VIEWPOINTS

MILKEN INSTITUTE
CENTER FOR FINANCIAL MARKETS

Leaving Transferred Money on the Table

Will Remittance-Linked Financial Products Add Value to Development Financing?

Lead Author: Ziyi Huang

Contributing Authors: Aron Betru and Jackson Mueller

March 2017

The authors would like to thank Staci Warden, executive director at the Milken Institute Center for Financial Markets, for guidance and comments.

Introduction

For centuries migrant workers who send money home to their families have been a major source of inflows for developing countries. However, it is only in the past few decades that we have been able to put a number to these remittances. In some extreme cases, nearly a third of a country's GDP comes from remittances.[1] As a result, much has been written about the potential of harnessing these remittance flows for development purposes. Many economists have focused on lowering remittance transfer prices with the hope that this can lead to increased net money inflows for developing economies. However, basic consumption remains the primary use of such funds, often by necessity, and so remittances are not directed into long-term investments that could contribute to greater development impact.[2] As a result, efforts are underway to leverage inflows from migrant remittances to provide their recipients with greater access to an array of financial products that could have greater development impact. Improving financial inclusion can promote economic growth as well as diversify and mitigate users' overall risk.

[1] http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?year_high_desc=true

[2] The regression analysis indicates that the marginal impact of remittances on economic development increases as countries devote greater remittances flows to financial investment but less on basic consumption spending. Matuzeviciute, K. and Butkus M. The 2016, Remittances, Development Level, and Long-Run Economic Growth, Economies, 12/1/2016

Post 2015, the development funding landscape in Sub-Saharan Africa has changed from principally external donor-funded Millennium Development Goals[3] to a call for more domestically resourced Sustainable Development Goals.[4] Could more of the vast sums of remittance flows between developing (home countries where migrants reside) and developed countries (host countries where migrants are working) fuel productive investments? Potentially, remittance-linked financial products, if deployed with the right set of incentives, can promote financial inclusion while also creating conditions for accelerated development financing. Such products could provide better access to credit while potentially resulting in less mass migration, thereby creating the groundwork for more effective mobilization of domestic resources and less demand for direct donor aid in the future.[5] The current advancements in financial technology (FinTech) can further accelerate these processes by providing technology-driven transparency and efficiency to scale up the impact.

In particular, remittance-linked insurance products remain an underutilized opportunity. Access to insurance has the potential to promote a number of positive outcomes for developing countries including, at the macro-level, reduced need for government security programs and improved trade and commerce and, at the micro-level, financial stability of household income, efficient risk management and capital allocations, and increased savings.[6] Despite these potential benefits, most remittance-linked financial products do not focus on insurance.

The promotion of access to any financial product requires overcoming a number of challenges, such as limited levels of financial literacy, regulatory hurdles, and lack of financial infrastructure. Access to insurance is no different. However, the right donor engagement can be impactful. By providing incentives and advocating for regulatory reforms, donors could enable remittance-linked insurance products to overcome these challenges. This paper will review the landscape of remittances in Sub-Saharan Africa and the potential for remittance-linked financial products, particularly insurance products. It will also suggest donor intervention opportunities that can help overcome challenges in supply and demand of financial products, along with financial technology to ensure scale and impact, making remittance-linked insurance products a powerful tool in driving development and financial inclusion.

Background

The growth in emerging countries triggers the need to look for alternative sources to drive development. Despite being a top source of money inflows for many developing economies, remittance inflows have not been effectively utilized in developing countries as a resource for facilitating broader developmental improvements in social and financial welfare.

Prior to 2015, the Millennium Development Goals (MDGs) were an international effort championed by the United Nations to address eight goals in the areas of poverty, health, and agriculture, among others.[7] Post 2015, the Sustainable Development Goals (SDGs), as articulated at the Financing for Development conference in Addis

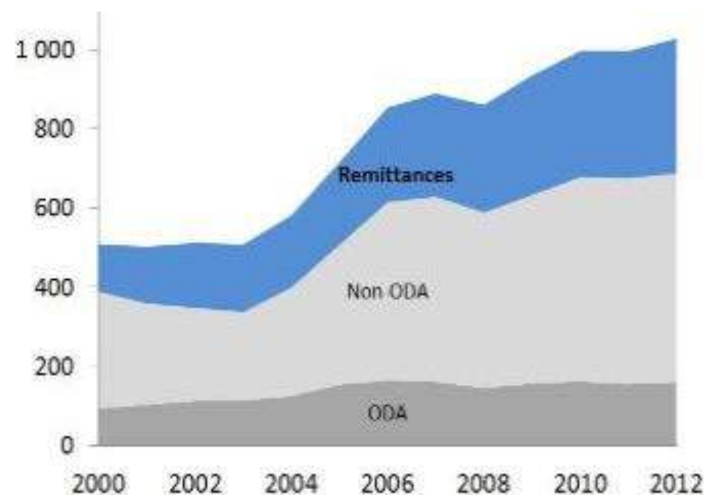
[3] Proposed by UN and came to a conclusion by 2015. <http://www.un.org/millenniumgoals/>
[4] Proposed by UNDP and came into effect in January 2016. <http://www.undp.org/content/undp/en/home/sustainable-development-goals.html>
[5] Interview with Barbara Magnoni from EA Consultants.
[6] Han, Li, Moshirian and Tan, 2010, Insurance Development and Economic Growth, The Geneva Papers, The International Association for the Study of Insurance Economics 1018-5895.
[7] United Nations, Accessed via <http://www.un.org/millenniumgoals/bkgd.shtml>

Ababa,[8] called for relying less on donor aid and mobilizing more domestic resources. Unfortunately, a number of developing economies have a shortage of domestic resources. Many countries have fallen short of achieving the desired MDGs largely due to limited resources to support internal development.[9] Moreover, some existing domestic resources are not being used effectively to achieve productive impact.

The IMF predicts that government expenditure (as a percent of GDP) in Sub-Saharan Africa will decline from 22.6 percent in 2015 to 21.0 in 2017 and that total investment will remain flat at around 20.3 percent over the next three years.[10] Government revenue in the region, excluding grants, is also predicted to decline from 17.9 in 2015 to 16.3 in 2017. As a result, there is a need to look beyond traditional government revenue (tax) toward new and innovative ways of mobilizing resources to fuel domestic development.

Remittances are one of the largest sources of financial inflows (Figure 1) for many developing countries. In 2015, the official reported remittances to developing countries were $431.6 billion globally,[11] making this source a potentially significant alternative resource for accelerating development.

FIGURE 1: Remittances compared to development assistance in the big picture of developing countries' external finance



Source: OECD adapted from DAC statistics and World Bank data on remittances

Local governments, donors and development economists recognize the potential impact of remittances. Much of the current focus of these actors has been put on lowering remittance transfer costs globally to ensure more of it gets into home countries. A G20 working group has made progress in identifying the barriers within the remittance marketplace and proposed interventions to facilitate lower cost transactions.[12] Globally, the weighted average cost for remittance transfers has indeed shown a declining trend from approximately 8.58 percent as of 2008 to 5.73 percent in Q3 of 2016, according to the World Bank.[13] Initiatives to lower remittance

---

[8] Addis Ababa Action Agenda of the Third International Conference on Financing for Development 2015, United Nations, 07/2015, <http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf>

[9] Provost, Claire. 2013 Millennium Development Goal Progress Index – Get the data. The Guardian, 5/29/13. Accessed 9/11/14. < http://www.theguardian.com/global-development/poverty-matters/2013/may/29/millennium-development-goal-progress-data>

[10] The Regional Economic Outlook: Sub-Saharan Africa 2016, International Monetary Fund, 04/2016, <https://www.imf.org/external/pubs/ft/reo/2016/afr/eng/pdf/sreo0416.pdf>

[11] World Bank, Accessed via <http://www.worldbank.org/en/news/press-release/2016/04/13/remittances-to-developing-countries-edge-up-slightly-in-2015>

[12] International Fund for Agricultural Development and the World Bank Group 2015, The Use of Remittances and Financial Inclusion, G20 Global Partnership for Financial Inclusion, 09/2015 <https://www.ifad.org/documents/10180/5bda7499-b8c1-4d12-9d0a-4f8bbe9b530d>

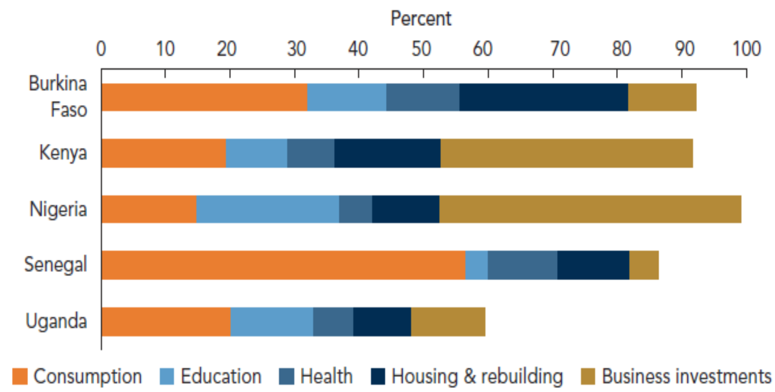
[13] Remittance Price Worldwide 09/19/2016, The World Bank

costs, spearheaded by the World Bank,[14] have resulted in an estimated $61 billion in savings between 2011 and 2015.

The decrease in transaction costs could lead to an increase in remittance flows, but more could be done to improve the impact of remittances once received. Through remittance-linked financial products, greater financial inclusion can help drive household financial wellbeing. By enabling migrants and recipients to more effectively use remittances to access financial products and services, they don't just obtain the potential of investment returns and improved risk mitigation, they also contribute to and benefit from the much larger multiplier effect of the financial investment in local economies, which can be critical to overall economic development.

In any case, remittances could be used far more effectively than they are at present to fuel domestic development. According to the most recent household survey conducted by the World Bank in 2009[15] (Figure 2), the use of remittance inflows vary widely from education to business investments to basic consumption. Spending on basic consumption has, at most, short-term impact on fueling development,[16] while investing in education and business has the potential of building assets, enhancing local markets,[17] and contributing to long-run economic growth in some countries. Remittances are already going to more productive uses for Sub-Saharan Africa's larger economies. In Kenya and Nigeria business investments account for nearly half of the usages, probably because better market opportunities and resources result in greater investor confidence.[18] On the other hand, in some other African countries, such as Senegal, Burkina Faso and Uganda, basic consumption remains dominant compared to business investment, thus suggesting there is room for leveraging remittances to redirect some funds into uses that contribute to long-term development.

Figure 2: Uses of International Remittances in Selected African countries



Source: Migration and Development (2016) cited from Plaza, Navarrete, and Ratha (2011)

---

[14] Reducing the costs of transferring remittances: How realistic is the proposed target for Post-2015? 2015. The 13th Coordination Meeting on International Migration. The World Bank, 02/12/2015, http://www.un.org/en/development/desa/population/migration/events/coordination/13/documents/presentations/13CM_Cirasino.pdf

[15] Ratha, D. et al. 2011, Leveraging Migration for Africa: Remittance, Skills, and Investments, The World Bank, 2011.

[16] Matuzeviciute, K. and Butkus M. 2016, Remittances, Development Level, and Long-Run Economic Growth, Economies, 12/1/2016

[17] Comstock, Michael R. et al. 2009, Maximizing the Value of Remittances for Economic Development, March 2009, Center for European Research in Microfinance, <http://www.cermi.eu/documents/Final_Iannone_MaximizingtheValueofRemittances.pdf>

[18] EY, Africa 2015: Making Choices,< http://www.ey.com/Publication/vwLUAssets/EY-africa-attractiveness-survey-2015-making-choices/%24FILE/EY-africa-attractiveness-survey-2015-making-choices.pdf>

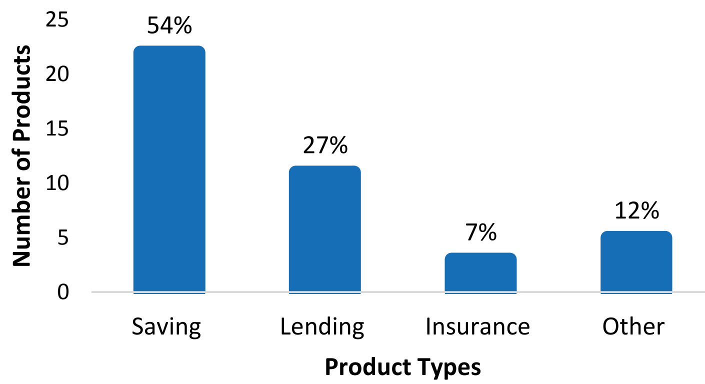
Making the Case: The Benefits of Remittance-Linked Financial Products

Remittance-linked financial products have shown some benefits in improving financial inclusion, but more could be done leveraging insurance.

Many stakeholders have promoted the use of remittance-linked financial products to achieve greater financial inclusion, in particular by linking remittance senders/recipients to saving/lending products. In Guatemala, for example, the World Council of Credit Unions and the Federación Nacional de Cooperativas de Ahorro y Crédito designed a savings product to attract unbanked remittance recipients to become members of credit unions by enabling the direct deposit of their remittances into an interest-bearing account where funds could be immediately withdrawn without restriction.[19] In Peru, Crédito Mivivienda, a government-initiated program, allows people with no formal income to qualify for housing loans by making regular deposits of remittances into saving accounts over a fixed duration.[20] These programs have resulted in greater use of financial products for more productive activities.[21] Adopted in 2002, the Crédito Mivivienda program contributed to a doubling of the housing financing market in Peru by 2005. In addition, the level of remittance flows into Peru also increased from $930 million to $2.5 billion over this same period, showing that the availability of savings-linked products encourages remittance providers to direct greater flows of remittances into developing countries.

All financial products are tools, and like any tool, they are good for some things and not for others. Lending products are critical to fueling investments for productivity. Savings products can provide some risk mitigation in addition to wealth accumulation. Each tool is critical for improving capital markets and ensuring that households in developing countries form parts of the building blocks of economic growth. Insurance products provide the best risk coverage to ensure household financial stability and welfare of individuals.[22]

FIGURE 3: Remittance-linked Financial Products



Source: CFM's calculation based on Comstock M.R. et al., 2009

[19] Azar, Stephanie 2009, Integrating Remittance Recipients into the Financial Sector, Financial Integration, Economic Leveraging and Broad-Based Dissemination (FIELD) Leader with Associates (LWA), 01/2009 <https://www.fhi360.org/sites/default/files/media/documents/FIELD_Brief%20No%205%20GuatemalaRemittance%20Recipients%2012_20_FINAL.pdf>

[20] UN-HABITAT 2008, Housing Finance Mechanisms in Peru, United Nations Human Settlements Programme

[21] In Guatemala, 1,378 remittance recipients for the first time opened formal bank accounts in credit unions to receive transfers, 12.5% of which have opted in direct deposits. Adopted in 2002, the Crédito Mivivienda program doubled the size of housing finance market in Peru from 2001 in 2005, with an average annual growth rate of 15%.

[22] Han, Li, Moshirian and Tan, 2010, Insurance Development and Economic Growth, The Geneva Papers, The International Association for the Study of Insurance Economics 1018-5895

At the current stage, most efforts have been on savings and lending products (Figure 3), whereas remittance-linked insurance has received less attention and remains an untapped opportunity. Dean Yang from University of Michigan believes micro-credit is not transformative enough for low-income populations.[23] In addition, EA Consultants in their Stair Step Model (Figure 4) suggest savings alone does not lead to financial security.[24] As a result, there is a need for a more holistic basket of tools to address financial inclusion challenges.

FIGURE 4: A Stair Step toward Financial Security

Source: EA Consultants adapted from CFED

What is so special about insurance? Access to insurance in any financial inclusion strategy has some unique advantages for developing economies. It's an opportunity because a large proportion of developing country populations have limited access to insurance,[25] and the access to affordable insurance can provide efficient risk management for at-risk populations.[26] Whether it is crop insurance to help low-income smallholder farmers guard against adverse weather or health insurance to help ensure safe births, access to insurance can help households in developing countries stabilize income and better manage household welfare. In distress, insurance coverage can relieve the pressure on relatives working abroad to send additional remittances to home countries, helping better preserve the financial stability of both migrants and their families. Insurance can also facilitate trade and commerce for business investments,[27] as some capital providers will only invest in risky entrepreneurs when there is adequate insurance coverage.

Besides providing benefits at the micro (household) level, a vibrant insurance market is also good at the macroeconomic level. A study by Han et al. suggests that insurance products, both life and non-life insurance,[28] play a much more important role in developing economies than in developed economies. Insurance can, for instance, substitute for government security programs, as this is a more efficient allocation of the limited resources developing countries have for developmental purposes. A growing insurance penetration can also stimulate competition among financial intermediaries,[29] as well as provide capital for other sectors, resulting in a deeper and more efficient local capital markets overall.

---

[23] Interview with Dean Yang

[24] International Fund for Agricultural Development and the World Bank Group 2015, The Use of Remittances and Financial Inclusion, G20 Global Partnership for Financial Inclusion, 09/2015 <https://www.ifad.org/documents/10180/5bda7499-b8c1-4d12-9d0a-4f8bbe9b530d>

[25] According to the findings from a study by EY, the penetration of insurance products in Sub-Saharan African countries remains low, with insurance premiums accounting for less than three percent of GDP. EY, How Insurance is Transforming a Rapidly Growing Sub-Saharan Africa, Accessed via <http://www.ey.com/gl/en/industries/financial-services/insurance/ey-insurance-opportunities-sub-saharan-africa>

[26] Han, Li, Moshirian and Tan, 2010, Insurance Development and Economic Growth, The Geneva Papers, The International Association for the Study of Insurance Economics 1018-5895

[27] Skipper, Harold, 1997, Foreign Insurers in Emerging Markets: Issues and Concerns, International Insurance Foundation, Accessed via <http://www.iifdc.org/pubs/skipper.pdf>

[28] Han, Li, Moshirian and Tan, 2010, Insurance Development and Economic Growth, The Geneva Papers, The International Association for the Study of Insurance Economics 1018-5895

[29] Ward and Zurbruegg, 2000, Does Insurance Promote Economic Growth? Evidence from OECD Countries, Accessed via < http://www.jstor.org/stable/pdf/253847.pdf>

Unfortunately, only a small number (7 percent) of remittance-based financial products identified by CERMI (see appendix for the project list) have insurance components, [30] as compared to those with a savings and lending component (54 percent and 27 percent, respectively). The G20 Working Group on Remittances finds that savings and lending products will not effectively lead to use of other financial products, [31] therefore the need for promoting access to insurance is potentially critical.

A Potential Path Forward

A donor-led model can provide the incentive for greater uptake of specific financial products (such as insurance), and the application of FinTech can further scale up this impact.

There are three typical ways of linking remittances and financial products: cross-selling, streamlining and incentivizing. [32] The majority of practices for remittance-linked financial products are introduced based on cross-selling, and some are promoted through streamlining, while a few go so far as to make it more cost-effective to access specific financial products at the point of transaction through incentives. Unfortunately, cross-selling fails to address the fundamental problems in underserved markets, such as affordability and low financial awareness.[33] Whereas the streamlining approach, although it can have greater impact on increasing the take-up of alternative products,[34] still does not offer enough motivation to redirect the behaviors of the low-income population.

An incentive-based model, supported by either an international donor or local government, however, has the potential to encourage migrants or their families to utilize remittances (once they have met their basic consumption needs) in a specific way to achieve the highest welfare impact. That is, the right incentive (e.g.: soft commitment in EduPay[35]) can have more direct impact on channeling increasing remittance flows into a home country and redirecting behaviors to a greater use of remittance-linked financial products to meet domestic needs.

Framework of three archetypes of how financial products are linked with remittances

- Cross-Selling: Providing information of financial products and services through the platform where recipients receive their remittances
- Streamlining: Allowing access to financial products and services from the same transfer platform to enable convenience in utilizing before recipients withdraw their remittances
- Incentive-based Model: Donors providing an extra incentive (e.g.: credit guarantee) to lower the costs or bring higher value to remittance recipients

[30] Comstock, Michael R. et al. 2009, Maximizing the Value of Remittances for Economic Development, March 2009, Center for European Research in Microfinance, <http://www.cermi.eu/documents/Final_Iannone_MaximizingtheValueofRemittances.pdf>
[31] International Fund for Agricultural Development and the World Bank Group 2015, The Use of Remittances and Financial Inclusion, G20 Global Partnership for Financial Inclusion, 09/2015 <https://www.ifad.org/documents/10180/5bda7499-b8c1-4d12-9d0a-4f8bbe9b530d>
[32] Comstock, Michael R. et al. 2009, Maximizing the Value of Remittances for Economic Development, March 2009, Center for European Research in Microfinance, <http://www.cermi.eu/documents/Final_Iannone_MaximizingtheValueofRemittances.pdf>
[33] Centre International de Développement et de Recherche (CIDR) in Comoro Islands allowed co-payment of insurance premium by migrants and their family members to encourage greater spending of remittances on productive investment. The program experienced a high drop-out rate due to that family members either could not afford an annual lump sum of insurance premium, or did not experience short-term benefits of the insurance plan. Riester A. and Gilmer I. 2011, Microinsurance and Remittances, GIZ
[34] Derham, M 2005, "Every Dollar Counts", Latin Finance 173: 34-6
[35] Arcangelis, Giuseppe De et al. 2015, Directing remittances to education with soft and hard commitments: Evidence from a lab-in-the-field experiment and new product take-up among Filipino migrants in Rome, Journal of Economic Behavior & Organization, 01/07/2015 <http://sites.lsa.umich.edu/deanyang/wp-content/uploads/sites/205/2015/01/djmty-directing-remittances.pdf>

Donors have an important role to play in offering the incentive to align people's interests with achieving development goals. For example, with insurance products, a flexible term of premium payment guaranteed or subsidized by the donors can be an incentive for target customers to consume the products. Donor engagement in this case makes insurance products more attractive for low-income populations so they are more likely to co-invest with donors and access insurance products. Likewise, the guarantee/subsidy is an incentive to make these market segments more attractive to the insurance services providers.

EduPay: Remittance-linked financial product in Philippines leveraging an incentive-based model

EduPay is a financial product in Philippines that provides migrants with greater control over the use of remittances. It was designed by a number of scholars and professors in cooperation with *Bank of the Philippines Islands (BPI)* and the *Philippine Association of Private Schools, Colleges, and Universities (PAPSCU)* to allow migrants in Rome to directly send remittances to schools for fees and tuition. Edupay was introduced with a soft commitment, providing an option to designate remittance use by labeling an amount of money for educational purposes, and a hard commitment, the ability to pay remittances directly to schools. The incentive to exert soft control in the form of labeling raised the amount of remittances sent to schools by 15 percent during the period of experiment from August 2012 to January 2013, whereas the direct payment function did not appear to be effective for increasing remittance inflows.

Source: Arcangelis, Giuseppe De et al. 2015

Broadly, incentives can be categorized into hard and soft incentives. Both hard incentives that hold monetary value and soft incentives that provide other functional benefits—such as certainty, overdraft facility and records of past remittance flow for credit scoring[36]—can be instrumental in encouraging uptake and scale. Banco Solidario in Ecuador is one example of utilizing hard incentives that waived the transaction fee on money transfers for a period of time to generate a larger money base for its saving products, bringing in 6 percent of total remittance transfers into the banks' saving accounts within three years of the start of the initiative. [37] As for soft incentives, African insurance company Nouvelle Société Interafricaine d'Assurances (NSIA) partnered with Orange Mali to offer consumers complimentary access to various insurance products when people saved remittances starting at US $6 through the mobile money product "Sini Tonon." [38] Sini Tonon has promoted saving behaviors among 55 percent of women and 48 percent of men who did not save before using the product, with more than 30 percent of users reporting they were attracted by the insurance incentive. [39]

All these donor interventions suggest that enhanced motivation could 1) direct increased flows of remittance into the receiving countries, and 2) optimize recipients' spending structure to more productive uses. A remittance-linked insurance program led by donors that provide incentives for the insurance policy can be a pilot solution that helps direct spending behaviors and creates a self-sustainable model with stable remittance flows to more productive investment.

[36] Comments by Amil Aneja from UNCDF
[37] Derham, M 2005, "Every Dollar Counts", Latin Finance 173: 34-6
[38] Sikiti da Silva I. 2015, Orange Mali, NSIA launch 'Sini Tonon', Biztech Africa, 01/06/2015
[39] Orange Mali: Reaching Women Customers with Mobile Savings and Insurance, 03/2015, <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/03/Connected-Women-Orange-Mali-Case-Study-FINAL.pdf>

In particular, at the point of transfer when a migrant decides how and who to send funds to, a unique opportunity exists for donors to foster access to credit, saving and risk mitigation. A remittance transfer platform that provides both education and incentives that encourage migrants to opt for such productive uses of their funds rather than basic consumption can be a critical tool.

The potential of FinTech?

The emergence of digital finance platforms offers interesting opportunities to address the larger financial inclusion challenges for both the provision and marketing of financial products linked to remittances. Through technology-based advancements that ease the cost of financial transactions [40] we can see the potential of FinTech in widening access to financial products and services. Already, FinTech has shown promise in accelerating remittance transfers between source and destination countries. Companies like TransferWise and World First have provided an alternative to traditional remittance transfer companies and banks, with transfer fees that are a quarter of most banks.[41]

More importantly, given FinTech's inherent focus on leveraging technology to increase efficiency, transparency, scale, and scope of access to financial products and services, there is an opportunity to increase the utilization of remittance-linked insurance products in particular. Companies like Bima Mobile, MicroEnsure, MFS Africa have started to offer mobile insurance products in countries with limited digital infrastructure.[42] In addition, potential application of blockchain technology in insurance is expected to be significant in the years to come. Although too early to say definitively, leveraging FinTech platforms (or InsurTech) does show promise in achieving larger scale at lower marginal cost, two critical elements in establishing a remittance-linked insurance products platform that can enable donors and migrants to invest together in the development of a home country.

Challenges That Could be Addressed By Donors

Lack of demand as well as complex regulation and compliance requirements are major problems that prevent remittance-linked financial products from making a more significant impact on domestic economies. These challenges can be addressed by donors.

Lack of demand due to low financial literacy and hesitation in spending on financial products

Low financial literacy rates remain a major barrier that needs to be addressed for any types of remittance-linked financial products, and remittance recipients tend to opt out of many insurance products due to the perception that the cost is too high compared to benefits. [43] Financial education programs can encourage use of a wider range of financial products when people become more aware of the benefits and risks associated with each product and are thus able to make more informed decisions. For instance, in Nepal, Centre for Micro Finance (CMF) helped double the number of enterprise loans offered by local microfinance institutions after holding

---

[40] Digital payments, digital currencies, online platforms, big data and machine learning etc.
[41] Fintech is Pushing Banks Out of Remittance Business, 02/10/2016, <https://letstalkpayments.com/fintech-is-pushing-banks-out-of-the-remittance-business/>
[42] InsuranceTech Innovation Booms: Challenges and Opportunities, Let's Talk Payments, 12/04/2015, <https://letstalkpayments.com/insurancetech-innovation-booms-challanges-and-opportunities/>
[43]Riester A. and Gilmer I. 2011, Microinsurance and Remittances, GIZ

financial and business literacy trainings for over 1,000 migrant returnees and family members.[44] However, financial education by itself, in most cases, is not sufficient for the low-income populations to value the financial products as alternative investment opportunities.[45] The gap between knowledge and action is where donor engagement can be powerful by providing the right incentive to stimulate recipients' informed utilization.

Regulatory barriers that curtail the supply of financial products

Varying regulatory requirements in the countries hosting migrant workers are another major obstacle preventing the expansion of remittance-linked financial services,[46] especially insurance. For home-country providers of financial products, the limited supply of products available to remittance recipients will not attract many customers. Organizations must actively market financial products to migrants in host countries in order to scale up uptake. Financial service providers could be subject to complex cross-border regulatory and compliance requirements in host countries. For instance, in the United States, regulatory requirements that vary from state to state and high collateral requirements (exceeding $1 million in some U.S. states) collectively deter the entry of foreign financial firms.[47] As another example, restrictive licensing in Norway requires money transfer agencies to obtain full licensing even if they do not offer banking services.[48] Specifically, due to the potential high risk to the insurance industry, the requirement for the coverage of risks with significant funds poses even greater pressure on new entrants.[49] Without donors stepping in to promote regulatory reforms, these hurdles and licensing requirements will discourage the expansion of home-country operations into host countries and restrict access and the potential for productive investments. Although not accounting for all the reasons for low penetration of remittance-linked financial products in developing economies, closing the gaps between financial knowledge, spending on financial products, and regulatory hurdles are indeed the key areas where donors can play an important role.

---

[44] Julca, Alex 2013, Can Immigrants Remittances Support Development Finance? Panoeconomicus, 01/2013.

[45] The Asian Development Bank (ADB) has published a study that notes the need to leverage remittance for investment purposes as well as the insufficient levels of financial literacy in home countries. The first-time project ADB launched in 2011 following the study addressed the issues by funding financial literacy training and a campaign to raise awareness of remittance saving and investment. A series of efforts by other international organizations also tried to boost the remittance investments via awareness-building, which from our perspectives, although necessary, did not fundamentally redirect the remittance flows into more productive uses, especially for some countries that have the potential to better balance the spending on consumption and business investments.
Vargas-Silva et al. 2009, Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth, ADB Economics Working Paper Series No. 182, 12/09/2009. <https://www.adb.org/sites/default/files/publication/28397/economics-wp182.pdf>

[46] Interview with Barbara Magnoni from EA Consultants

[47] Maimbo, Samuel M.and Ratha, Dilip 2005, Remittances: Development Impact and Future Prospects, The World Bank 2005 <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/Remittances-DevelopmentImpcat&FutureProspects.pdf>

[48] Maimbo, Samuel M.and Ratha, Dilip 2005, Remittances: Development Impact and Future Prospects, The World Bank 2005 <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/Remittances-DevelopmentImpcat&FutureProspects.pdf>

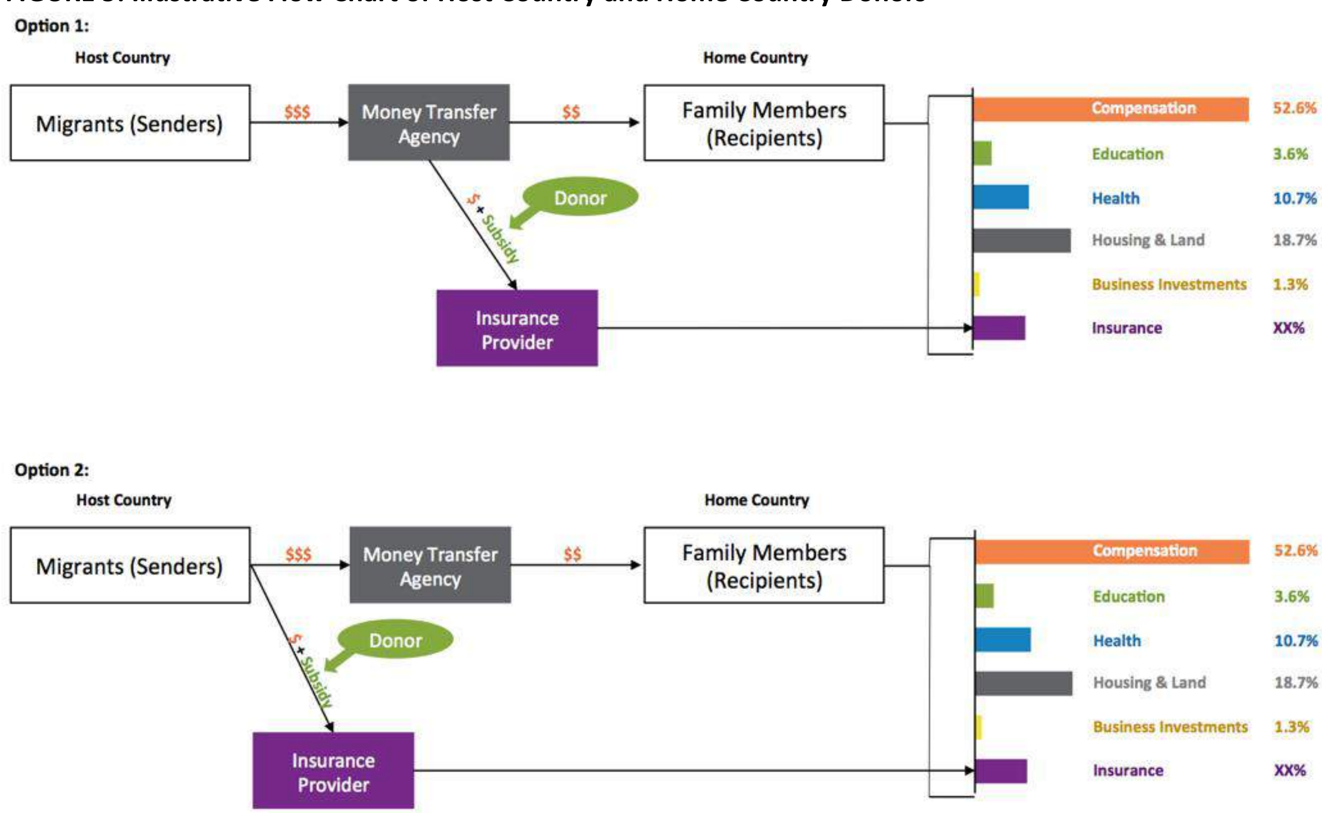
[49] InsuranceTech Innovation Booms: Challenges and Opportunities, Let's Talk Payments, 12/04/2015, <https://letstalkpayments.com/insurancetech-innovation-booms-challanges-and-opportunities/>

How donors can help?

According to the Stair Step Model (Figure 4), insurance is a later-stage investment product that may not be widely adopted until financial development reaches a minimal level of inclusion (e.g.: when a larger percentage of the population at least has access to a savings account). Donors can help unlock this opportunity by providing incentives for insurance providers to offer and users to use remittance-linked insurance products. In addition, in order to achieve impact at scale, overcoming regulatory hurdles is required to enable cross-border expansion of services to reach migrants in host countries. Donor engagement can be critical in working with regulators to ease hurdles in host countries.

Theoretically, there are two ways (Figure 5) where donors can provide the enhanced incentive for greater uptake of financial products by migrants and their families. One is downstream, when remittances have arrived at the home country money transfer agency and are ready to be withdrawn by receivers (option 1). The other approach is upstream when the money is about to be sent by migrants in host country (option 2). In both cases, donor engagement can be a powerful tool to both enable and expand the use of remittance-linked insurance products. Although creating the right incentives is critical, turning ideas into actionable solutions will not be easy. Alex Julca from United Nations argues, “for the past twenty-five years most governments in remittance-receiving countries have not done much for supporting, channeling and leveraging the use of those flows for development purposes”.[50] This makes it important to have donor engagement to facilitate the right incentives to bring all stakeholders to the table.

FIGURE 5: Illustrative Flow Chart of Host Country and Home Country Donors



Source CFM, data cited from Plaza, Navarrete, and Ratha (2011)

[50] Julca, Alex 2013, Can Immigrants Remittances Support Development Finance? Panoeconomicus, 01/2013.

Conclusion

To keep up with the UN sustainable development agenda, there is a need to mobilize developing countries' domestic resources to drive financial inclusion. Although currently untapped, remittance-linked insurance products offer great potential, given their intrinsic value in protecting the downside of at-risk populations while enabling the upside of fostering increased productivity and capital market growth. If executed prudently, remittance-linked insurance products could be a pilot for a donor-led intervention with the right incentives, with the recent advancements in FinTech (or better yet InsurTech) that allow scaling up of insurance. Nonetheless, there are challenges that will need to be overcome, namely financial literacy, efficient scaling, and regulatory issues, which donors can be critical to addressing in either host or home countries. To move forward, donors and governments will need to get specific on providing the right incentives through the right technologies at the appropriate intervention point in order to foster migrant and family member access to needed financial products, and enable a platform for co-investment between migrants, governments and donors to support the development of local economies. In our next paper, we will take a look at the landscape of recent technology advancements (e.g.: InsurTech) and how they can facilitate the development impact of remittances in the emerging economies.

Appendix: Examples of Remittance-Linked Financial Products[51] (CFM's calculation based on Comstock M.R. et al., 2009)

Organization	Country	Date	Product	Remittance-linked Financial Products			
				Saving	**Lending**	**Insurance**	**Other**
MFI Corp / Integral / Fundacion Campo	El Salvador	Dec-07	Remittance-based business loans		X		
Citigroup / Banamex	Mexico/Ecuador	2003	Citibank Access Account	X	X		
Banco Salvadoreno	El Salvador	Jul-03	Salvadoreño Emprendedor program (debit cards)	X			
			Savings Accounts	X			
			RemittanceBased Loans		X		
Banco Solidario	Ecuador	2002	My Family, My Country, My Return account	X	X	X	
			Chauchera Smart Card		X		
Banco Industrial	Guatemala		Savings accounts (little-by-little approach)	X			
Oaxaca Microbank	Mexico		Crossmarketed savings and remittance plans	X			
Salcaja	Guatemala		Infant/Youth Savings Plan	X			
			Financial services, cross-selling tools	X		X	
ICICI Bank	Sri Lanka	Oct-08	Remittance card	X			
Wells Fargo	Mexico	1995	InterCuenta Express – Savings Accounts	X			
Bank of America	Mexico	Sep-05	SafeSend	X			
Wachovia	LAC		Dinero Directo card	X			
Afripayments/ Postal Corp. of Kenya	Kenya		PostaPay				X
Cemex/DolEx	Mexico		Building projects in Mexico		X		
Serfatrade/Aprofam	Guatemala		Health services packages				X
Red de la Gente (Bansefi - Banco del Ahorro & Financial Services Bank)	Mexico		Visa debit cards for remittance transfers	X			
HSBC	India		Cross-border banking products	X	X		
Singapore Post/BNI	Singapore/Indonesia		CASHOME	X			
Deutsche GTZ	Central America		Microcredit		X		
Various (IFAD)	El Salvador		Rural development				X
Various (Ford Foundation)			Microfinance and financial services	X			
Various (MID/IFAD)			Financial services and productive investment				X
WOCCU/Vigo	Kenya	Nov-06	IRnet Coop Kenya	X			
			Savings accounts	X			
Globe Telecom/ Western Union	Philippines	Oct-04	Globe Gcash service	X	X		X
	RushCard						X
Central Bank of Kansas City	Mexico		Tarjeta Segura	X			
Banco ADOPEM	Dominican Republic		Assetbuilding products	X		X	X
Banco de Crédito	Peru		Home credit		X		
Alianza para el desarrollo de la microempresa (ALPIMED)	El Salvador	Mar-08	Micro credit		X		
Total			**Total: 41**	**22**	**11**	**3**	**5**
Percent				**54%**	**27%**	**7%**	**12%**

[51] Comstock, Michael R. et al. 2009, Maximizing the Value of Remittances for Economic Development, March 2009, Center for European Research in Microfinance, <http://www.cermi.eu/documents/Final_Iannonehedaere_MaximizingtheValueofRemittances.pdf>

About the Authors

Aron Betru is managing director at the Center for Financial Markets at the Milken Institute. Betru leads strategic innovative financing initiatives to enhance social impact, both domestically in the U.S. and internationally. Betru's prior experience includes development roles at Financing For Development, UN Foundation, Dalberg Global Development Advisors, and private sector roles at McKinsey & Co. and Goldman Sachs. Betru also serves on the Board of Directors for Calvert and FHI Foundation. He holds an MBA from Columbia University, an MA from Johns Hopkins SAIS, and a BA in Economics and International Studies from Northwestern University.

Ziyi Huang is an intern at the Center for Financial Markets at the Milken Institute. Huang supports capital markets research by conducting landscape analysis and outreach, covering topics such as remittance, financial technology, and medical research financing. Prior to joining Milken Institute, Huang received her M.A. in Economics and Finance from the Johns Hopkins School of Advanced International Studies and is a Level III candidate in the CFA program.

Jackson Mueller is an associate director at the Milken Institute's Center for Financial Markets. His focus is on financial technology, capital formation policy and financial markets education initiatives. Prior to joining the Institute, Mueller was an assistant vice president at the Securities Industry and Financial Markets Association (SIFMA), where he focused on a broad range of financial services-related policies, provided legislative and regulatory updates to executive-level government relations staff, and conducted analysis of key issues relevant to SIFMA's members. He received his bachelor's degree in political science from the University of Richmond and a master's degree in public policy from American University.

About the Center for Financial Markets

Based in Washington, D.C., the Milken Institute Center for Financial Markets promotes financial market understanding and works to expand access to capital, strengthen—and deepen—financial markets, and develop innovative financial solutions to the most pressing global challenges.

About the Milken Institute

The Milken Institute is a nonprofit, nonpartisan think tank determined to increase global prosperity by advancing collaborative solutions that widen access to capital, create jobs, and improve health. We do this through independent, data-driven research, action-oriented meetings, and meaningful policy initiatives.