

Remittance Services Providers

Beyond a Money Transfer Service;
Socially Responsible Companies

2021



CALETA



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ABOUT



The International Association of Money Transfer Networks (IAMTN), a not-for-profit membership organisation, is the only global trade association that represents the cross-border payments industry. IAMTN's members include, inter alia, banks, payment institutions, electronic money organisations and mobile operators.

Founded in 2005, IAMTN provides a platform for industry partners to come together to discuss common challenges and industry initiatives, and to create opportunities.

IAMTN works closely with governments, regulators, and all other important stakeholders - such as the FATF, FSB, World Bank, International Fund for Agricultural Development (IFAD), UNCDF, Swiss Agency for Development and Cooperation, UK Foreign, Commonwealth and Development Office, African Union - to champion the creation of the most effective, safe, reliable and efficient payment systems and mechanisms for migrants globally.

CALETA

Caleta is an independent research and development company founded in 2017. We conduct research and promote concrete solutions for more inclusive and responsible finance at the global level. Our mission is to empower people by enabling access to financial services. We collaborate with all the stakeholders of the cross-border payments industry to reach this goal, as part of the global efforts towards reaching the Sustainable Development Goals.

The data collected and generated by Caleta makes unprecedented knowledge available to the industry, which provides new insights and new solutions to existing challenges.



INTRODUCTION

Money sent by migrant workers to families and friends in their countries of origin is usually referred to as **remittances**.

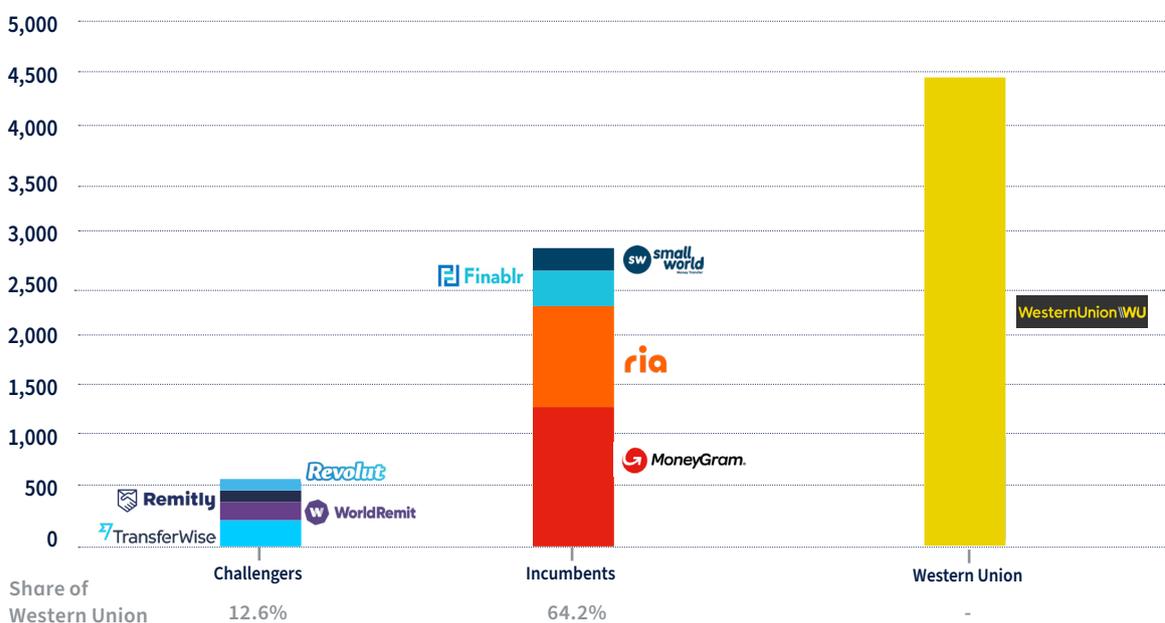
This money is an important part of the income of millions of families worldwide, and thus contributes to the **reduction of poverty**. During 2019, it was estimated that there were around 272 million international migrants in the world, which equated to 3.5 per cent of the global population¹.

These numbers provide an idea of the magnitude of the impact which remittances have at a global level.

Remittances are usually sent through companies called **remittance services providers** (RSPs), though this appellation might vary across countries. These are private companies seeking to provide remittance sending services to their consumers at a profit. The remittance market is composed of some large companies such as Western Union, MoneyGram and Ria, but also of a multitude of other companies which provide a key service that makes each of them an essential element of the financial ecosystem.

MARKET SHARES - CONSUMER MONEY TRANSFER

2018 Revenue (USD)



Source: FXC Intelligence Analysis, Consumer only where available, Remity figures estimated

RSPs are often looked at through the analysis of their revenues, which is undoubtedly an important element, but picturing them as companies that are exclusively profit-driven would be a misconception.

In fact, most of these companies care deeply about the wellbeing of their customers, and are constantly working to enhance the service they provide to their clientele. As explained above, remittance services are intrinsically **socially impactful**. They are a source of income for many families and many countries, and therefore are important both at the micro and at the macro levels. Remittance flows contribute to the achievement of the Sustainable Development Goals (SDGs) set by the United Nations in many ways, for example by reducing poverty and improving health, nutrition and education.



1. A SERVICE THAT ENHANCES FINANCIAL INCLUSION

more than money transfers

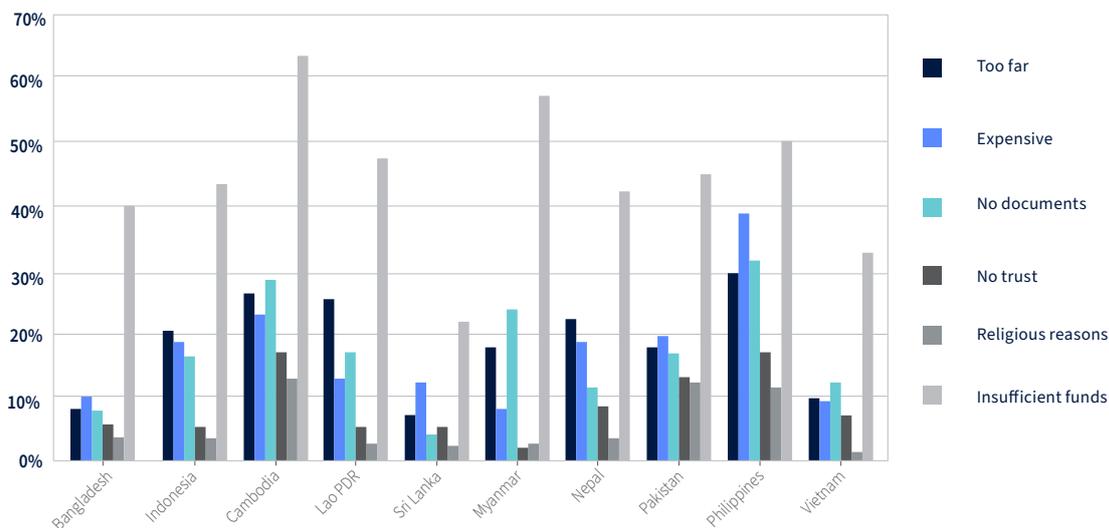
A SERVICE THAT ENHANCES FINANCIAL INCLUSION

Financial inclusion refers to the effort to make every day financial services available to more of the world's population at a reasonable cost. Traditionally, a large proportion of money senders use informal solutions to transfer remittances (such as asking a relative or friend to travel with cash to deliver to the recipient, or giving the money to a bus driver, often with a large cut on the amount), which increase the risks related to the safety of the money. Financial inclusion requires removing the barriers that exclude people from participating in the formal financial sector and allowing them to use these services to improve their lives².

Financial inclusion is still lacking in every region of the world, including in highly developed countries. In fact, about 1.7 billion people in the world³, and in particular 73% of poor people⁴, are still without access to a basic bank account. However, financial inclusion will not be attained through increased banking access alone. We often hear that 'banking the unbanked' is a priority, but maybe it is not the right problem to examine. In fact, when unbanked individuals are asked why they do not have an account, the answer is often that it is because they do not have enough money for it to make sense⁵, or do not meet the account opening requirements.

REASONS FOR NOT HAVING AN ACCOUNT AT A FINANCIAL INSTITUTION

(% of respondents)



Lao PDR: Lao People's Democratic Republic

Source: Demigüç-Kunt et al. (2018)
<https://www.adb.org/sites/default/files/publication/498956/adb-pb2019-3.pdf>



Alternatively, financial inclusion will increasingly be attained through access to other products and services linked to **financial technology**. These include digital transactions, mobile money, electronic payments, etc., which are products specifically designed for the needs of customers. Digital financial inclusion is a priority set by the United Nations, since it enables progress towards the SDGs⁶. It gained even higher importance during the COVID-19 pandemic as the circulation of cash has been hindered, thus increasing the need for digital means of accessing financial services. In fact, approximately 13 million people in Latin America and the Caribbean made their first-ever online purchases during the first quarter of 2020⁷. RSPs have a significant role to play in helping individuals achieve better financial prospects, by providing these services to people who were formerly excluded. One key point to bear in mind is that sending digital remittances often requires only a basic mobile phone, and no further technology, thus making the service accessible in remote places which lack infrastructure.

Merchantrade, a money service business based in Malaysia, has shared with us that large numbers of their clients switched to digital remittances from traditional over-the-counter transactions during the first lockdown in the spring of 2020, even though this digital service was readily available as far back as 2015. The company tailors its offerings to address and bridge the gap for users. The Merchantrade Money app, an e-wallet, is available in eight languages and is user-friendly, in particular in its utilisation of icons for non-literate users. According to the company's observations, its clients' exposure to digital finance increased significantly during COVID-19 restrictions as users transitioned to contactless payments or the purchase of items online. Merchantrade is known to be providing financial services to a largely overlooked segment of the population, namely **migrant workers**. As an example, the company partnered with Construction Labor Exchange Centre to allow workers in the construction industry to receive digital salaries on Merchantrade Money⁸. In this way, unbanked individuals can access financial services. Such initiatives contribute to solving social challenges linked to the wellbeing of migrant populations.

An additional issue to consider when analysing financial inclusion is the **gender gap** in the access to financial services, with women typically facing more barriers to acquire those services. Fintech can undoubtedly have a role in bridging the gender gap in financial inclusion. The use of mobile phones is now widespread, which allows women in the most remote areas to access fintech services. The distance to a physical financial institution is a problem for many women, and the possibility of using mobile money saves them both time and the cost of transportation. In fact, remittances can empower women by removing them from poverty and thus allowing them to access markets. A study by the Massachusetts Institute of Technology in 2016⁹ found that the mobile money service, M-Pesa, helped about 185,000 women to shift away from subsistence agriculture towards business occupations.

These effects are positive not only for financial inclusion, but also for the empowerment of women in the community.



Source: Merchantrade Asia

Another key focus of RSPs in recent years has been to broaden the **geographical coverage** of their services by increasing the number of corridors they cover, as well as the number of agents and players involved, in order to make their services available to customers on both the sending and receiving sides. In this way, regions that were formerly largely financially excluded can gain access to financial services. This is often done through digital partnerships, which allow better access and also contribute to a **reduction in prices** of remittances. In fact, RSPs are currently working to reach the aim established by the SDGs of reducing transaction costs to 3%. For most corridors throughout the globe, this goal is far from being achieved.

Despite the clear progress towards financial inclusion made in recent years, a number of **challenges persist**: financial education still needs to be made generally available in most countries, since it is a requirement for people to be truly included in the financial system. Moreover, digital financial inclusion requires digital literacy which, although increasing, is not yet universal. It is important that policy-makers continue working to increase awareness and knowledge of financial and digital tools, through initiatives such as the World Bank's Project Greenback 2.0 which is aimed at increasing financial literacy for migrant workers in a variety of cities¹⁰.

RSPs themselves also contribute to financial education. Mukuru, one of the largest remittance companies in Africa sees financial education as a key CSI (Continual Service Improvement) outreach focus. They contribute directly to school programmes and sponsorship of learners. Mukuru also takes financial literacy very seriously as it is their aim to educate their customers on the do's and don'ts in the financial journey. According to Mukuru, the best way to educate people to adopt digital remittances is through a series of steps based on **building trust**. Once clients start trusting the company's physical presence, their employees and services, they are more inclined to use the mobile money services. In other words, digitalisation is sometimes a slow process which goes hand in hand with the physical offering of a company.

An additional requirement for full access to digital financial services online is that regulators allow online onboarding of clients and **e-KYC** (know-your-client), which has been implemented in some countries, but remains illegal in many others to this day. Therefore, the work of RSPs, together with the efforts of regulators to allow innovation and digitalisation through the implementation of new policies, are key to promote financial inclusion.



2. AN ADDITIONAL SOURCE OF SUPPORT FOR PEOPLE



AN ADDITIONAL SOURCE OF SUPPORT FOR PEOPLE

While the public sector, in particular governments, is usually seen as the primary responsible entity to guarantee the welfare of individuals, it is clear that the private sector can also have a role in protecting people. In particular, migrants are a fragile part of the population, and governments might lack the resources and incentives to provide them with the support they need.

For this reason, parallel to public sector initiatives, a great number of schemes have been launched by RSPs to provide much needed services to their main clients, namely migrants.

A coordinated response against COVID-19

The COVID-19 crisis has challenged migrants in particular, as many of them lost their jobs or had to deal with health issues caused by the virus. RSPs have contributed to the first response to overcome this unexpected challenge. Despite the many complications, they guaranteed access to their remittance services, at a time when people needed those services more than ever. They also took initiatives to help their customers in different ways.

For example, M-Pesa allowed disbursements from the state and non-governmental organisations to be made through its platform. The company has worked with central banks in most of the markets it covers, and implemented zero-rated fees in countries such as Ghana, the Democratic Republic of Congo and Kenya for several months since the COVID-19 pandemic hit, thus reducing the economic burden of sending money in difficult times.

Mukuru has also responded to the crisis by an intense programme of innovation in order to use its capabilities, infrastructures and partners to provide solutions needed by its clients. For example, Mukuru Groceries was launched in Zimbabwe: the service allows migrants who work in South Africa, Malawi, Zambia, Zimbabwe or Botswana to send grocery packs to their families through Mukuru. This resource was key during the lockdown measures, at a time when access to food was limited in some places and prices were fluctuating. Mukuru is always innovating and looking for new ways to generate value for its customers.



The development of insurance policies

A number of RSPs are providing insurance policies for their customers. For instance, Merchantrade partnered with AXA, the multinational insurance company, to launch microinsurance in 2018, offering highly affordable insurance services for migrants. In Malaysia, the large proportion of migrant workers in the construction industry face a high risk of having an accident at work, in which case they could not continue working and would lose their source of income. Other risks include sickness and mosquito diseases, which are relatively common in the region. The insurance policy covers the client in all these cases. The company later introduced life insurance in collaboration with MCIS, a Malaysian life insurance company and member of the Sanlam Group, which provides a payout to the insured's family in the country of origin in the case of the insured's death. This insurance payout gives the families of migrant workers, who are predominantly the sole breadwinners, the support they need to start a new life. (For example, the wife of a migrant insured by this programme used the payout of RM8,000 to buy a sewing machine and start her own business.) This prevents the family from falling into poverty if remittances stop flowing. The strength of this programme is its simplicity and its affordability: the monthly premium cost is as low as RM1 for a payout to the family of up to RM20,000 (the payout can even be doubled in case of certain specified illnesses) if the insured passes away.

Merchantrade has also developed medical plans for refugees to support them financially in case of hospitalisation, as medical services can be very expensive for migrants.

These products are fairly inexpensive, and it should be emphasised that they were not developed by the companies with a profit-driven mindset, but rather as an act aimed at creating positive social impact by filling a gap in the insurance market for migrants. As no other company in the Malaysian remittance market is providing similar products, Merchantrade hopes that this service will contribute to incentivising clients to stay loyal to the company.





Support in the financing of everyday essentials

M-Pesa is also supporting its customers by working to provide some everyday essentials such as water and electricity. Many households in the regions covered by M-Pesa do not have complete access to electricity. To overcome this limitation, M-Pesa has partnered with numerous providers such as M-Kopa Solar, the pay-as-you-go provider of solar home systems. Together, they make financing of solar panels possible for households which usually could not afford such services. These solar panels are IoT (Internet of things) connected, and allow households and small businesses to gain access to electricity. The contribution of M-Pesa allows users to pay only a very small amount of the price of the panel upfront, and to settle the rest on a pay-as-you-go basis after the installation of the system, through their mobile money accounts. This kind of service permits the tailoring of financial solutions to the incomes and needs of people. At present, over 500,000 households are already connected to such solar systems in East Africa. The enhanced access to energy allows, for example, children to do homework and adults to run their businesses, and therefore has positive outcomes in terms of education, income and health.

M-Pesa has also partnered with the Danish pump manufacturing company, Grundfos, to install community water pumps in regions of Kenya and Tanzania where access to clean water is scarce. These pumps are also IoT connected and transmit real-time data to the company, allowing fast signalling and repair in case of malfunction. The customers pay digitally on the M-Pesa platform for the water they collect, which makes the system resilient thanks to an efficient financing operation. In this way, communities equipped with these systems gain access to a long-term solution for accessing water.

CONCLUSION

Overall, it is very interesting to see how RSPs reconcile their two aims, namely creating value for customers and making a profit. The many services they provide often require large investments and are therefore costly. Most RSPs are using the resources they have available to support their clients. The activities of RSPs will not only increase financial inclusion, but will also make the lives of many people worldwide easier and better, as the money from remittances is often dedicated to livelihood activities such as health expenses and school fees for children. The creativeness of these companies has allowed quick and efficient responses to many different kinds of challenges faced by people. Step by step, RSPs are progressing through the inclusion of more and more individuals, improving millions of lives.

The evolution of the remittance industry will have a major impact on international development, and is therefore extremely interesting to follow.



Thank you to IAMTN's partners for their cooperation on this report.



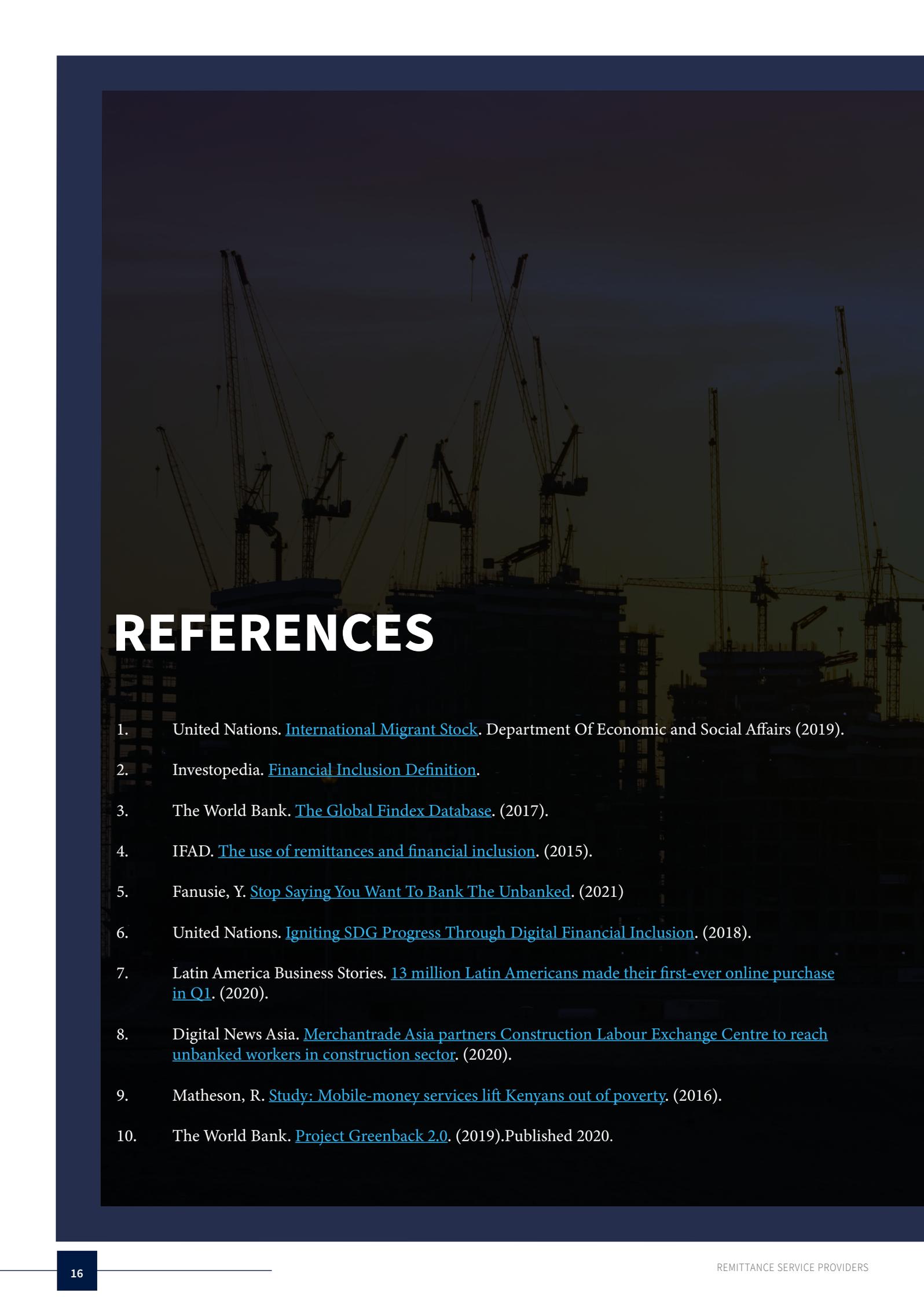
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