

The Remittance Facilitation Program (RFP) - A Product Idea

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Tbilisi, 27 March 2008



Agenda

- The RFP as a Stand-Alone Product
 - Product Description
 - Benefits
- RFP and possible ways of incorporating it in other Banking Products
- Benefits of the Combined Product

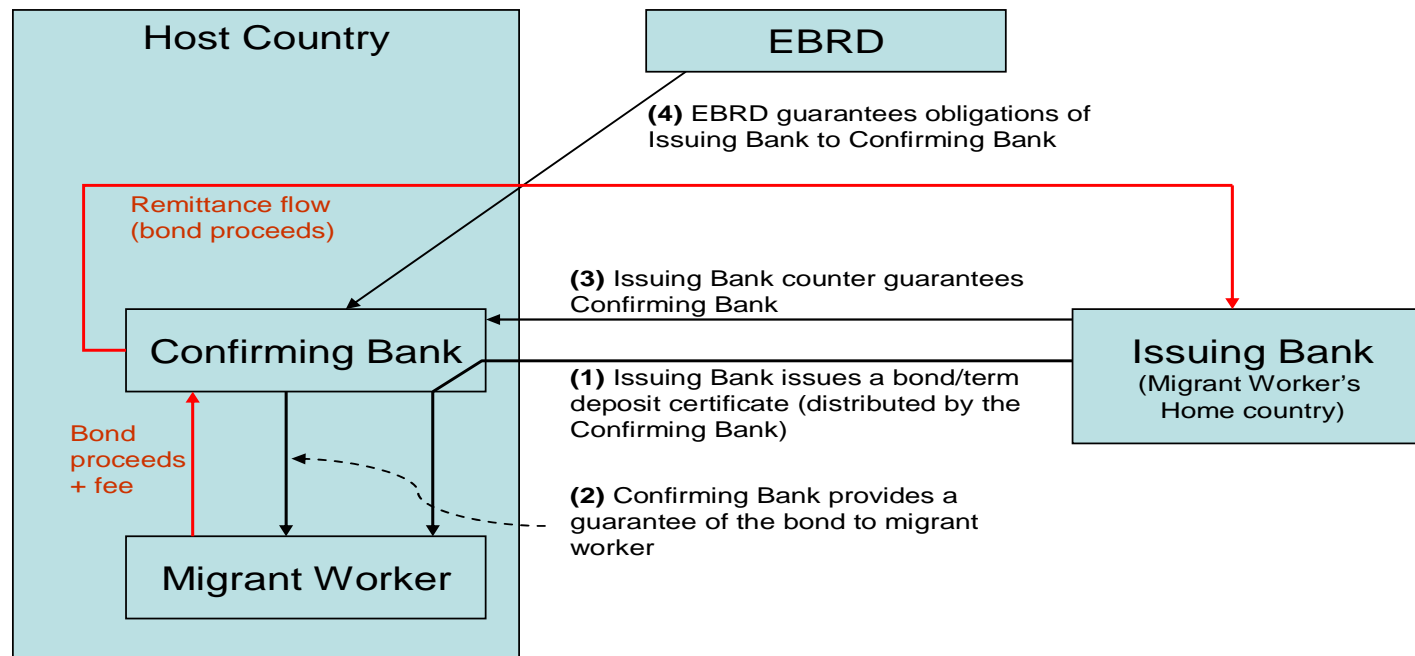


Product Description - RFP

- Resembles EBRD's Trade Facilitation Program in spirit;
- A migrant worker in a remittance sending country, who may or may not already have a banking account at a "confirming bank", invests his savings in EUR savings bonds/term deposits issued by a local bank in his home country "issuing bank";
- These savings bonds (or term deposits) are sold through the confirming bank, against a fee, and the confirming bank - backed by an EBRD guarantee - guarantees the bonds up to a maximum amount and tenor;
- At maturity, the investment will be payable to a bank account of the migrant worker, in his country of origin, so that it will really be a remittance;
- The migrant worker could then either re-invest the accumulated funds (this time without EBRD guarantee) or use them as down payment for e.g. a mortgage loan.



Product Description - RFP



To Whom Could such a Product be Attractive...

- A well-off migrant worker in a country like Switzerland, who would be interested in benefiting from the higher interest rates in his home country.
- Migrant workers who are planning to return to their home country, in the medium-term, and would like to save, for instance, for a mortgage loan down payment in a higher interest rate environment
- Currently, they may not invest in their home country due to a lack of trust in the macro-economic, banking, and political environment. The RFP could make them comfortable in investing in their home country.



Advantages of Such a Product to the Parties Involved

- For Migrant workers' country of origin:
 - Additional remittance flows through the formal banking channel;
 - Stable increase in the deposit base of the banking system
 - Increase in transparency as formal remittance flows (addressing Money Laundering and Financing of Terrorism concerns)
- For Migrant workers: Investment in high yield EUR bank savings bonds or term deposits (in their home country), fully or partly guaranteed by the EBRD.
- For Issuing Bank: Local bank would be able to attract additional term funding from migrant workers abroad with longer tenors than they would be able to attract without EBRD's guarantee; alternative to direct funding received from the EBRD or market.
- For Confirming bank in the host country: Fee income from sale of bonds/term deposits to migrant workers.



Banks Potentially Interested in Such a Product

- Issuing banks: Small and medium sized banks in remittance receiving countries where trust in the local banking system is relatively low.
- Confirming banks: Potential Western banks that might be interested in such a product (e.g. those banks which already have a large network of correspondent banking relationships with banks in the migrants' home countries).
- Example of CBs working with EBRD: Commerzbank, UBS, RZB, Unicredito, Deutsche Bank, Dresdner Bank or Sberbank Russia.



Additional Thoughts to Make Remittance Based Banking Products a Reality... (i)

- Using TC to make adjustments to the legal and regulatory framework (to eliminate hurdles that currently prevent remittances from being channeled through the banking system);
- All administrative hurdles should be removed. For instance:
 - Re-patriation of remittances (It's the migrants money!) ;
 - Trips to the local tax authority in their home country to prove that capital gains taxes are paid;
 - FX transfers within the country;
- Mobilizing donor support for a public awareness and marketing campaign in remittance sending countries;



Additional Thoughts to Make Remittance Based Banking Products a Reality... (ii)

- Enlisting the help of the Central Bank in remittance receiving countries through political dialogue:
 - Cost of the product: Exclude personal remittance from reserve requirements?
 - In several 'high' remittance receiving countries, the trust of individuals in the banking system is low. For example, even if a FX transfer is not considered as additional income and therefore is not taxed, individuals often suspect that such transfers may become taxable ex-post. A public campaign and a commitment from the authorities that highlights the stance of the regulator in such issues could be beneficial.
- Tax treatment after bond repayment could be incentivised: e.g. taxes on personal remittance based savings products could be waived.



Increasing Focus of Western Banks on the Migrant Worker Customer Segment

- Bank accounts opened by migrant workers are the fastest growing customer segment.
- New products and persistent marketing activities to attract migrant workers' money. Attraction to a Western Bank for developing products to attract migrant workers is to:
 - Expand market share by attracting the fastest growing customer segment in the banks home market;
 - Receive direct salary payments each month from a customer segment that is increasingly becoming wealthier;
 - Cross selling of other insurance and housing products to these new customers.
- Packages of products rather than stand alone offerings. Built-in features such as:
 - Money transfer solutions;
 - Reduced transfer costs for remittances;
 - Easy bill payment solutions in the migrants home country (for relatives of the migrant worker);
 - Housing investment solutions in the migrants home.



Example – Lloyds' Silver Account

- Is a current account specifically tailored for migrant workers.
- In order to open a silver account, a migrant worker needs to make £500 direct salary payment into his/her account each month.
- Silver Account holders automatically benefit from various features incorporated in this product.
 - Money Transfer Card;
 - European Travel Insurance, etc.
- The RFP could potentially be an additional feature in such a product.



Link the RFP to Other Product Offerings on the Issuing Bank Side

- An issuing bank could offer preferential mortgage rates to customers who save with their bank using the RFP
- They could offer direct payment options for bills of relatives from this account.
- Issuing banks could also consider encouraging customers to make regular investments and based on the history of their investments consider these remittances to be part of the customers' creditworthiness.



Benefits of the Combined Product ...(i)

All interested parties:

- Possibility to combine efforts of all interested parties, including the regulator, governments, commercial banks;
- Leveraging the know-how and expertise of the EBRD in order to coordinate the individual efforts of the various interested parties;
- Sharing of various costs such as marketing of the product and awareness campaign for migrant workers in sender as well as receiver countries;
- Easier political and regulatory cooperation due to possible regional effort rather than bank by bank or country by country effort;



Benefits of the Combined Product...(ii)

Migrant workers:

- Reduction in cost for money transfer
- Benefits from various features of the combined product, such as direct bill payments for relatives at home, European travel insurance, etc.
- Possibility to invest, via RFP, in high yield EUR bank savings bonds or term deposits (in their home country), fully or partly guaranteed by the EBRD.
- More security to migrant workers, due to:
 - Potential regulatory and government cooperation/ commitment
 - Potential regional effort;
 - EBRD and donor involvement;
 - Increase in transparency.



Benefits of the Combined Product...(iii)

Confirming bank in the host country:

- Additional features to their existing products that would make their product offering more attractive to migrant workers;
- Additional fee income from sale of bonds/term deposits to migrant workers;
- Additional players that would have a stake in advertising the combined product in various countries (depending on the situation, this could be the EBRD, the issuing bank, various donors);
- Larger comfort level due to:
 - Potential regulatory and government cooperation/ commitment
 - Potential regional effort;
 - EBRD guarantee;
 - EBRD and donor involvement;
 - Increase in transparency.



Benefits of the Combined Product...(iv)

Issuing Bank:

- Reduction in costs: for example the marketing effort for the RFP would be incorporated in the broader product marketing of the confirming bank
- Attract additional term funding from migrant workers abroad with longer tenors than they would be able to attract without EBRD's guarantee; alternative to direct funding received from the EBRD.

Country of origin of the migrant worker:

- Additional remittance flows through the formal banking channel where trust in the local banking system is relatively low.
- Stable increase in the deposit base of the banking system.
- Increase in transparency as formal remittance flows (addressing Money Laundering and Financing of Terrorism concerns).



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