

Eurogiro News | Special Issue

March 2009



Postal Organisations Expand Financial Services to Capture High-Growth Global Remittances

Juanita Woodward, Director, Customer Relations, Asia Pacific, Eurogiro A/S, Singapore Representative Office

The practice of overseas migrant workers sending money home has become big business. As a single transaction, a USD200 remittance from Japan Post Bank to Philippine Post is not significant in the world of international payments. However, the socio-economic impact of this single transaction, not to mention the global sum of such transactions is very significant, and amounting to double-digit growth of remittances in the payments industry.

Money transfer companies, banks of all shapes and sizes, credit card companies as well as postal organisations are refocusing their strategies to understand and capture this growing market.

For many organisations, remittances are also shaping a strategy to develop new relationships with unbanked and under-banked migrant workers and their families. Many refer to this group as the "bottom of the pyramid", as they commonly represent the poorest socio-economic market segment in the modern world. At an estimated four billion people¹ worldwide, these workers represent a large untapped market for financial services.

Postal organisations are emerging with a role in the remittances business. Known for their quality and reliability of mail delivery, many are now investing in financial services platforms and attaching the same level of service to remittances. And Eurogiro, with its postal roots and established global payments network, is playing a pivotal role in connecting the postal and banking worlds with

new business relationships in the high-growth remittance sector.

Remittances Grow Along With Migrant Workers

In 2007, it was estimated that more than 220 million people lived and worked outside their home countries. Known as migrant workers, they typically send home payments of a small size – USD100, USD200 or USD300 – at a time.² On an annual basis, migrants send over USD300bn through formal remittance service channels, and the independent Aite Group research organisation predicts that flows will reach USD456bn by 2010.³ For developing countries, remittance flows were USD251bn in 2007, up 11% from 2006, and have more than doubled since 2002, according to the World Bank.

The economic and social impact of these payments is estimated to benefit about one billion people worldwide.⁴ Remittances are mainly sent to provide financial relief for basic consumption needs to family members in the migrant's home country, and some funds are used for savings, credit mobilisation and investment.

While studies vary on the short- and long-term socio-economic effects of remittances, it is widely accepted that remittances have a positive impact on poverty alleviation. Reports from the World Bank, United Nations Population Fund and Migration Policy Institute also cite studies demonstrating that savings

created by remittances can have positive knock-on effects on health standards such as infant mortality and life expectancy, as well as increases in the money spent on the education of children.⁵

The total amount of global remittances is now larger than the sum of foreign aid money donated to >>

- With one-sixth of the world's population receiving benefits from remittances from overseas migrant workers, financial service organisations are working to expand relationships with individuals who are unbanked or underserved with financial services.
- Postal organisations, with their large distribution networks, have a unique opportunity to expand financial services and are seen as important emerging participants in the international remittance business.
- Eurogiro, a global payments community and network, is playing a pivotal role in connecting the global postal and banking worlds in this high-growth remittance business.
- Governments, financial institutions, postal organisations and special interest global and local agencies view the phenomenon of remittances as a catalyst for financial inclusion and better access to basic financial services.

1. "The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits", CK Prahalad 2004.

2. Average remittance payment in 2006, according to a report, "Sending Money Home: Worldwide Remittance Flows to Developing Countries", by The International Fund for Agricultural Development, see www.ifad.org/events/remittances/maps/.

3. "Competing in Money Transfers: A Market Overview", Aite Group, March 2007.

4. Joint Conference on Remittances, 12-13 September 2005, Asian Development Bank, Philippines, Opening Remarks, Yiping Zhou, Director, Special Unit for South-South Cooperation, United Nations Development Programme.

5. As an example, see "International Migration, Remittances, and Poverty in Developing Countries", a policy research working paper by Richard Adams and John Page, World Bank, 2003.

**FIGURE 1: Top five recipient countries of international remittances in 2007**

Country	(USD bn)
India	27
China	25.7
Mexico	25.0
Philippines	17
France	12.5
Source: World Bank	

countries, and in developing countries remittances can represent a significant amount of gross domestic product (GDP). In the Pacific islands of Tonga, remittances make up over 30% of GDP. In Sri Lanka, incoming remittances are a greater amount than the country's tea exports. And in the Philippines, remittances comprise about one-tenth of the economy.

Conversely, rich countries are the main source of remittances. The US is by far the largest with USD42bn in recorded flows in 2006. Saudi Arabia ranks as the second largest, followed by Switzerland and Germany.

Rise of Remittances in Asia

With India ranked highest, followed by China, and the Philippines ranked fourth in the top five global list for incoming remittances, the region represents about one-third of the global figure. Completing the top five list for Asia are: Bangladesh (fourth in Asia and 11th overall) and Indonesia (fifth in Asia and 13th overall).

Migrant workers sending remittances home within Asia commonly represent low-skilled workers, but there is a growing number of skilled workers and professionals working overseas. Wherever migrant workers are employed, they fill the need of a labour shortage in that particular country, or in some cases may fill the jobs unwanted by locals, especially in the case of "3D" jobs – dangerous, dirty and difficult. Asia expects continued strong growth in remittances. Governments in many countries, such as the Philippines and Bangladesh, have created programmes and policies to support the increase in the number of migrant workers. Intra-Asia remittance flows remain strong, and there is continued growth expected with the US, Europe and the Gulf Cooperation Council countries, as

migrants move to more developed countries with higher earning potential.

Formal and Informal Channels

Many governments and regulators hold the view that there are just as many remittances being sent through unreported informal channels, as well as formal channels. Cash, as well as an increasing number of pre-paid cards, that are either physically carried or sent by courier or normal post to migrant workers' home countries represent a large portion of unreported remittances.

Based on practices dating back to the eighth century in India, the "hawala" system is an informal money transfer system based on a network of money-brokers who operate outside formal channels. The hawala system operates on trust. There is usually no paper trail, the transaction does not fall under any regulatory environment, and often no money crosses the borders. The hawala system can be operated by a simple running tally maintained between brokers.

Through various government initiatives and collaboration with the World Bank, the International Monetary Fund, the Financial Action Task Force and other special interest groups, there is a growing movement to shift remittance traffic from the informal to formal channels. While countries set their own policies through various regulatory agencies, there is a general global consensus that international remittances require better regulation to thwart money-laundering and the financing of terrorism. In many countries, remittance service providers are required by local legislation to enforce anti-money laundering and "know your customer" policies, ensuring the identity of the sender and recipient of the remittance are known, so that transaction parties can be traced in the event of a suspicious

transaction. The combination of an increasingly regulated remittance environment and, the desire for an accessible, low-cost and reliable service is providing a catalyst for more migrant workers to choose the formal channels when making a remittance.

Postal Organisations Poised to Expand Financial Services

Postal organisations have a broad demographic base, a strong brand reputation and normally represent one of the largest physical distribution networks in a home country. Postal money orders have been issued since the late 19th century, so postal organisations have a long history of offering some form of financial services.

With traditional postal services declining due to the dominance of the e-world, postal organisations are in search of new revenue streams. With the advances in technology and regulatory changes, postal organisations in many countries are poised to expand the financial services they offer.

A 2006 report by the Universal Postal Union, a specialised United Nations agency, calculates that the total number of post office branches is estimated to be more than 660,000 branches globally, making up the largest physical distribution network in the world. The Vatican, with four post offices, has the smallest number of branches, with India having more than 155,000 post office branches. Almost 70% of the postal organisations surveyed offered some form of financial services.⁶

Asian Postal Organisations Focus on Remittance Growth

The global remittance business has been dominated for years by money transfer companies such as Western Union and Moneygram.⁷ Banks, credit card companies and postal organisations have always had a share of the business, offering a variety of cash, account and debit and credit card products, but with a mixed strategic focus.

The heightened interest in financial services for postal organisations is shown through the increased participation of member countries in the Asia Pacific Postal Union's⁸ Postal Financial Services Working Group. With the dynamic growth of remittance traffic in Asia, postal organisations are emerging participants.

6. See "Letter Traffic Rallying; Profits Up" press release by the Universal Postal Union, 6 December 2007, at www.upu.int/press/en/2007/letter_traffic_rallying_profits_up.pdf.

7. For information about Western Union's and Moneygram's services, see www.westernunion.com and www.moneygram.com respectively.

8. The Asian Pacific Postal Union (APPU) is an inter-governmental organisation of 31 postal administrations of the Asia-Pacific region, and is affiliated to the Universal Postal Union. For more details, see www.appu-bureau.org.



Singapore Post is a best-case example of a postal organisation offering a full suite of financial services, with a focus on remittances (see Figure 2). Asia is also seeing the trend of postal organisations morphing into post banks, representing a large customer base for remittances. For example, Japan Post Bank is now the largest savings bank by asset size in the world, and the Postal Savings Bank of China is one of China's largest banks in terms of renminbi deposits.

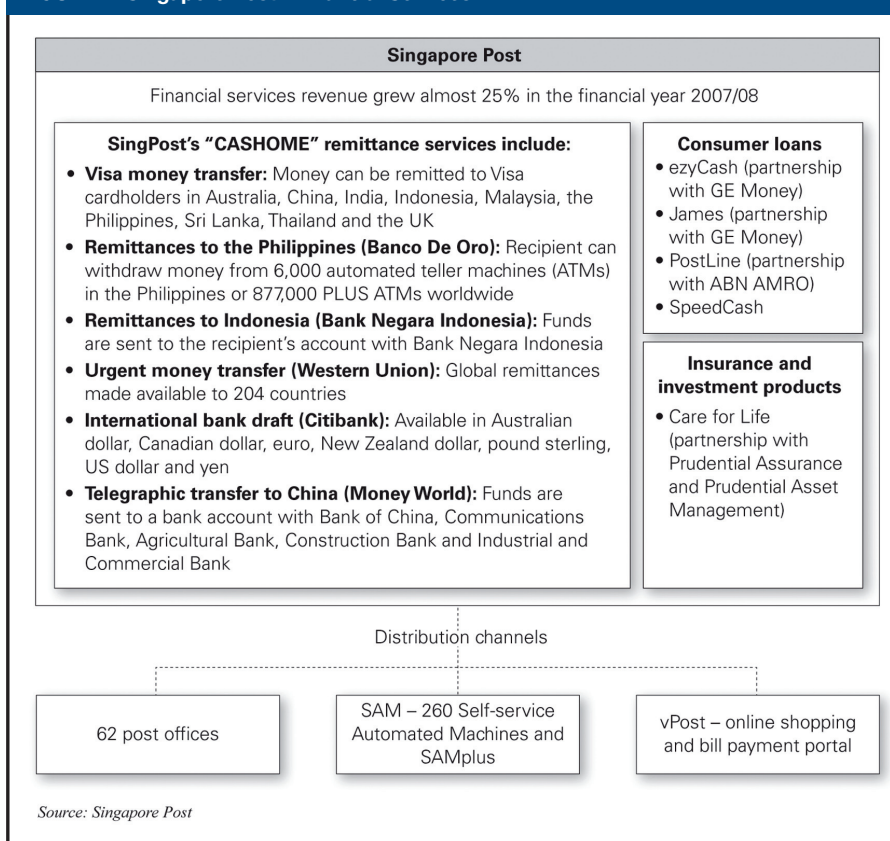
For remittances, the distribution network to send and receive remittances is an essential point to provide easy accessibility. Postal organisations not only offer an expansive geographic reach in cities but also in rural areas. Sixty per cent of China Post's 36,000 post office outlets are located in rural areas, more than 80% of Thai Post's 1,150 branch outlets and 40% of POS Malaysia's 686 branch outlets reach the rural population. An Asia Pacific Postal Union survey revealed that, despite various organisational structures, postal organisations in all of the major countries offered financial services and international remittances were the most represented service. Postal financial services are offered under country legislation through special laws such as the Post Office Savings Act, or legislation to act as a non-bank financial institution, or with a banking licence. To extend their reach for remittance services, many postal organisations and post banks including Japan Post Bank, Postal Savings Bank of China, Korea Post, Thailand Post and Philippine Post connect to other postal organisations and banks through Eurogiro, which provides the business infrastructure and connectivity for the development of a range of remittance products.

Connecting the Postal and Banking Worlds

In the world of payments, SWIFT is considered the standard for international payment message exchange, acting as a cooperative for more than 8,300 organisations across 208 countries.⁹ For nearly 35 years, SWIFT has been the main provider to commercial banks and their global correspondent banking partners, processing an average of more than 15 million financial messages a day.

Eurogiro, whose headquarters are in Denmark, began operations 15 years ago as a cooperative to address the issue of connectivity for the 12

FIGURE 2: Singapore Post - Financial Services



largest postal organisations in Europe. Today, the company plays a pivotal role in connecting the postal and banking worlds. Eurogiro has created a community to build business relationships and connectivity to expand distribution networks for cross-border, low-value payments, including remittances. Using SWIFT-based messaging, Eurogiro connects SWIFT and non-SWIFT members in almost 50 countries by offering a dual IT platform of its own network and a SWIFT closed user group.

For postal organisations seeking to expand their international payments and remittance business, the community of Eurogiro facilitates relationships with member global banks such as Deutsche Bank, Citibank and Standard Chartered Bank, along with regional banks such as ANZ and Bangkok Bank. For the banks, it is an opportunity to build new payment relationships with the postal organisations, and use one of the latter's best assets – geographical reach.

Remittances Act as Catalyst for Financial Inclusion

Remittances feature in international development policy because they are seen to be a source of wealth for many developing countries.

Financial inclusion and microfinance have been buzzwords for governments in developing countries searching for tools to alleviate poverty and promote economic growth. Both initiatives look to provide basic financial access – for accounts, payments, credit and insurance – to low-income individuals, including a focus on reaching rural areas.

Remittances initiated by migrant workers, as well as the funds received by family members, can act as the catalyst for individuals to start a relationship with a financial service provider. Therefore, postal organisations and banks have the opportunity through remittances to build new business relationships and cross-sell financial services.

9. SWIFT (Society for Worldwide Interbank Financial Telecommunication) is the cooperative organisation created to facilitate the transfer of information and payment/advice instructions between member banks, securities organisations and corporate customers. See www.swift.com.



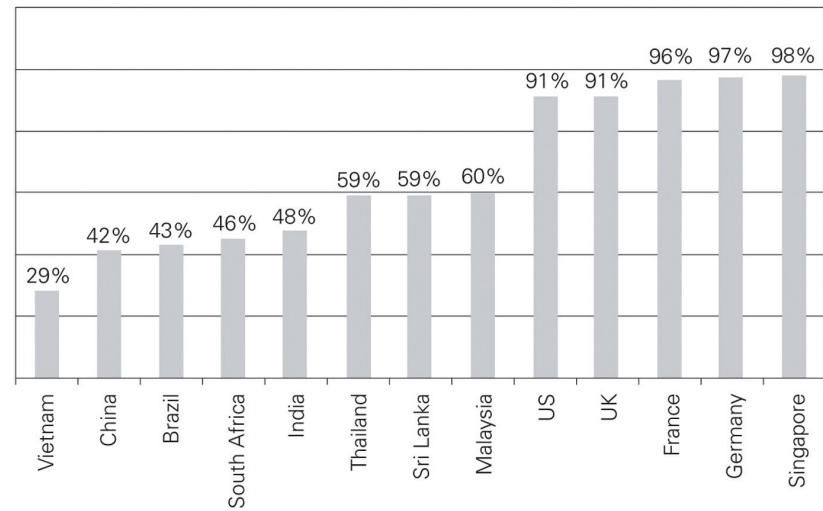
For people living in a developed economy such as the US, UK, Germany and Singapore, it may be difficult to imagine that more than half of the population in Vietnam, China, Brazil, South Africa and India are unbanked or under-served with financial services. One project that aims to provide better financial access is in Sri Lanka. In 2008, the National Savings Bank in Sri Lanka launched an international remittance service with Korea Post using the Eurogiro global payments network. This tie-up provides customers in Korea with a low-cost, fast and convenient service to send money home from Korea Post's network of 2,800 post offices.

For the recipients of funds in Sri Lanka, they have access to funds through a formal channel, NSB Sri Lanka, where savings and credit services are accessible to low-income individuals. NSB Sri Lanka's geographical reach is unparalleled in Sri Lanka, and further strengthened by its relationship with Sri Lanka Post. Sri Lanka Post acts as an agent for NSB Sri Lanka, offering deposit, withdrawal, and receipt of international remittance payments in more than 4,000 post offices and sub-post offices, which function as mini-branches for the bank.

A recent study by the Economist Intelligence Unit reports that remittance-receiving families often lack access to financial services, either because mainstream banks do not serve low-income individuals or microfinance organisations are not present in many rural communities. In India, financial inclusion has been high on the agenda with the government and the Reserve Bank of India since 2004.

Financial inclusion is a challenge in India with more than 75% of the population living on less than USD2 a day.¹⁰ A recent survey¹¹ indicated that only 39% of the total adult population enjoys banking facilities in the rural areas. The government continues to seek alternative microfinance schemes – no-frills bank accounts for making and receiving payments, savings products tailored for poor households, small

FIGURE 3: Percentage of Population with Access to Financial Services



Source: *Finance for All? – World Bank policy report, 2008*

loans and overdrafts and insurance products – as well as considering new banking channels to reach the bottom of the pyramid, including mobile banking. With their expansive reach to rural areas, postal organisations and their financial service partners can play an important role in extending financial access. For the unbanked, receiving a remittance through a post office provides a welcoming environment, and a first-time experience with a formal financial institution can lead on to awareness, education and access to other financial services.

Conclusion

With one-sixth of the world's population receiving benefits from remittances¹², old and new financial organisations are working to capture more market share of the remittance business and expand relationships with individuals who are unbanked or under-served with financial services. Postal organisations, with their large distribution networks, have a unique opportunity to expand financial services and are seen as important

emerging participants in the international remittance business. Eurogiro is playing a pivotal role in connecting the global postal and banking worlds to create new partnerships in the high-growth remittance business.

Working hand in hand, governments, financial institutions, postal organisations and special interest agencies view the phenomenon of remittances as a gateway to basic financial services – such as accounts, payments, credit and insurance – while creating an improved socio-economic environment in developing countries.

Reference for statistics not footnoted taken from "Migration and Remittances Factbook 2008", World Bank, and data updates, see www.worldbank.org/prospects/migrationandremittances.

This article has earlier been published in the HSBC's *Guide to Cash, Supply Chain and Treasury Management in Asia 2009*.

10. Figure for 2005, "The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight against Poverty" World Bank Research Group, August 2008, Shaohua Chen and Martin avallion.

11. Invest India Incomes and Savings Survey of 2007, IIMS Dataworks.

12. "Access Finance" newsletter, The World Bank Group, May 2006.

Author's Note:

Since the writing of this article, the World Bank estimates that remittances totalled \$375 billion in 2008, of which \$283 billion went to developing countries, involving some 190 million migrants. However, for the first time in almost a decade, a significant slowdown in global remittances to developing countries is expected to deepen further in 2009 due to the financial crisis and ensuing economic downturn. The World Bank estimates that migration flows from developing countries may slow as a result of the global growth slowdown, but the stock of international migrants from developing countries is unlikely to decrease. Remittance flows from the GCC countries are likely to fall more than those from the US and Europe, affecting recipient countries in the Middle East, North Africa and South Asia.