networks, and mobile phone companies, among others) have the dual challenge of expanding access to financial services (particularly in rural areas where the majority of the financially excluded reside) and of broadening the range of financial products offered to remittance senders and recipients.

In this section, we explore the exact channels in which changes that may cause remittances to increase financial inclusion are taking place. We look at demand, supply and policy factors.

Demand side and financial inclusion needs

The most important and identified demand migrant workers` voice is remitting money to their families in a secure manner, quickly and at affordable costs. Nonetheless, migrant workers often require additional financial services such as savings, insurance and housing loans in order to cover personal needs in the home country and to finance family needs and entrepreneurial endeavours or established businesses back home.

Beyond some common characteristics, financial needs and behaviours vary widely among migrant workers. Migrant workers´ financial goals evolve over time, since their financial needs are determined according to their migration cycle. In addition, regions/countries of destination and the skills and level of education of migrant workers also determine their level of earnings, their ability to save and remit money home and their demand for specific financial products and services. For example, remittance transfer services and a safe place to store money are essential for the lowest-income segments; but higher-income segments demand products such as remote bill payment and savings systems, or more sophisticated products such as housing loans.

For migrants settled in a host country on a long-term basis, needs evolve from remitting money home to family to building savings for household expenses, to more sophisticated projects and products such as financing housing.

In order to cater to their client´s evolving needs, financial service providers should be able to offer an array of suitable products [3].

A wide array of institutions exists to respond to the vast demand for remittance-sending services. Commercial banks, recognizing the vast size of remittance flows however small individual amounts may be, are increasingly interested in targeting this new market segment. Hernández-Cos states that "by developing formal remittance channels that are competitive with informal ones, the formal financial sector has an incentive to develop and benefit from the overall opportunity to grow and expand through the remittance market" [2].

Regular remittances can reduce informational problems because the continual inflow of money from abroad allows the lower-income segment of the population to build a sound financial history with a financial institution. Through the remittance inflow, the bank gets an insight into the client´s income and expected future funds, thus indicating the potential creditworthiness of the recipient, since a constant (future) inflow can repay loans. Banks thus obtain information about prospective loan clients, reducing the problem of adverse selection.

Supply side and financial inclusion

This section presents the different types of institutions involved in the remittance market. It highlights the potential for each type of institution to increase financial inclusion by providing better access to and use of financial services.

Transaction-based Remittance Service Providers (RSPs)

The transaction-based RSP business model relies on processing a high number of small-value transactions. Initially, RSPs offered a cash-based product that covered the basic and most universal need of sending and receiving money. The spread of mobile phones and electronic payment applications has allowed this type of RSP to deliver a wider array of payment features, increasing convenience for the senders.

Due to extensive agent networks, traditional Mobile Network Operators (MTOs) still lead the remittance market with cash-to-cash transfer services, have contributed to absorb flows generated by unregulated and illegal providers, and are still developing new corridors. However, in-cash global transactions remain globally expensive, and exclusivity clauses in MTOs' agent model agreements limit competition.

Online platforms offer the option to eliminate cash at the sending end, where migrant workers are equipped with payment cards and are familiar with online payments. This facility can offer lower operational costs in environments where costs for in-cash transactions are getting higher.

In host countries, retail banks generally do not consider migrant workers' remittance-sending needs as a specific or lucrative business. These banks generally avoid in-cash transactions in their branches, propose unadapted wire transfers and use restrictive identification requirements resulting in poor service provisioning for migrants workers. Conversely, some banks have developed dedicated business lines for migrants covering their financial needs in their home country. However, these institutions are generally only present where large migrant communities have settled and with whom they are able to develop long-term relationships and returns on investments (e.g. Mexico-United States, Morocco-Europe).

Banks in the country of origin rarely develop and provide specific services for migrants beyond in-cash remittances, and they rarely target the low-income population that receives remittances.

Remittance market environment

The market environment factors hindering financial inclusion among remittance senders and recipients are broadly clustered into two categories:

- Supply factors and
- demand factors.

When combined, these factors missed opportunities to foster financial inclusion among migrants and their families.

In order to improve levels of financial inclusion among remittance senders and recipients, governments should consider a legal and regulatory approach that alleviates both supply and demand-side constraints.

Remittance markets that are contestable (i.e. open to a wide range of RSPs) are characterized by improved efficiency, increased availability of services and lower costs for consumers. Therefore, governments should pursue legal and regulatory measures that promote competition in the market for remittances, for example, by prohibiting anti-competitive behaviours such as exclusivity agreements.

Exclusivity agreements between RSPs and their agents prohibit agents from offering the services of any other RSP, thereby reducing capacity of other RSPs to expand their network, and consequently reducing users. By restricting this choice, exclusivity agreements may result in a de-facto local monopoly [4].

From the perspective of migrants and their families, improving the transparency of the various cost elements and service conditions of remittance products, like other payment instruments, helps promote confidence and trust in the products, thereby promoting adoption and usage.

Consumers should also be protected from loss of funds due to operational failures, mismanagement or fraud. For this purpose, regulators should set prudential requirements to ensure that RSPs governance structures take appropriate measures to meet their fiduciary responsibilities to their customers and risk management practices to manage finances (liquidity and solvency).

CONCLUSION

The perception of the role of migrant workers in development is shifting. Governments and institutions are beginning to realize the vast potential of mobilizing migrant capital for the development of national and local economies.

Because migrants specifically, and financially uneducated peoples generally, lack access to remittance services and are often unaware of complementary products, governments and the private sector should investigate new and innovative ways to reach these communities.

Innovation should focus on:

- Modernizing technology in pay-out networks and
- Improving payment systems infrastructure.

Sending countries promote partnerships between different types of the institution from both sending and receiving countries. These institutions should be encouraged to provide alternatives to in-cash transfers and to offer complementary products beyond transfers. Furthermore, they should be encouraged to promote online access and products, create linkages with regulated RSPs, increase access points and reduce sending costs.

Receiving countries should increase the number and the penetration of access points to receive cash. This in turn will improve the interaction between low-income remittance recipients and regulated financial institutions.

It is vital too to promote legal and regulatory frameworks that are sound, non-discriminatory in both sending and receiving countries should be promoted. It is equally important to ensure that competition in enhanced by encouraging more actors to enter the marketplace, discontinuing exclusivity agreements when they hamper competition.

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