



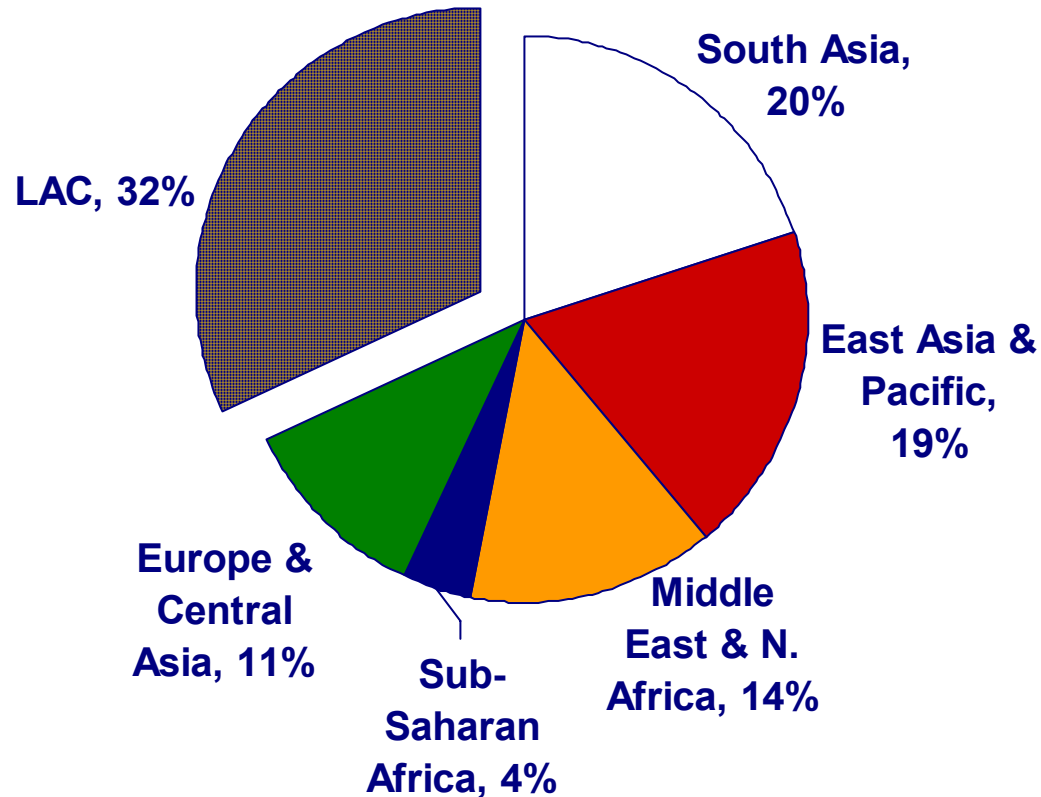
Women's World Banking

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



Why Remittances and Microfinance?

As a Service

Poor-to- Poor

- Low income people at both ends of remittance flows

Beyond Consumption

- While most amounts go to consumption, remittances also used by low income people to invest in education, housing, business

Banking the Unbanked

- Remittances can help the poor get savings accounts and financial services—if banks are ready and if MFIs are able

Formal Channels

- More remittances through formal channels—including banks, credit unions, and MFIs—bugs being worked out

Competition

- With more competition, fees—including exchange rates—for remittances are coming down

Foreign Exchange

- If legal, foreign exchange savings accounts for poor people could protect savings from devaluation, encouraging increased savings (e.g., Morocco)

Why Remittances and Microfinance?

As a Source

Stable

- Once running, stable and growing source of finance for loan portfolio

Bundling Small Transactions

- Western Union or financial institution at the other end does much of the work to group many small transactions into significant resource flows

Attractive Fees

- Margins/fees attractive—even if lower than prevailing rates

Opportunities

- South-South as well as North-South prospects

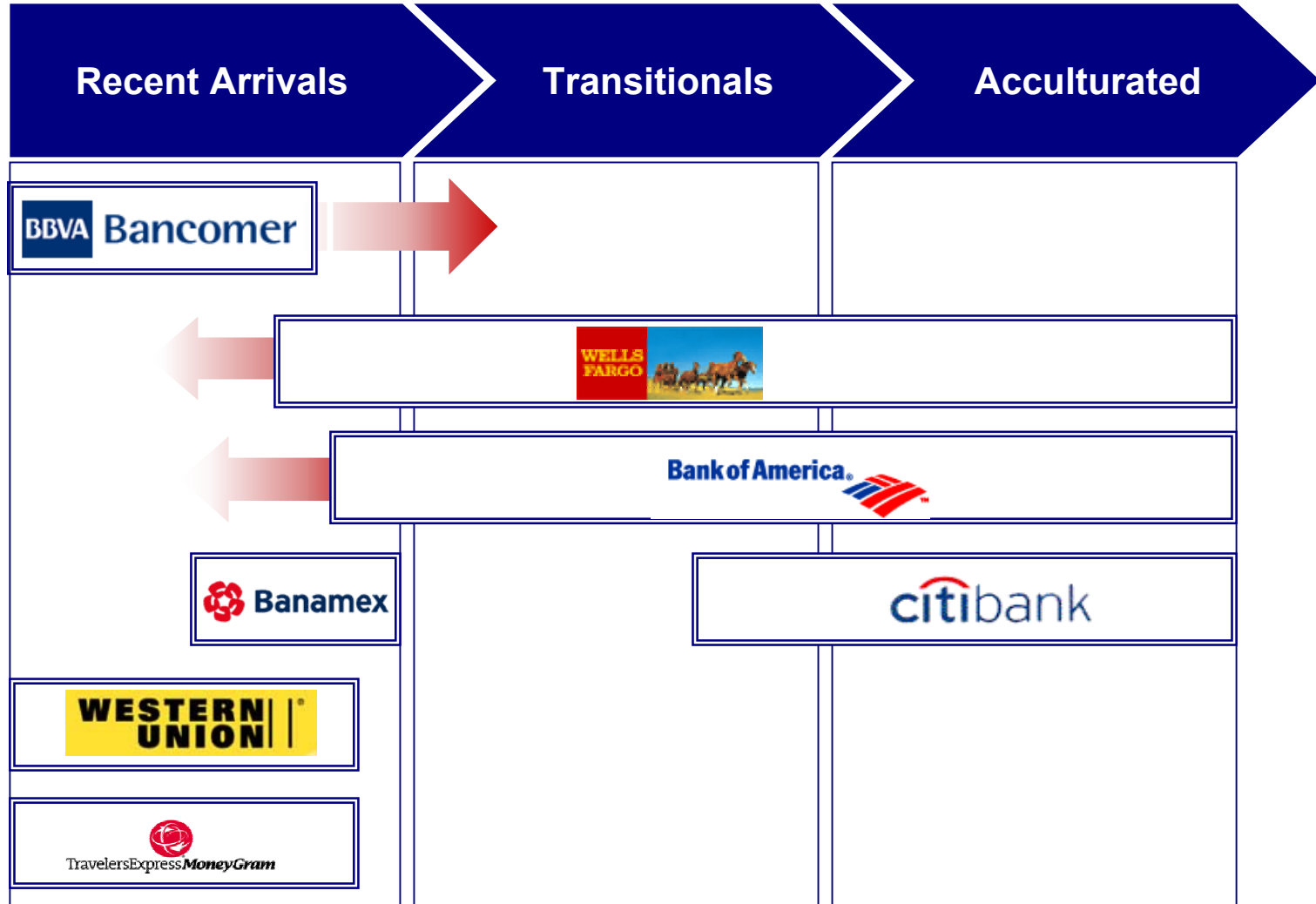
Initiatives by WWB Network Members

Country	MFI/Bank Members of GNBI	Remittance Partner	Distribution Channels
India	ICICI	<ul style="list-style-type: none"> • In addition to Money2India 	24 hour money transfer — 1790 ATMs and 469 branches. Pilot Program of rural kiosks.
Global	Citigroup	<ul style="list-style-type: none"> • Banks in over 100 countries 	Send to bank account overseas or check to family, pilot programs via Banamex
Global	WOCCU	<ul style="list-style-type: none"> • WOCCU IRnet 	40 countries—credit unions—LAC, Asia, Africa, Europe
Kenya	EBS/ Kenya Post Office Savings Bank	<ul style="list-style-type: none"> • Diamond Trust Bank and Western Union 	8 branches (6 rural) Marketing events with Kenya diaspora in Minneapolis, MN and Columbus, Ohio
Bolivia	FIE	<ul style="list-style-type: none"> • FIE Granpoder S.A. (Argentina) • Viamericas 	38 branches in 8 cities in Bolivia. 2 branches in Buenos Aires
Mexico	Fincomún	<ul style="list-style-type: none"> • Red de la Gente • Moneygram • US banks 	800 points of service in US

Santander Mexico Segments Senders and Competitors

Recent Arrivals	Transitionals	Acculturated
5.7 million	2.7 million	12.2 million
<ul style="list-style-type: none">✓ Remittances✓ Primary health and food services (P&G category)✓ Basic supermarkets✓ Payroll check cashing	<ul style="list-style-type: none">✓ Basic banking services plus mortgage financing✓ Schools✓ Medical services✓ Life insurance✓ Automobile financing	<ul style="list-style-type: none">✓ 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

Balance sheet \$ 25.46B

Branches 469

ATMs 1790

Customers 6.0M

Internet bank users 1.4M

Credit cardholders 0.6M

and is transforming channel usage

Channel	Share of transactions in March 2000	Share of transactions in December 2003
Branches	94%	30%
ATMs	3%	46%
Internet & mobile	2%	13%
Call centre	1%	11%

Pattern of Remittances to India

Banks

65 to 70%

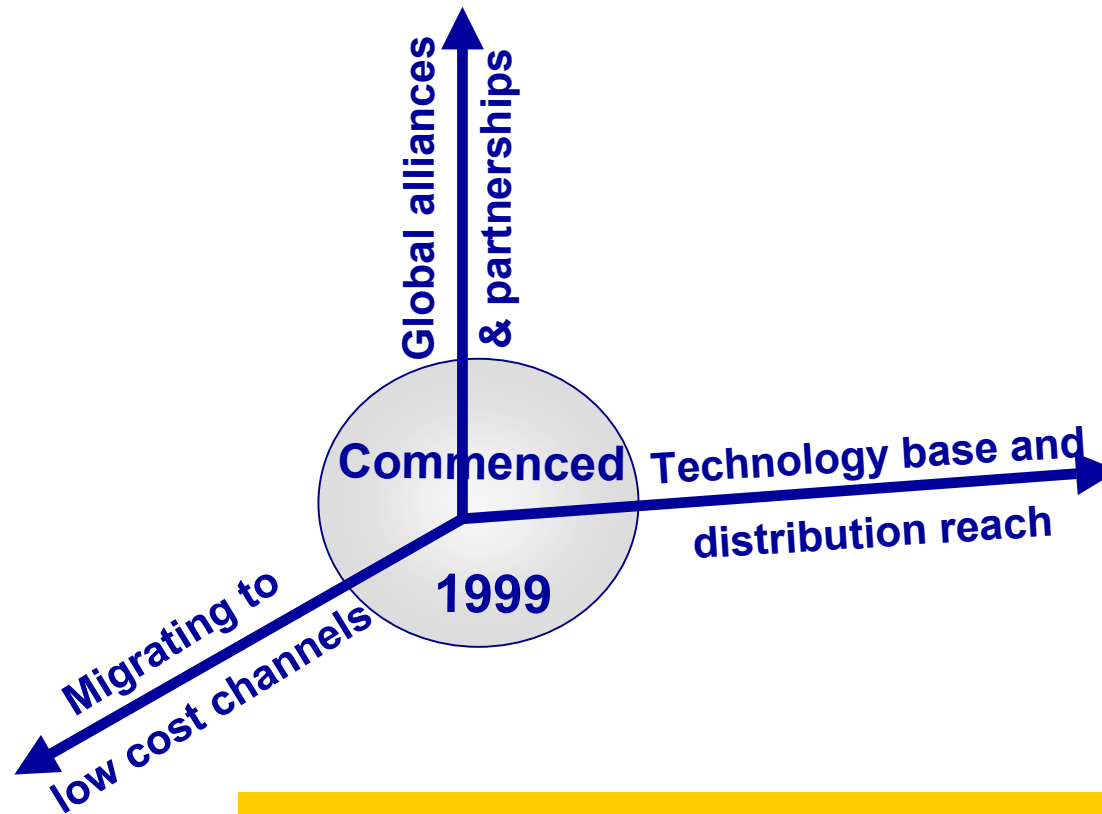
Money Operators

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

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

Recipient: Mexico Inbound

CITIBANK, NEW YORK

BANAMEX, MEXICO

Branch



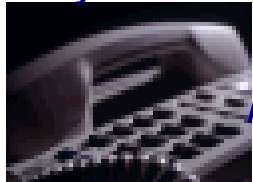
ATM



On Line



By Phone



Money designated for remittance



e.g., US\$200

Remittance distributed

Branch



ATM





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**

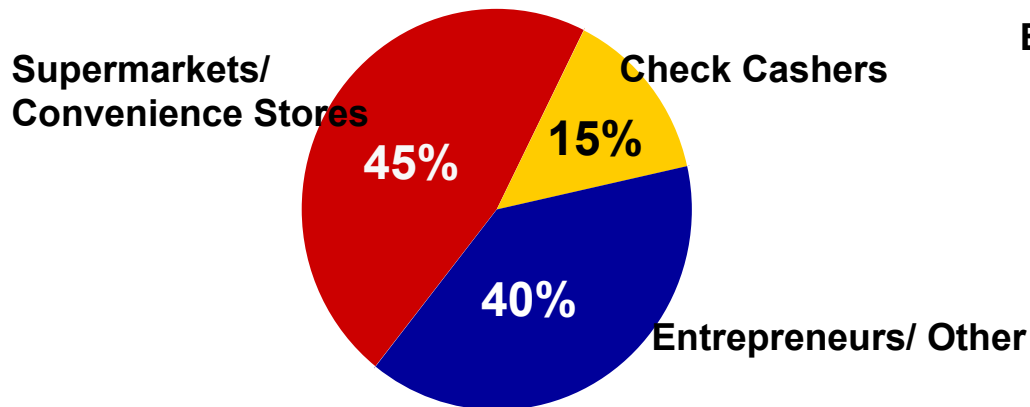
Western Union Network has agile structure and response capabilities



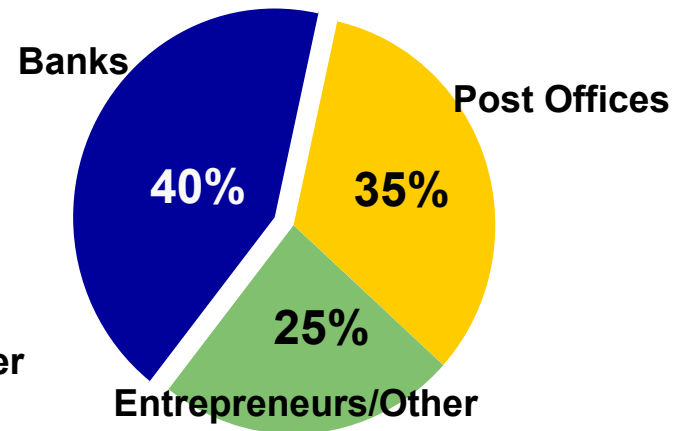
1 Billion+ Transactions

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



International Agent Locations



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

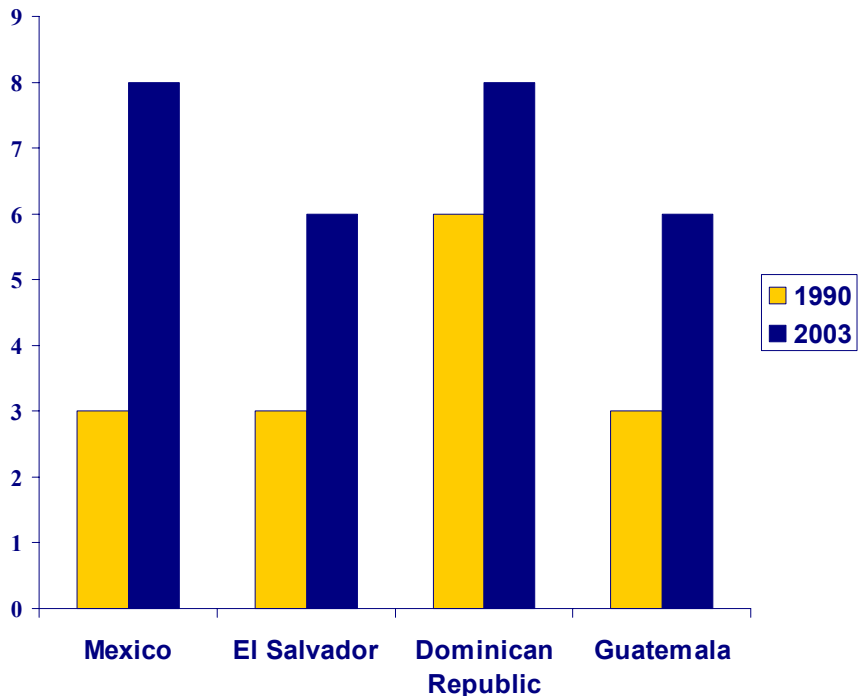
- Premium products that deliver on core values and service
- Person to Person
- Cash to Cash
- Internet
- Direct to Bank

Marketing

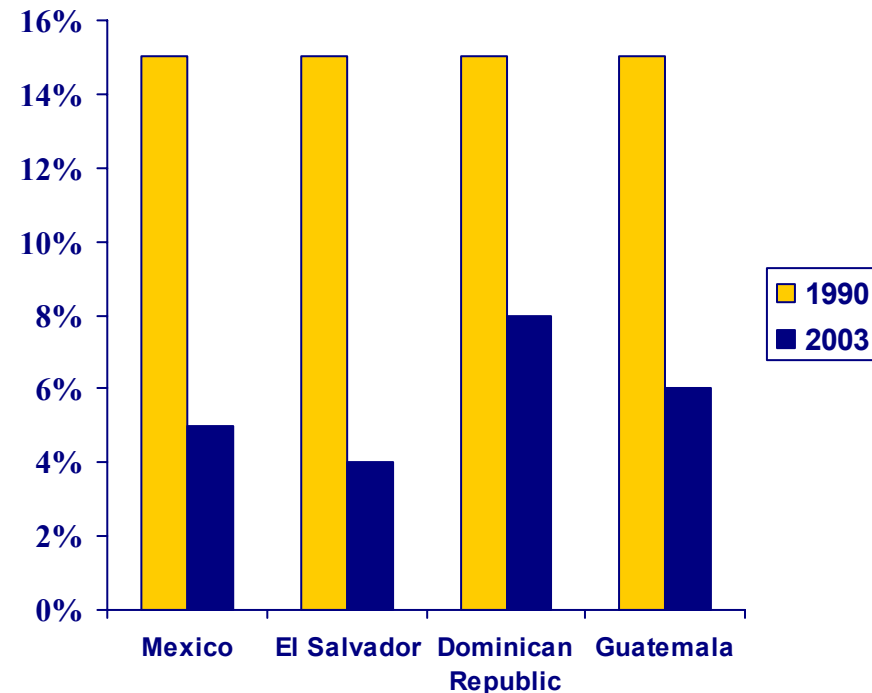
- Strong brand awareness
- High street-level visibility
- Significant growth in advertising

**In the last dozen years, competition has increased.
Prices, margins, and costs have been reduced.**

**Number of firms
participating in industry**



**Transfer costs as %
of amount sent**



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**

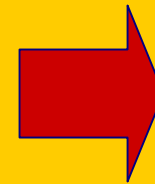
Banking with the Poor ⇒ Remittances?

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

Mobilize remittances from clients in source city/ country

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

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

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

- Ability to get money to recipient
- Offer:
 - Speed
 - Convenience
 - Price
- Legal ability to transfer remittances

- Efficient system for individual savings
- Ability to provide diversified product offerings to low income clients

Strategies for Banks, Co-ops and MFIs in LAC

On the sending end

Commercial banks/ PO savings banks

Cooperatives/ credit unions

Regulated MFIs/ rural banks

Forge alliance with:

- **MTO**
 - Agent > subagent
 - Joint marketing
- **Global/ counterpart bank**

Establish direct channels to remittance senders

- Branches where emigrant concentrations
- Agents



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Via platform/ association?

Via platform/ association?

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Via platform/ association?

Via platform/ association?

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Strategies for Banks, Co-ops and MFIs in LAC

On the receiving end

Commercial
banks/ PO
savings banks

Cooperatives/
credit unions

Regulated
MFIs/ rural
banks

Provide cash payments at the door

Use agents, correspondents for outreach, at the door service

Use technology for distribution

- ATMs
- Debit/ smart cards
- Internet transfers

Provide incentives to open, use savings account

- Lotteries
- No remittance fee if save
- Low initial balances
- Dollar accounts

Offer other financial services to sender, receiver

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