

Spotlight on Inclusion: Visa Economic Empowerment Institute Digital Remittances: A Tool for Global Digital Enablement

May 2021, by Mina Loldj

This series highlights innovations by IIF's member firms in promoting financial inclusion through digitalization. This edition focuses on remittances and digital money movement, highlighting the linkage between improving digital remittances and overall global digital enablement, with the goal of empowering migrant workers' and their families' financial security and well-being.

Remittances are a vital tool for migrant workers to support their families in their home countries, and can serve as a vehicle to discuss wider digital enablement globally. They have become an increasingly topical point in the digitalization for inclusion space, as an elaborate but crucial example of digital money movement. The Visa Economic Empowerment Institute (VEEI) published an article in 2020 analyzing the pandemic's effects on remittances, within the context of heightened unemployment rates affecting workers' abilities to send money to their home countries¹. Cross-border payments have also become an increasingly important topic for regulators, as seen by the Financial Stability Board and World Economic Forum's recent reports on the topics. Paired with the United Nations Sustainable Development Goal 10 of reducing the transaction cost on remittances to less than 3% by 2030, this set the stage for VEEI's latest report, [*The Rise of Digital Remittances: How Innovation is Improving Global Money Movement*](#).

Perspective from Senders

Migrant workers sending remittances are able to use the various money transfer organizations' (MTO) websites to model their remittance and compare the cost and efficiency of the different MTOs – this modeling tool, available on most MTO websites², allowed VEEI to conduct their research and compare transaction rates. When modeling across 28 key remittance corridors, the average cost was around 4%, but a well-informed customer who compared costs across various MTOs could find a cost close to or below the 3% UNSDG target in two-thirds of the corridors. It is important to note that there was no consistent best option across the MTOs, and migrant workers may not be aware that they have the option to shop around and compare different methods of sending money.

New Money Movement Capabilities with Visa Direct

One of the traditional frictions with cross-border money movement has been the slow and uncertain process of funds flowing through the banking system to reach their destination, but innovative money movement networks have emerged over the last several years. Visa Direct, a push payments platform that can reach billions of cards and accounts, has partnered with many MTOs to enable digital remittances. Ruben Salazar Genovez, Global Head of Visa Direct, adds:

“This shows that when we partner with the purpose of supporting migrant communities, the public and private sector can work quickly and eliminate significant barriers. We couldn't have done it without government support and the government couldn't execute without our support. [...] The winner here is the consumer, who is able to immediately receive the funds in a matter of minutes, not days, from banks and their government.”

¹ VEEI, “What's Going on With Remittances?”, December 2020

² Four of the five MTOs VEEI compared had modeling tools available for free on their website.

VEEI's recommendations for increased public-private partnership include aiming for an open digital ecosystem allowing for competition, streamlining the regulatory environment to reduce frictions in money movement, and simplifying the licensing process to reduce barriers to market entry – leading to an innovative and competitive landscape for digital money movement.

Perspective from Recipients

Although the ability to compare different MTOs provides greater opportunity for lower transaction costs, and there is progress being made to easily and securely send funds digitally, a remaining barrier is the receipt of cash. Most receivers of remittances pick up their funds in cash as their home countries' economies are not digitally enabled. Receiving the remittances in cash can add “100-300 basis points of expense to remittances. These costs are ‘assumed’ in the business model [...] and do not take into account the time and effort the receiving person must spend on the cash collection”³. Aside from the financial cost of sending and receiving remittances, the mostly incalculable time and efforts of the sender and recipient are not accounted for. Digitizing the process from end-to-end provides safety and assurance to both the sender and recipient, and ultimately can serve to help marginalized communities as well. Barbara Kotschwar, VEEI Executive Director, adds:

“We see remittance digitization as a matter of gender equalization because carrying cash can be a serious impediment for women to do business. Being able to receive remittances digitally can be a big factor in helping women, in particular, manage their businesses in a safe manner.”

Pushing for remittance flows to be entirely digital becomes a matter of safety for certain groups, in addition to simply being faster, convenient, and more secure. Digitizing money movements from end-to-end would again require public-private partnership to enable digital wallets and payment systems to be developed and usable in all aspects of a customer's life – this topic was discussed in the first iteration of this Spotlight series⁴, focusing on CIB Egypt's development of their digital wallet to include un- and under-banked customers, particularly in rural areas where commuting to and from a physical bank is not only time consuming, but a personal safety risk.

VEEI also included a brief “parting thoughts” section in the report, which considers the limitations of in-person work for positions that have become remote in the past year, posing the question: do some migrant workers need to migrate, or is the same output achievable while remaining in their home countries? Improvements to digital enablement for cross-border payments would still be necessary for workers to receive payments, but allowing for some workers to work remotely would alleviate the emotional and mental toll migrant workers are faced with.

VEEI's research and Visa Direct's steps to actively empower migrant workers and facilitate their money movement ultimately supports the digital economy on both ends of the corridor. Migrant workers take on incalculable emotional, physical, and mental toll to continue to support their families, despite a pandemic that has changed society's relationship towards work and made clear the importance of essential workers. Digitizing remittance flows and encouraging public-private sector partnership in streamlining this process is one of the many ways that financial institutions can work to meet migrant workers where they are, understand their needs, and work to improve their economic well-being. The IIF looks forward to continuing engagement with VEEI on their research, and will continue to follow developments in this space.

This spotlight series will continue looking at other initiatives across the financial services sector where digital technology is enabling greater inclusion. For more information, please contact Mina at mloldj@iif.com.

³ VEEI, “The Rise of Digital Remittances: How Innovation is Improving Global Money Movement”, February 2021

⁴ IIF, “Spotlight on Inclusion: CIB Egypt”, April 2021