INTERNATIONAL REMITTANCES AND FINANCIAL INCLUSION: ROLE OF BANKS[1]

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1. Abstract

This paper examines the nature and causes of financial exclusion in the remittance industry and the role that banks can play to facilitate financial inclusion. Remittance services are considered to be an area of public policy (considering the potential contribution to the welfare of recipients, their families and their society). Though the market is served by different categories of remittance service providers (RSPs), banks can play a prominent role as RSPs to make the remittance market contestable, transparent, accessible, competitive and reliable. The role of banks is explained in the light of 'General Principles for International Remittance Services' drawn and issued by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) and the World Bank (WB) in 2007. The paper also examines the opportunities available and the challenges that banks have to face in developing the remittance market and in facilitating financial inclusion.

An 'International remittance transfer' refers to the portion of the earnings that an international migrant worker earns in the country of employment, and sends back to another individual, often a family member who remains in the home country. Therefore, they are cross border person to person payments of relatively low value. The majority of recipients largely depend on remittances to meet day to day living expenses, emergency needs, housing, education of children, healthcare, investments in small businesses, repayment of debt etc. Accordingly, remittances play an important role in improving the standard of living of recipients.

Though the value of individual remittance transfers is small, the total value of global remittances is substantially high due to the large number of remitters and the frequency with which they send remittances. It is difficult to estimate the exact total value of remittance flows due to transfers taking place through informal channels and hence remaining unrecorded. According to the World Bank Global Economic Prospects Report, 2006, the total value of official global international remittances sent by about 175 million migrant workers exceeded US Dollars 232 billion in 2005. Remittance flows tend to be more stable than capital flows and appear to be counter-cyclical as they tend to increase when the migrants' home countries experience economic

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[1] The views presented in this paper are those of the author and should not be interpreted as necessarily indicating the views of the Central Bank of Sri Lanka.

downturns, natural disasters or similar events. In many developing countries, foreign remittances are a major source of external financing. In some countries more than a third of GDP comes from foreign remittances. In the case of Sri Lanka, the total value of worker remittances amounted to US Dollars 2.3 billion in 2006, which is 8.6 per cent of GDP. The foreign remittances were sufficient to cover about 70 per cent of the trade deficit.

Any person or institution providing remittance services as a business is known as a remittance service provider (RSP). The sender, the recipient and the remittance service provider (RSP) constitute the nexus in a remittance transfer. Generally two RSPs are involved in a remittance transfer. The RSP operating in the sending country is called the 'capturing RSP', while the other RSP in the receiving country is called the 'disbursing RSP'. Both RSPs work jointly to provide the service, with or without own offices/branches/agents. The RSPs are networked to send and receive remittances. Each has physical or virtual access points in the remittance delivery chain.

A typical remittance transaction takes place in three steps. In step 1, the sender/remitter pays the remittance to the capturing RSP using cash, cheque, money order, debit card or a debit instruction. The channel of instructions could be sent by e-mail, phone or through the Internet, providing the essential information to the capturing RSP, enabling it to forward the same along with the funds to the recipient. The funds transfer relating to a remittance too involves a messaging arrangement to channel information from the capturing RSP to the disbursing RSP and a settlement arrangement for the fund movement. These arrangements vary between different types of remittance services, but will always have common features, i.e., a network and a procedure to interact with access points to capture and disburse funds, depending on the way the network of access points is created and linked. In step 2, the capturing RSP instructs the delivering RSP to deliver the remittance. In step 3, the delivering RSP makes the payment to the recipient. In most cases settlement between RSPs takes place periodically following a mutually agreed schedule, through a bank that participates in the national clearing and settlement system. Most of the banks that act as RSPs provide settlement or other payment services.

There are formal and informal RSPs. The formal RSPs include a few major money transfer operators, banks and a large number of smaller RSPs that cater to niche markets in specific geographic remittance corridors. The informal RSPs constitute of informal fund transfer agents, unregistered money transfer operators such as *hawala* or *hundi* dealers, trading companies and friends (through hand delivery). Typically, informal channels are inexpensive. The hand delivery system is often slow and has risk of loss or theft.

The money transfer operators account for the largest share of the remittance market mainly due their fast, reliable and convenient service (with presence in immigrant communities and convenient locations, opened in evenings and during weekends, providing other services such as cheque encashing and money orders, extensive distribution networks in receiving countries and thus providing easy access). These money transfer operators tend to charge higher prices than other RSPs.

The cost of remittance includes a fee charged by the capturing RSP, generally paid by the remitter (when initiating the transaction) and a currency conversion fee for delivery of local currency to the recipient in the home country. Some RSPs require the recipient to pay a fee at the delivery point to cover any unexpected exchange rate movements. Currency conversion charges are less transparent when compared to fees and depend on competitors, corridors and the channels of remittance. Industry cost estimates show that the cost of providing remittance services varies also with the business model used by the RSP, country of origination, country of disbursement and the speed at which funds are available to the recipient. Typically, the cost consists of expenses on the channel and network involved in transaction processing, franchise licensing, compliance with regulatory requirements, marketing and administration (staff cost, security and rental of premises).

Remittances are attracted not only by lower prices, but also by safety. Since banks are regulated, they offer safer methods to send money. However, there are drawbacks in banks' remittance programmes, too. First, most programmes are available only to customers who have bank accounts. This requirement poses a barrier for immigrants who are reluctant to open bank accounts for reasons such as unfamiliarity, distrust of banks, the cost of maintaining an account, or identification restrictions. Second, banks tend to have limited business hours, a limited presence in immigrant communities, and less institutional commitment to meet language and cultural needs. Third, banks have relatively weaker distribution networks in receiving countries and longer processing times than money transfer operators.

According to the network type, remittance services could be categorized into 'unilateral', 'franchised', 'negotiated' and 'open'. It is important to understand these categories to analyze issues, which act as barriers for financial inclusion.

1.1 Unilateral Services

A unilateral service is a remittance service provided by a single RSP, which acts as capturing as well as disbursing agent. In order to provide unilateral service, the RSP should have physical access points in both sending and receiving countries or virtual access points to operate in both countries (to capture, message, settle and disburse). Unilateral services are provided by global banks, credit unions or other financial institutions that have established branches in countries where the migrants are concentrated. However, efficient unilateral service providers are scarce due to factors such as non availability/uneven distribution of physical access points or remitters' inability to access electronic banking, in particular and banking in general. But unilateral services have a potential to grow.

1.2 Franchised Services

A franchised service is a remittance service extended by a central provider of infrastructure for messaging and settlement of funds without necessarily having any of the physical access points. Such a RSP obtains the required access points from other institutions who wish to act as franchisees on standard and contractual terms. Global money transfer operators such as Western Union, provide franchised services. The partially franchised RSPs make available their infrastructure to other RSPs.

1.3 Negotiated Services

The RSPs which provide negotiated services, have a network of access points by negotiating with a limited number of institutions in other countries. Negotiated services are provided by banks (which have established bilateral arrangements) or credit unions or *hawala* services provided by individuals. Under the negotiated service, the proprietary product is negotiated between non-competing organizations. In most of the negotiated services, often the messaging and disbursement of funds take place before the settlement, on the expectation that the capturing RSP will settle them in the future. This kind of remittance services charge higher fees when compared with those of other formal RSPs.

1.4 Open Services

The 'open service' provides a remittance service to its customers in the sending country and uses an open network in the receiving country (any RSP can have access) to make fund transfers to the recipients. The message and the transfer of funds take place simultaneously.

2. Informal Remittance Services

An array of informal modes of international remittances exists. It is very difficult to estimate the remittances that take place through these informal channels. According to the World Bank Global Economic Prospects Report 2006, the total value of remittances transferred trough unofficial or unrecorded channels is believed to be high as about 50 per cent of the official statistics recorded in the balance of payments.

The widespread use of non bank RSPs and informal remittance channels is mainly due to numerous factors, including: problems with access, conditions, prices, marketing strategy of remittance services provided by banks, and self exclusion.

Access exclusion: Remitters are more likely to have limited financial access due to their immigrant status. Banks often favour relatively well to do beneficiaries/recipients. On the other hand, the standards that are applied have made it somewhat difficult for remitters and recipients to access banks' remittance services.

Condition exclusion: Where the conditions attached to remittance products have made them unsuitable to meet the demand of some people.

Price exclusion: Where some remitters and recipients cannot obtain remittance service at the prices quoted by banks. According to the World Bank Global Economic Prospects Report 2006, in the case of smaller remittances, particularly remittances below US Dollars 200, remittance fees are often high and may be around 10-15 per cent of the principal.

Marketing exclusion: Where relatively low value remittances are effectively excluded by targeted marketing and sales.

Self exclusion: Where people themselves decide not to obtain formal remittance services from banks due to numerous reasons, including negative experiences and perception, low level of financial literacy, language barriers, and to avoid commission, fees of banks, official exchange rates, government regulation and immigration status.

These exclusions often act as barriers, particularly to low income remitters, to enter into the mainstream of banking services to get the banking services in an appropriate form at an affordable cost. People who resort to obtaining remittance services outside the main financial stream may get an immediate benefit, but may find it difficult to manage their financial assets efficiently and take informed saving and investment decisions. The consequences of such exclusion are expensive to the poor/disadvantaged remitters as well as recipients and can generally exacerbate other kinds of financial social exclusion. Since banking services are in the nature of public goods, all-out efforts are required to ensure financial inclusion of remitters and recipients, without any discrimination.

The inclusion of the remitters and beneficiaries in the financial system is only a starting point of a broader client relation to integrate them in the development process of the society and the country. In order to understand the challenges faced by banks in this regard, it is important to understand the market for remittances and the role that banks can play in improving its efficiency.

Recognizing the importance of remittances to improve access to finance (or the lack thereof) for migrants, their beneficiaries and communities in their home countries, and finally the economic growth, and the difficulties that can be associated with them. G8 countries, regulatory bodies, international standard setters of payment and settlements, national governments and financial institutions have shown a special interest in recent years to make remittance services safer and more efficient.

One of such actions taken by the international community is the move of the Bank for International Settlements' Committee for Payment and Settlement Systems (CPSS) and the World Bank (WB) to convene a task force in 2004 to develop principles for international remittance services, in order to promote a sound, efficient and competitive market in remittance services. This task force consisted of payment system experts from the BIS, the World Bank, Central Banks of both remittances sending and receiving countries and from financial institutions. The 'General Principles for International Remittance Services'[2] (Box 1) prepared by the task force for CPSS and the WB, provide a guidance for RSPs and public authorities who intend to improve the market for remittance transfers.

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[2] General Principles for International Remittance Services, Committee on Payment and Settlement System, The World Bank, January 2007. p.4

3. General Principles for International Remittance Services

Remittances are considered to be an area of public concern, since they play an important role in maintaining and improving the standard of living of recipients living in developing countries. The 'General Principles for International Remittance Services' have been designed with the public policy objective: *Remittance services should be safe and efficient*. In order to achieve this public policy objective, the markets for the remittance services should be contestable, transparent, accessible and sound. Such market should give remitters and receivers:

- clear information about the price and other features of the remittance services (the remittance industry should be transparent);
- easy access to remittance services (the remittance industry should be accessible); and
- reasonable protection from operational failures and criminal abuse (the remittance industry should be sound and safe).

To address the major issues, particularly the high cost of remittances, competition needs to be enhanced. Since markets for remittances are not always functioning optimally, competition needs to be on the basis of a level playing field with a sound legal framework and increased awareness. International remittance services are a part of the national payment systems. Accordingly, development of payment system infrastructure is important to achieve the public policy objectives for international remittance services.

Having considered these factors, 'General Principles for International Remittance Services' addresses five key areas in the market for remittance services to achieve the public policy objectives:

- transparency and consumer protection;
- payment system infrastructure;
- legal and regulatory environment;
- market structure and competition; and
- governance and risk management.

4. Transparency and Consumer Protection

General Principle 1. The market for remittance service should be transparent and have adequate consumer protection.

The market for remittances is not always very transparent. As in any other market, for an individual to make an informed decision on selecting a remittance service, full information (transparency) on the price and service features is required in advance. It is useful to have full information, including the total price (fee charged to remitter and recipient, foreign exchange rates including margins applied, any taxes and other hidden charges), the time that it will take the funds to reach the recipient, and the location of the RSP's access points in sending as well receiving countries. Principle 1 calls the RSPs to provide information relating to their own remittance services in an easily accessible and understandable manner and the public authorities to provide comparative price information and background knowledge to senders/recipients. Full transparency would mean that RSPs disclose the information without imposing any requirements on the recipient such as opening an account or committing themselves to using the remittance service. Educational campaigns to educate users are important, since many migrants in developed foreign countries may experience difficulties in accessing the main financial stream, due to their inability to understand foreign languages, provide adequate evidence to prove their identity to open a bank account, or lack of time and financial literacy to compare costs and benefits of different payment services.

In addition, both remitters and recipients should have adequate rights and appropriate protection as consumers of remittance services.

5. Payment System Infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

The efficiency and safety of remittance services depend largely on the adequacy of the financial system infrastructure, particularly the payment system infrastructure needed to effect a fund transfer at the desired speed with minimal risk. If the domestic financial system and retail payment systems are underdeveloped and do not support inter-operability, transferring of funds to access points may become slow and unreliable. If the payment service is highly concentrated in urban locations, the majority of recipients who live in rural areas would not be benefited. On the other hand, underdeveloped payment infrastructure makes it much more difficult for potential RSPs to find suitable partners in the receiving countries. Further, correspondent banking, which is widely used to make remittance services, is much costlier for transfers of small value remittance payments. The RSPs could often make better use of the payment infrastructure if there were greater standardization of payment instruments, more automation of their processing and increased inter-operability of the associated networks.

Though the improving of remittance payment infrastructure is a huge task, it will help to improve access to finance, including remittances.

6. Legal and Regulatory Environment

General Principle 3. Remittance services should be supported by a sound, predictable, non discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Like any other financial service, remittance services are likely to grow best under the appropriate laws, regulations and well founded legal base. Remittances are generally regulated to ensure safety and to prevent of their misuse for purposes such as money laundering or terrorist financing. There is a need to have regulation which is proportionate to tackle specific issues and create a level playing field between equivalent remittance services.

7. Market Structure and Competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

Greater competition has a potential to bring down cost and increase efficiency of remittance services. Competitive markets can help limit monopolistic practices. Competition can be assured by discouraging RSPs from imposing exclusivity condition(s) on agents (whereby an RSP requires its agents or other RSPs to offer its remittance service subject to a condition that they do not offer any other remittance service). In addition, the regulatory regime should also not lead to market distortions and result in any unnecessary cost, thus causing imperfect competition. The RSPs need to use the domestic payment and settlement system (PSS) infrastructure to provide remittance services. Therefore, it is important that the PSS is available to RSPs on a fair and competitive basis, to promote competition.

8. Governance and Risk Management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Whether the RSPs are big or small they are vulnerable to financial, legal, operational, fraud and reputational risks. Remittances may pose a money laundering or terrorist financing risk because they allow for quick transfer of funds across borders. Therefore, the adoption of proper governance and risk management practices that are appropriate for the size and type of the remittance business of RSPs is important to protect themselves and recipients in order to ensure the safety and soundness of remittance services, and the credibility of the remittance industry.

9. Implementation of General Principles

Since the importance of remittances varies from country to country, these General Principles could be applied considering the specific needs of each country. But effective implementation of the General Principles requires cooperation of the sending and receiving countries of remittances. If a country decides to implement the General Principles, RSPs as well as the authorities have to play a role. The General Principles do not distinguish differences between formal and informal RSPs. Though these informal modes of remittance transfers fulfill the immediate requirements of remitters and recipients, they do not provide for underprivileged remitters or recipients to enter into the basic banking services. Where the remittance services are provided by the banks, they have a potential to expand access to finance to both remitters and recipients. The provision of remittance services gives an opportunity for banks to reach un-banked/under banked recipients, increase the levels of financial literacy and participation of these individuals in banking services (to save, invest and borrow). On the other hand, the entering into remittance industry and actively participating in developing the remittance market will help to increase competition. Such increased competition will help to increase transparency and reduce fees and charges, with obvious and immediate benefits to recipients. The Inter American Development Bank (IADB) has taken steps to increase competition among RSPs to reduce the average cost of a remittance transaction by about 50 per cent, resulting in an increase of the share of funds available to the recipient. Banks can bring additional advantages over and above those of other formal and informal RSPs.

10. Opportunities for Banks

The migration of people across international borders will continue as long as the developing countries are not in a position to offer a sufficient number of well paid jobs meeting the demand. Accordingly, remittance payments will continue to grow. Currently, the majority of remittance payments take place outside the banking system. These un-banked remittances generally take place through a framework of money transfer operators, agents, local post offices or shops that disburse funds generally in cash to the recipients. Undoubtedly these non - bank RSPs provide immediate cash, the prime need of the recipients. But this mode of remittance disbursement has several concerns, mainly whether the recipients, particularly in developing countries, receive the full potential benefits. Where remittance transfers are accompanied by banking services, such remittances tend to increase the familiarity that recipients have with banks, the level of financial literacy and, in turn the likelihood that these recipients will become loyal customers of the banks and willingly open accounts, save and invest. Such access to finance will help to improve the economic maturity and financial independence of recipients in developing countries. Therefore, the role of the banks in the remittance market is to attract this sizable untapped pool of customers towards the banking sector and tap the full potential in the remittance business, providing greater benefits to the wider community.

Since more than half of the total remittances seems to be routed through informal channels, vast opportunities exist for banks to enter into the market. Increasing the inclusion of such remitters in the banks' remittance channels would be beneficial for banks as well as remitters/ recipients. Since most of the remitters are young and their incomes are growing, remitters likely to create a higher demand for loans and other products. Such a move will also help banks to obtain a steady and substantial fee income as any economic downturn in either sending country or receiving country generally would not affect the remittance business.

11. Challenges for Banks

A vast majority of remitters rely on informal or formal non bank RSPs to send their remittances, because non-bank RSPs have a widespread network to deliver remittance in cash, conveniently and speedily to remote locations in home countries where access to banks may be limited. Therefore, obtaining the services of a non-bank RSP is not considered as a poor choice in all circumstances. But the quality of service varies widely among non-bank RSPs, and remitters who transact with less scrupulous RSPs may incur a significant financial cost. Generally, non-bank RSPs' fees tend to be high in absolute terms. The impact of high fees can be huge, vis-a-vis the small value remittances, often sent by immigrants who earn lower wages. Since remitters are unable to send large value remittances and the transaction cost is high, the final outcome is that less money is received by the recipient. This raises a number of issues - first, the high fees charged at the point of origination; second, that charges are less clear or transparent. Both issues could be addressed by greater competition. There is significant scope for banks to reduce both costs and fees on remittances, particularly small remittances without a significant investment. In recent years, with the increased competition and the automation of the remittance processing systems, fees have declined, particularly in the high volume remittance corridors. A number of banks in source countries of remittances have announced aggressive price reductions in recent years and even geared to provide free remittance services to attract migrants. Reducing remittance costs and improving access to the financial system for migrants and recipients of remittances would be an alternative way to compete with non-bank RSPs that provide expensive modes of remittances with the advantages such as speed and convenience.

Although a larger proportion of remittances is used to meet basic needs, recipients are in a position to save some money. Banks can create a channel for such savings by offering special housing, business or savings accounts for immigrants in their country of origin to facilitate payment for mortgage loans, starting businesses and saving for the future education of children.

A large number of remitters as well as recipients remain unbanked mainly due to social or cultural distrust of banks. But using non-bank RSPs for remittances, migrants incur a high cost and also forego the opportunity to enjoy the wider benefits that come from an established relationship with banks (for example, non-bank RSPs cannot accept deposits or extend loans). Banks are aware of the potential financial return in the remittance industry, but delivery of banking services goes beyond facilitating remittances and addressing a barrier such as distrust is a real challenge to banks. First, it requires that remitters and beneficiaries be respected and their needs understood. Second, banks have to offer the right mix of innovative financial products tailored to their needs, with awareness programmes, effective outreach programmes and a strong commitment to serve this segment of remitters. With the regular remittance flows into recipient bank accounts, they will be able to accumulate savings, accessing other banking services such as loans and establishing a credit history.

The majority of unbanked recipients prefer cash transfers which require a physical presence at both access points (i.e. originating country and receiving country). All international banks do not operate or have branches at both destinations relevant to a remittance. Domestic banks too may not be in a position to provide efficient cash remittances in all countries, due to the cost involved in maintaining correspondent accounts. The majority of recipients of remittances live in rural areas. They are often underserved by banks and have to pay a high cost, particularly to obtain the services of formal RSPs. Global money transfer operators, informal RSPs and *hawala* operators, have established networks of agents worldwide to support fund transfers in the form of cash relatively easily. Therefore, one of the biggest challenges for banks that wish to establish a remittance business is covering both origination point and disbursement points. The success of banks in providing remittance services depends on their ability to meet the preference of remitters and recipients for cash and deliver service as close as possible to the domicile of the remitter as well as the recipient. A simple bilateral partnership is not adequate to offer an alternative mode to remittance using informal RSPs. To provide such a service, a more integrated network, which supports a variety of payment methods that are popular in both destination countries, is required.

To address this problem, a number of major international banks have geared to provide 'targeted' remittance services to meet the needs of migrants. The formal RSPs offer 'targeted' remittance programmes such as bank to bank partnerships, ATMs, or money transfer networks. Some banks have established bank partnership remittance programmes by establishing a relationship with one or more foreign banks. Fund transfers relating to remittances take place directly between accounts at the partnering banks. Remitters pay a flat fee and receivers get the remittance within 24 hours. These kinds of programmes require the remitter and the recipient to have bank accounts. This requirement has helped banks to bring the un-banked remitters and recipients into the banking stream and offer them an access to banking products. However, the account requirement has acted as a limiting factor for some remitters as well as recipients. In order to minimize such barriers, banks have to strategically select their partnering banks. These kinds of 'targeted' programmes carry a little risk to parties to the transaction. Based on strong cultural and historic ties, a number of remittance 'corridors' exist between countries of employment and countries of origin of remitters (examples: France to Morocco, Saudi Arabia to Pakistan, England to India and USA to Mexico). Though these partnerships have increased competition and reduced prices in specific ethnic groups, they are not sufficient to compete with global non-bank RSPs. More effective and integrated networks are required to supply consistently high quality worldwide services. Banks and financial institutions have established links with foreign financial service providers who control a large network of ATMs in remittance receiving countries to establish the required widespread distribution network. Under an ATM remittance programme, a remitter creates a dedicated remittance account at a bank in the country of employment that can be accessed by two ATM cards- one is used by the remitter and one is used by the recipient in the home country. Remittance services that use ATMs have a number of benefits. First, once the remitter deposits money into the account, the recipient can withdraw immediately. Second, ATM programmes provide greater convenience and flexibility with 24 hour availability. Some of the disadvantages of this programme are: the limited availability of ATMs in certain areas, maximum value limits for ATM withdrawals, and card abuse. Some banks and financial institutions use existing money transfer networks to provide remittance services at a relatively lower price.

Though the potential benefits of entering into remittance services are huge for banks, financial institutions and their customers, remittance services are not always an ideal business for every bank or financial institution. The challenge to the banks is not to replace the non bank RSPs, but to provide competitive remittance service. Banks have to overcome a number of challenges to develop banking based remittance services. The banks' task is extensive. Therefore, before establishing a remittance service, banks should identify a very precise niche in the market, assess the financial feasibility of the proposed program and their institutions' capacity and the ability to manage numerous risks.

Operating a remittance programme involves a cost:

- Customer service costs at sending and receiving ends;
- Cost involved in electronic transfer of money;
- Capital requirement to back each remittance disbursement; and
- Cost associated with maintaining a distribution network in the disbursement country.

The cost of operating a remittance programme varies from bank to bank. Though the cost of operating a remittance programme is relatively modest, banks contemplating a programme must first identify the remitting behaviours of specific immigrant groups to evaluate the volume of remittances originating in the potential market and the concentration of remittances in particular destination and niche groups unique to the region, to make the remittance programme viable. Once the viability of the market has been identified, a distribution network could be established in the receiving country to provide a fast and reliable service to the area where a majority of recipients live.

Once the essential elements of a remittance programme have been established, the success of the programme depends on the ability of the bank to build the required capacity. First, banks need to ensure that their disbursement networks match the remitters/recipient client bases. Second, banks require to have capacity for: setting up high tech infrastructure that can process large volumes of remittances; managing distribution networks; establishing data warehousing facilities; straight through processing; various payment means in different countries of destination; a mechanism to monitor transactions; and after remittance services. If banks can provide multiple customer interfaces that permits users to access remittance services through means such as ATMs, the Internet, cards or phone at their convenience, will help banks to compete with the global non-bank RSPs. Third, staff must have skills, including language skills to communicate with immigrant remitters and give a 'personal touch' to the service. Fourth, banks' officials must learn the customs and traditions of the targeted remitters to address their issues such as inherent distrust of banks or negative perception of certain bank products. To address the issue, banks may partner with religious, social and civil institutions to improve their knowledge of specific needs of the community, establish a rapport and trust with the community or society. Fifth, banks have to build the capacity of their customers by training them to acquaint themselves with the banking mainstream, provide them with knowledge to make informed decisions about managing their family budget and to help them to build their wealth. Such a process will help remitters to use bank products and services when their income grows. As surveys have found a gap between banks and remitters/beneficiaries, banks have to identify media outlets and conduct an effective marketing campaign to reach the target group. Further, as the success of remittance programmes lies with effective marketing, banks may take other measures such as sponsoring community activities and partnering with immigrant organizations to build awareness, recognition and goodwill for the banks and to popularize remittance programmes and banking products.

Banks have to compete with other non bank formal and informal RSPs to establish remittance business. Banks have to deal particularly with the following areas, which have helped non-bank

RSPs to provide a convenient service and attract remitters:

- Majority of non-bank remitters and recipients prefer cash dealings;
- Convenience attached to longer operating hours of non-bank RSPs;
- Non-bank RSPs do not have requirements to open an account; pay a fee, or maintain a minimum balance; and
- Non-bank RSPs do not focus strongly on proper identification and legal status of the remitter/recipient.

Another challenge that banks have to overcome is that of regulatory compliance. A breach of regulatory compliance affects the reputation of the bank. Regulatory requirements are now not considered a barrier as most banks already have the compliance systems to meet regulatory requirements relating to customer identification, verification, money laundering and terrorist financing.

Banks may face several risks that may emanate with remittance programmes. First, remitters may use remittance programmes for money laundering, terrorist financing and illegal activities. To make sure that the remittance channels are not abused by criminals or terrorists, RSPs have to adhere to regulations to curb money laundering and terrorist financing. Banks have a role to play in making formal channels more efficient and attractive for users so that legitimate remittances need not flow outside the formal RSPs. Second, banks also have to take extra care to deliver the promises announced in their marketing programmes and have security to protect their networks and systems as they have to deal with personal and financial details of remittances. The building of such confidence has the potential to enhance a bank's brand name of the remittance business and build up a loyal customer base. Third, banks have to establish contingency and exit plans to address risks that could emanate from political, economic and social instability in the disbursement country. Fourth, remittance programmes carried out with third party service providers, such as money transfer operators have a potential to introduce risks. Therefore, banks who have such remittance programmes must have a system to monitor the transactions of such third party service providers. Fifth, banks should have a strategy to handle any potential losses that could be created by a failure of a remittance programme.

Banks are not intended to simply follow the business model of other RSPs. While the other RSPs focus on speed and convenience, banks can offer an alternative, efficient mode to provide a more secure service at a lower cost, together with other banking products.

12. Conclusion

International remittances are expected to grow in both absolute and relative terms. Non-bank RSPs are very active in providing remittance services and banks have a relatively smaller market share. The profits that are enjoyed by a few non bank RSPs are expected to decline continuously in the long run amidst competition from new entrants.

On the origination side of the remittances, migrant workers are becoming more financially aware, more technically competent in using electronic payment means and more closely integrated into society. That being the case, close proximity and community ties that have characterized the remittance services of non bank RSPs no longer have the same attraction that they once had. In the light of these developments, banks are in a position to offer remittance services with speed and convenience, in parallel to services of non-bank RSPs. In addition banks can offer services with greater security, at a lower cost. Further, banks can leverage on electronic payment systems as a means to transfer funds in cash. To that end the role of banks is clear:

- Create competition in the remittance market. The greater involvement of banks in the remittance business is not to replace in its entirety the services of non-bank RSPs of whatever size and type; and

- Banks are not expected to simply follow the practices of non bank RSPs and charge typically high fees, commissions and excessive margins to cover exchange rate movements. The role of banks should be to compete with non-bank RSPs with more price transparency. Banks who participate in payment and settlement systems can play a major role in increasing efficiency of the remittance market by facilitating safe and convenient fund transfers at a reasonable cost. There is also an opportunity for banks to leverage migrants' remittance services into a broader banking relationship, and that will be profitable for banks, immigrants and their beneficiaries. If the market becomes more competitive, it is inevitable that prices will fall and the community will benefit.

Accordingly, in the long term, banks and other financial institutions will gain from the new customer base generated by the remittance programmes. This trend is already observed in the remittance industry. Therefore, remittance programmes could be viewed as an advantageous proposition for most retail banks to facilitate financial inclusion of international remitters and recipients, the under-served or untapped customer base. Considering the potential benefits, banks have to adopt right strategies to attract and retain these new customers.

Box 1
The General Principles and Related Roles

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

Roles of remittance service providers and public authorities

A. *Role of remittance service providers.* Remittance service providers should participate actively in the implementation of the General Principles.

B. *Role of public authorities.* Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

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