Women’s World Banking
Microfinance and Remittances
Cartagena 2004
Migrant remittances totaled US$93 billion in 2003. Informal and under-reported flows could double or triple those amounts.

- Top receivers are Latin America (US$29.6 billion) and South Asia (US$18.2 billion)
- Remittances amount to 1% to 10% of GDP in most recipient countries
WWB Network Operates in Ten Top Remittance Countries with Over US$40 Billion in Remittances in 2003

- Mexico: $10B
- Dominican Republic: $2B
- Colombia: $2B
- Morocco: $3B
- Brazil: $2B
- Jordan: $2B
- Pakistan: $4B
- Bangladesh: $3B
- India: $8B
- Philippines: $7B
### Why Remittances and Microfinance?

#### As a Service

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor-to-Poor</td>
<td>Low income people at both ends of remittance flows</td>
</tr>
<tr>
<td>Beyond Consumption</td>
<td>While most amounts go to consumption, remittances also used by low income people to invest in education, housing, business</td>
</tr>
<tr>
<td>Banking the Unbanked</td>
<td>Remittances can help the poor get savings accounts and financial services—if banks are ready and if MFIs are able</td>
</tr>
<tr>
<td>Formal Channels</td>
<td>More remittances through formal channels—including banks, credit unions, and MFIs—bugs being worked out</td>
</tr>
<tr>
<td>Competition</td>
<td>With more competition, fees—including exchange rates—for remittances are coming down</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>If legal, foreign exchange savings accounts for poor people could protect savings from devaluation, encouraging increased savings (e.g., Morocco)</td>
</tr>
</tbody>
</table>
## Why Remittances and Microfinance?

### As a Source

<table>
<thead>
<tr>
<th>Stable</th>
<th>• Once running, stable and growing source of finance for loan portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundling Small Transactions</td>
<td>• Western Union or financial institution at the other end does much of the work to group many small transactions into significant resource flows</td>
</tr>
<tr>
<td>Attractive Fees</td>
<td>• Margins/fees attractive—even if lower than prevailing rates</td>
</tr>
<tr>
<td>Opportunities</td>
<td>• South-South as well as North-South prospects</td>
</tr>
<tr>
<td>Country</td>
<td>MFI/Bank Members of GNBI</td>
</tr>
<tr>
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</tr>
<tr>
<td>India</td>
<td>ICICI</td>
</tr>
<tr>
<td></td>
<td>Citigroup</td>
</tr>
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<td></td>
<td>WOCCU</td>
</tr>
<tr>
<td>Kenya</td>
<td>EBS/ Kenya Post Office Savings Bank</td>
</tr>
<tr>
<td>Bolivia</td>
<td>FIE</td>
</tr>
<tr>
<td>Mexico</td>
<td>Fincomún</td>
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</tbody>
</table>
Recent Arrivals

- 5.7 million
  - Remittances
  - Primary health and food services (P&G category)
  - Basic supermarkets
  - Payroll check cashing

Transitionals

- 2.7 million
  - Basic banking services plus mortgage financing
  - Schools
  - Medical services
  - Life insurance
  - Automobile financing

Acculturated

- 12.2 million
  - Same reliance on transactions as other typical native or acculturated US residents
Competitors Recognize That the Key Is to Adapt Services to Financial Needs and Cultural Traditions
India’s leading bank uses technology to reach out to senders and receivers

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>$ 25.46B</th>
<th>Branches</th>
<th>469</th>
<th>ATMs</th>
<th>1790</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>6.0M</td>
<td>Internet bank users</td>
<td>1.4M</td>
<td>Credit cardholders</td>
<td>0.6M</td>
</tr>
</tbody>
</table>

and is transforming channel usage

<table>
<thead>
<tr>
<th>Channel</th>
<th>Share of transactions in March 2000</th>
<th>Share of transactions in December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>94%</td>
<td>30%</td>
</tr>
<tr>
<td>ATMs</td>
<td>3%</td>
<td>46%</td>
</tr>
<tr>
<td>Internet &amp; mobile</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td>Call centre</td>
<td>1%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Pattern of Remittances to India

- Banks: 65 to 70%
- Money Operators: 20 to 25%
- Exch. Houses: 5 to 10%
ICICI Bank Has Adopted a Three Pronged Strategy

Through low cost ATMs and rural kiosks, technology is changing the rural banking paradigm

- Low cost ($1,365) compared to traditional ATM ($25,000).
- Provide the most basic service of deposits and withdrawal.
- Facilitate a chip card for all financial transactions and data storage.
A Multi-Channel Remittance Offering

**Remittance Origination**

*Internet*
- Remitter uses Money2India facility to transfer funds

*Overseas Branch*
- Remitter posts a cheque drawn on its bank
- Remitter makes a request to its bank, to wire transfer money

**Remittance Payment**

- Demand draft issued and dispatched by ICICI Bank from India
- Credit to the beneficiary's account with ICICI Bank
- Credit to account facility is available at over 450 ICICI Bank branches at over 200 locations
- ICICI Bank can issue & dispatch DDs to over 1250 locations in India

ICICI Bank
Money2India
Citigroup – Banamex Uses Storefronts and Technology

- Banamex has over 1,400 branches, 1000 correspondents, and 3,500 agents
- With correspondents, services are integrated into store. Service is offered for a flat fee, shared between the Correspondent and Banamex at Banamex standards.
Citibank - Banamex Transaction

Sender: US Outbound
CITIBANK, NEW YORK

Recipient: Mexico Inbound
BANAMEX, MEXICO

Money designated for remittance
e.g., US$200

Remittance distributed

Branch
ATM
On Line
By Phone
Banco Solidario Builds Spanish Connection and Emigrant Services

Attending to the needs of emigrants:

- Loan for travel liabilities
- Loan to purchase home in Ecuador – up to 70%, fair terms, in name of emigrant
- Flexible, effective transfer system/ extensive network of receiving locations in Spain and for payment in Ecuador – alliance with Spanish savings bank and cooperatives in Ecuador
- Transferred funds handled in accordance with instructions issued by the emigrant
- Advanced technology – platform, smart cards
- In 2003, 14,000 remittance transfers, 850 savings accounts
Rural Banks in the Philippines Build Platform to Compete with Commercial Banks

- Overseas resident Filipinos include 7.5 million immigrants with remittances of US$2,500 p.a.
- Six major commercial banks hold the majority share of remittance market (charges range from $5 to $15).
- Small courier, logistics companies and informal channels hold the remaining remittance market share.
- Several hundred rural banks trying to enter remittance markets.
- Rural Web to offer single platform to interconnect all participating rural banks with service providers through one intermediary, automating transactions, and settling accounts on a daily basis.
- Rural banks potential to offer savings, lending, asset building services to rural clients.
Equity Building Society Uses Western Union Subagent Agreement to Build New Savings Accounts

- Regulated financial institution
- New leader in Kenyan micro savings, micro borrowing – 80,000 clients
- Launched Western Union-Diamond Trust Bank subagent agreement in August 2003
- EBS – 8 branches, of which 6 are rural
- Number of transactions per month has grown to 2,500 in first eight months
- Commissions range from 4% to 15%; Western Union gets 80%, agent 13%, and EBS 7%
- EBS encourages remittance clients to save
Western Union Network has agile structure and response capabilities

1 Billion+ Transactions

- Agent locations: 182,000 (+21%)
- Consumer-to-consumer transfers: 81M (+19%)
- Consumer-to-business transfers: 134M (+12%)
- Prepaid transactions: 885M (+32%)

North America Agent Locations

- Supermarkets/Convenience Stores: 45%
- Entrepreneurs/Other: 40%
- Check Cashers: 15%

International Agent Locations

- Banks: 40%
- Post Offices: 35%
- Entrepreneurs/Other: 25%
Western Union’s Competitive Advantage

**Distribution**
- Extensive global distribution – 182,000+ locations in 195+ countries and territories

**Price**
- Competitive pricing, premium brand
- Value for money

**Product**
- Premium products that deliver on core values and service
- Person to Person
- Cash to Cash
- Internet
- Direct to Bank

**Marketing**
- Strong brand awareness
- High street-level visibility
- Significant growth in advertising
In the last dozen years, competition has increased. Prices, margins, and costs have been reduced.

Money transfer operators are cutting prices – in 1999, Western Union charged $22 in fees to remit sums of $200 or less – by 2003 it was $10.
Banks and credit unions are slow to penetrate remittance market, and cash-to-cash transactions still dominate

**What is Happening?**

- Most clients take out the cash, even when they receive money from banks
- Low income customers are not getting integrated into financial services – at either end
  - Savings accounts
  - Lending insurance products
- Clients are not getting potential costs and benefits of banking services, with
  - ATMs
  - Debit/ smart cards

**Why is it Happening?**

- Banks not yet seriously committed to remittances at either end?
- Low percentage of remittance senders and receivers have bank accounts?
- Banks not able or willing to match MTOs on:
  - Convenience
  - Respect
  - Community outreach, marketing
  - Language
  - Service – at doorstep
- Banks not cheaper than MTOs – too small
Banking with the Poor ⇒ Remittances?

Banks want:
• Remittance fees
• Remittance flows
• Remittance accounts – savings, customers, cross savings?

Senders (and receivers) want – at both ends:
• Convenience
• Respect
• Price
• Other services

Compelling reason to change present arrangements

If banks want remittance customers, may need to commit to banking with the poor
• Top management commitment
• National distribution system – branches, ATMs, agents
• Alternative savings products for low income customers
• Diversified product offerings e.g., housing loans, emigrant investment vehicles
Challenges for Regulated MFIs That Seek to Mobilize Migrant Remittances

- National distribution – or deep penetration in urban areas
- Geographical concentrations of migrants in sender country
- Alliance with MTO in sender country
- Capacity to manage large numbers of individual savings accounts
- Legal ability to operate in foreign currencies – or agency agreement
- Part of transfer payment system e.g. SWIFT
- Strong back office, software, IT, connectivity
- Debit cards/ smart cards – increasing share
Some Early Lessons by Small MFIs and Credit Unions
Trying to Mobilize Remittances

• “Pull” strategies don’t work – sender decides who to use based on convenience (and price)

• LAC MFIs will have great difficulty establishing presence in US – need alliance with MTO

• MFI branch structure, distribution channels in receiving countries often too limited – need shared platform and/ or MTO alliance

• With competition and consolidation driving costs down, may be difficult for small players to enter

• To compete, MFIs may need to offer financial products and services to receiver e.g., savings, housing finance

• May be more possibilities as agents, subagents in rural areas
# Remittances and Microfinance

## Options
- MTO (Western Union, Vigo)
- Banks
- Credit union platforms

## Key success factors
- Convenient, user-friendly locations
- Community marketing
- Spanish-speaking agents
- Services to sender:
  - Check cashing
  - Loans
  - Phone calls to recipient
- Lower costs, lower prices
  - Technology
- Transmission capabilities
  - Technology

## Mobilize remittances from clients in source city/country

## Distribute remittances to clients in recipient country
- Banks
- Regulated MFIs
- Credit union federations/platforms

## Help clients use remittances to build income and assets
- Sender/receiver
  - Savings accounts – low minimum
  - Housing loans
  - ID/ matricula consular
  - Education
- Efficient system for individual savings
- Ability to provide diversified product offerings to low income clients

- Ability to get money to recipient
- Offer:
  - Speed
  - Convenience
  - Price
- Legal ability to transfer remittances
- Lower costs, lower prices
  - Technology
- Transmission capabilities
  - Technology

- Speed
- Convenience
- Price
# Strategies for Banks, Co-ops and MFIs in LAC

<table>
<thead>
<tr>
<th>On the sending end</th>
<th>Commercial banks/ PO savings banks</th>
<th>Cooperatives/ credit unions</th>
<th>Regulated MFIs/ rural banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forge alliance with:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• MTO</td>
<td></td>
<td>Via platform/ association?</td>
<td>Via platform/ association?</td>
</tr>
<tr>
<td>– Agent &gt; subagent</td>
<td></td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>– Joint marketing</td>
<td></td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>• Global/ counterpart bank</td>
<td></td>
<td>Via platform/ association?</td>
<td>Via platform/ association?</td>
</tr>
<tr>
<td>Establish direct channels to remittance senders</td>
<td></td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>– Branches where emigrant concentrations</td>
<td></td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>– Agents</td>
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</tbody>
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## Strategies for Banks, Co-ops and MFIs in LAC

<table>
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<tr>
<th>On the receiving end</th>
<th>Commercial banks/ PO savings banks</th>
<th>Cooperatives/ credit unions</th>
<th>Regulated MFIs/ rural banks</th>
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</thead>
<tbody>
<tr>
<td>Provide cash payments at the door</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Use agents, correspondents for outreach, at the door service</td>
<td><img src="" alt="Circle" /></td>
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<tr>
<td>Use technology for distribution</td>
<td><img src="" alt="Circle" /></td>
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<td><img src="" alt="Circle" /></td>
</tr>
<tr>
<td>• ATMs</td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
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<tr>
<td>• Debit/ smart cards</td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
</tr>
<tr>
<td>• Internet transfers</td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
</tr>
<tr>
<td>Provide incentives to open, use savings account</td>
<td><img src="" alt="Circle" /></td>
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<tr>
<td>• Lotteries</td>
<td><img src="" alt="Circle" /></td>
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<tr>
<td>• No remittance fee if save</td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
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</tr>
<tr>
<td>• Low initial balances</td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
</tr>
<tr>
<td>• Dollar accounts</td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
<td><img src="" alt="Circle" /></td>
</tr>
<tr>
<td>Offer other financial services to sender, receiver</td>
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