Migrants and financial services

Luisa Anderloni[1], Daniela Vandone[2]

Abstract

The aim of the paper to analyse how a specific segment of population, that of migrants, meets its financial needs through financial markets or remains widely unsatisfied, eventually relying on informal markets.

The standing point is that not all migrants are poor people, nevertheless they often face difficulties to access and/or use financial services. We have to consider, then, that they often have specific needs that may be not properly addressed by the supply side. Furthermore the regulation, especially consumers protection rules, may be little effective for them.

The paper is structured as follows: a brief description of migration process in Europe in this new century; a review of the literature on migrants and financial services in Europe; the approach of migrants' life cycle and evolving needs along the different stages; a focus on remittances and mortgages specific needs; a focus on specific needs in the area of pensions; analysis of best practices in Europe with reference to supply strategies targeted to migrants; policy recommendations in order to improve migrants' financial inclusion.

[1] DEAS, University of Milan, luisa.anderloni@unimi.it
[2] DEAS, University of Milan, daniela.vandone@unimi.it

1. Introduction

This paper is part of a wider project studying the phenomenon of financial exclusion and policies to monitoring and promote access to financial services[3]. The focus of this paper is on migrants and financial services provision.

Since the middle of the 1990's, international migration started to grow rapidly in most developed countries, with features indeed unique from several viewpoints: size, complexity, diversity and social implications[4]. The implementation of effective policies to ensure immigrant integration, to attract the required skills to satisfy domestic needs and to fight against irregular entry and employment has become premium in the policy agenda of many countries over the past decades. An interesting aspect is that of financial inclusion of migrants, i.e. access to the mainstream financial sector by immigrants. However this is still a largely unexplored area although some countries have experienced benchmark initiatives in promoting financial inclusion and, more specifically, in migrants' financial inclusion, sometimes through financial innovations.

This paper discusses the potential of migrants as banking customers and analyzes areas of innovation in order to better serve this market segment. § 2 provides an overview of the dimension of this untapped marked segment and follows on by introducing the issue of financial exclusion and the position of migrants as clusters at risk of financial exclusion. § 3 gives a concise review of the literature on migrants[5] and financial services. We then outline the migration phases and personal variables as key elements to evaluate customer relationship issues in the context of migrant life cycles. The following sections look at various financial innovations that can be used to target this market segment. The final section provides policy recommendations for promoting migrants' financial inclusion.

2. The migratory phenomena: an ancient but still living matter

The migratory phenomena registered in recent years in many European countries are the result of structural changes in the labour market and in our modern social organisation. Together with demographic, political and social causes they have become expressions of lasting tendencies which are likely to grow significantly over the next few years.

The size of the migrant population is already quite high in many European countries (such as Austria and Germany 13%, Belgium and Ireland 11% and 10.6%, and France and the UK with 10% and 9.3%)[6] as shown in Figure 1. In other countries such as Italy, Spain and Portugal, the size of migrant population is significantly smaller. If, however, instead of considering the number already present we consider the flow of immigration, a trend of marked growth can be seen. New comers generally have specific needs when they start a new life in a different country and the social, cultural, economic and institutional context of the host country is often unprepared to cope with them.

These figures suggest also the idea that immigrants represent a new source of demand for banking and financial services.

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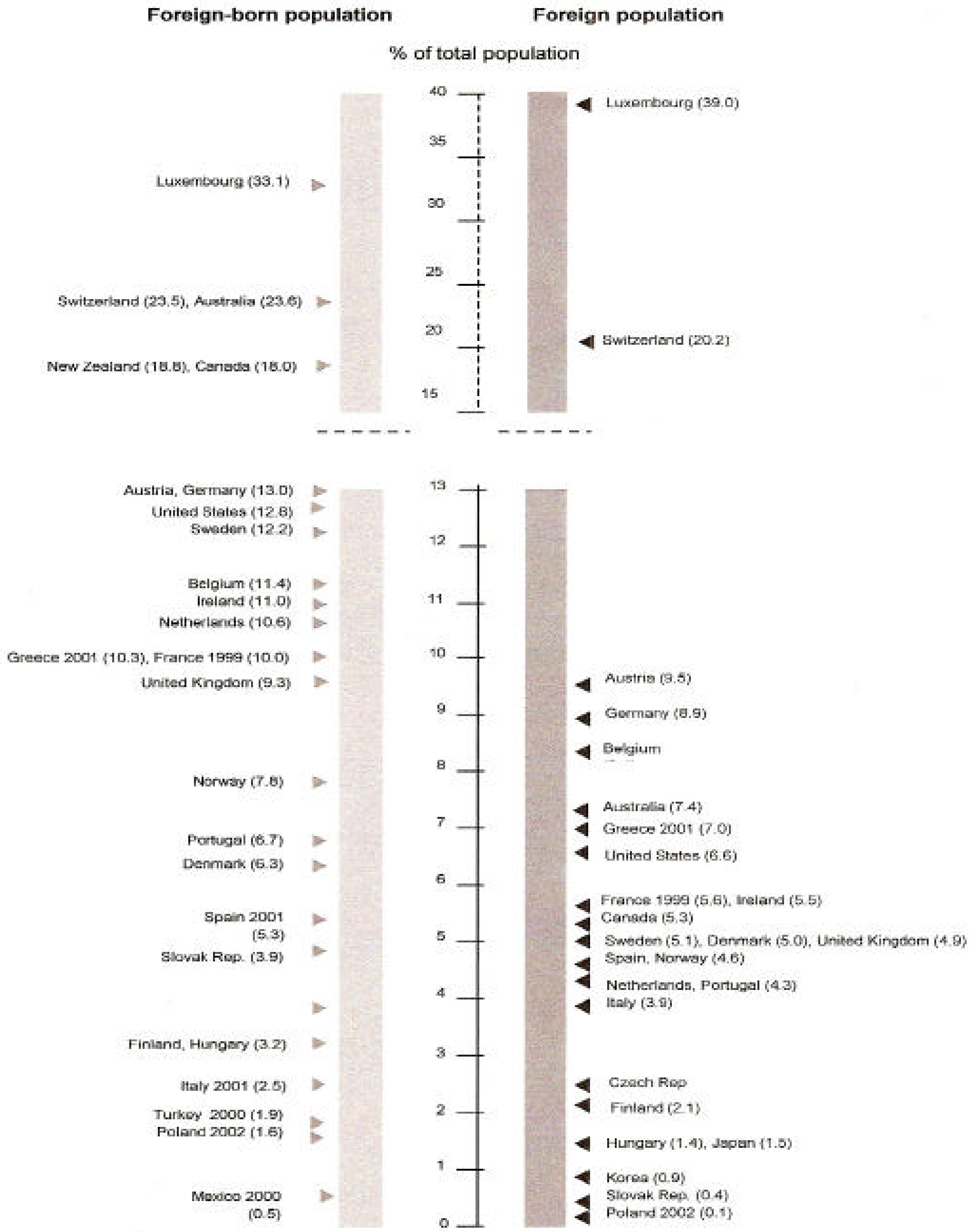
[3] "Financial Services Provision and Prevention of Financial Exclusion", study commissioned by the European Commission, Employment, Social Affairs and Equal Opportunities DG, under the study service contract reference n° VC/2006/0183.

[4] See OECD (2006).

[5] We use a wide definition of migrants, to include immigrants of foreign nationality, and individuals who have at least one parent or grandparent who was not born in the country where they have their residence.

[6] An unusual, and in many ways unique, case is Luxembourg where immigrants are mainly from other European countries (France, Portugal, Belgium, Germany and Italy).

Figure 1 - Stock of foreign-born populations in selected OECD countries[1]



1. 2004 unless otherwise stated.

Sources: *Foreign-born population: estimates by the Secretariat for Canada, the Czech Rep., Germany, Ireland, Luxembourg, New Zealand, Portugal and Switzerland; for the other countries, please refer to the metadata for Table A.1.4. of the Statistical Annex.*
Foreign population: please refer to the metadata for Table A.1.5. of the Statistical Annex.
World Bank (2006), p. 44

On the supply side, competition has also intensified in the retail markets. Therefore two scenarios can be drawn that refer to different strategies towards migrants: the competition could turn bank strategies toward middle and wealthy segments of the markets, at detriment of lower segments of the retail market and low-to-moderate income people suffer for a shortage of offer or, on the opposite, competitors could push some categories of banks to focus their strategies on these segments.

Coming back to the migration phenomena, in addition to the statistics on the high number of immigrants, other qualitative factors emerge, such as how immigrants can more easily become a target market for banking services. The following should be noted:

- in general, the presence of immigrants throughout countries tends to be evenly spread and not concentrated only in some of the main towns or certain geographical areas. There is, therefore, a migrants' demand of banking services almost everywhere, and it is not a phenomenon restricted to a few regions with a heavy immigrant presence;
- families are increasing in number; this is due to the policy, which many countries have, of making it easier for relatives to join a family member, and to migration models which envisage more long-term and permanent stays in the country as well as to the beginnings of a build-up of successive generations of immigrants;
- greater variety in the jobs carried out, including the growing number of self-employed immigrants and small entrepreneurs also in countries in which immigrants normally worked as care assistants, domestic staff or company employees.

Moreover, if we consider that migration causes a brain drain effect from richer countries at the expense of emigrant countries and at times even brain waste, so that there is a net loss of skills and talents, we reinforce the idea that access to the banking system can play an important role in the promotion of an individual's economic and social life. In other words, because of inconsistent use of its full capabilities in the labour market, human potential, which is often not fully appreciated, is demeaned even further by a lack of suitable banking and financial services.

The above information about the scale of present and potential demand and the forecasts on further growth over the next few years, together with qualitative factors, should make us carefully consider the economic opportunities in order to strategically direct banking services towards these new segments.

3. Literature review on migrants and financial services.

The literature on migrants' access to financial services in Europe is scarce or, better, it is often focused on specific issues, mainly related to remittances and microcredit. Two main reasons are behind this. On one hand, in some countries the phenomenon has a lasting tradition and migrants are assimilated to the comparable native population both on the demand side and the offer one, i.e. generally, to low income customers, less educated, with scarce financial literacy and simple financial needs. As a consequence the literature generally analyses this segment of population together with other comparable segments without specific emphasis on cultural or ethnic aspects. On the other hand, in some countries, the phenomenon – in a large scale – is relatively recent: as a consequence the demand is still weak or latent and little attention has been paid for the specific needs of immigrants in the financial services area, while the priorities are in housing, health, children education and problems related to the job market.

Moreover, the issue of migrants' access to banking services is not a priority compared to other livelihood needs and to other aspects of their economic and social integration. However in recent years, this concern has become more important, due to various causes. Some of them are specifically related to migrants, and others are more generally related to the attention paid to all persons who find it difficult to access the banking system and to establish financial relationships and consequently risk to be financially excluded[7].

[7] As discussed in Anderloni L. and E. Kempson (2007), in the overview paper of this research project, financial exclusion has been identified as a multidimensional construct and different definitions have been suggested. Sometimes, the concept of financial exclusion also encompasses the distinction between "unbanked" individuals (that are totally excluded from the banking offer) and "underbanked" individuals who, while they do in fact have a bank account (they are not "unbanked"), use their account very little as they have a pattern of living in which they mostly use cash or prefer to use other channels outside the mainstream financial sector. The latter is

As previously said, in literature it is possible to identify the following specific areas of analysis:

- remittances;
- microcredit;
- in more general terms, access to banking and financial services.

3.1 Remittances

As far as remittances are concerned, the body of the literature is quite robust with reference to both theoretical issues and empirical evidences. These approaches include both the microeconomic analysis of the determinants of remittances and the macroeconomic analysis of their growth effects.

Microeconomics of remittances[8] have focused since the early 1980s on the role of information and social interaction in explaining transfer behaviour. The research questions behind these studies are such as: Who does remittances ? Why ? How much ? and also: Why do consumers choose mainstream financial providers, such as banks or other financial services (i.e. check cashers or wire transfer companies) ? The related policy question is: How can we encourage them to use banks and to optimise their utility function?

The most common research question in the microeconomic approach is: "Why migrants do remit?" It is linked to the wider question: "Why do migrants migrate?" Referring to the motivations behind the transfer of some income to people remained in the home country, generally it is assumed as obvious an altruistic inclination to remit. The most common motivation to send money is simply that migrants care of those left home: spouses , children, parents and members of larger familiar and social circles. In reality, a combination of different motives often interact in determining remittances behaviour[9]. However, in order to better studying them, the following single motives can be identify:

- altruism;
- exchange;
- implicit family contract: family loan arrangements;
- loan repayment;
- insurance;
- investments.

These motivations are synthesised in table I.

Table I – Models behind remittances

According to the **altruism** view, immigrants send remittances back home because they care about the wellbeing of their family in the home country. Therefore, sending remittances gives satisfaction to migrants who are concerned with the welfare of their family. The prediction of this model is that remittances tend to decrease over time. One reason for this is that family attachment is more likely to decrease over the time which members are in different countries. Migrants may also plan to stay abroad for a long period of time (possibly retiring there) and have their families join them. This, of course, will reduce remittances. On the other hand, if immigrants return home they can bring back capital with them, in the form of one extra remittance of large amount.
According to the **exchange** view, self-interest inclinations are behind the behaviour of remitting. Remittances "buy" various types of services such as taking care of the migrant's assets (land, cattle, home building or refurbishing) or relatives (children, elderly parents) at home.
The model of the implicit family contract considers that behind a migration there is a sort of **family loan**

often the case of migrants. Furthermore, the phenomenon of using "alternative financial services providers" is often common among migrants in many countries, both for remittances services and small loans.

8 At a microeconomic level, remittances are defined as interpersonal transfers between the migrant and his or her relatives in the home country. It is extremely difficult to gather accurate data on remittances and the data usually underestimate the true remittance flows. The main reason is that official statistics do not capture remittances sent outside the banking system.

9 See Solimano A. (2003), IMF (2005) and Rapoport H. and Docquier F. (2005) and Solimano A. (2003) for a deeper review of the literature on this subject.

arrangements. This approach also takes the family, rather than the individual, as the focus of analysis. The theory assumes that there is a kind of implicit contract between family members who went abroad for seeking work and those who stay at home. The implicit contract can cover a considerable time span and combines elements of investment and repayment. Families have invested in the education of immigrants and usually finance migration costs too. Repayment begins after immigrants have settled in the host country: once they find employment and have begun to earn money, they start paying back the loan in the form of remittances. The model predicts differing remittance time profiles depending upon the length of time it takes for immigrants to enter the foreign labour market and also on the length of time spent abroad. The faster they find a job, the sooner remittances start. The amount remitted will depend, among other things, on their income. Unlike the altruistic model, remittances do not necessarily decrease over time.

In the **loan repayment** view, the emphasis is mainly on loans aimed at financing migration costs rather than education. Costs are often burdensome, and above the financial possibilities of the migrants' close family, requiring financing from the extended family and even from larger networks. As the initial loan from relatives requires subsequent repayment, the flow of remittances represents return of capital plus interest. This may also be seen as a particular exchange of services.

The **insurance** view is another version of the theory of remittances as an implicit family contract between immigrants and those at home, and relies on the notion of risk diversification. Due to income volatility of agriculture in the rural regions of most developing countries and the limited functioning of credit and insurance markets, migrations may constitute a kind of informal familial co-insurance agreements. According to this model, sending a family member abroad - often the most educated one - as a migrant worker is a means of diversifying economic risk. Family members working abroad can help support fellow family members through difficult times at home. In the same way, families in the country of origin can provide security for family members who can sometimes have periods of difficulty in the host country. Under this model, migration becomes a co-insurance strategy. Enforcement of contracts is not seen as a problem[10], due to the fact that they are agreements within the family, strengthened by family trust and altruistic feelings. Also inheritance perspectives may represent a disincentive against breaching the contract. In this model, remittances vary over time and reflect the different economic and financial situation of family members abroad and in the country of origin.

According to the **investment** model, migrants are mainly motivated by economic and financial self-interest when sending remittances to the home country. The dynamic is as follows: migrants start saving after a while in the host country. The question then arises as to how and where to invest in order to build wealth, spreading investments between the host country and the country of origin, and an obvious place to consider investing, at least some of these funds, is in property, land, or financial assets in the country of origin. These assets may earn a higher rate of return than assets in the host country, although their risk profile may also be higher. In turn, pending immigrants return to their country of origin, the family can administer these assets on their behalf, acting as trusted agents. Another motivation in sending money home is the desire to receive inheritances from parents: family members that have contributed to increasing family wealth, for example by sending remittances, increase the likelihood of receiving inheritances in the future.

These different theories predict different flows of remittances over time. However it is difficult to conduct discriminative test of whether remittances follow one or another model[11]. Lucas and Stark (1985) in their pioneering study infer from the evidence of a positive relationship between the level of remittances received and households income (without considering money transfer), that other motives than exchange, investments and inheritance could play a key role in determining remittances. Further empirical works aimed at testing the hypothesis compatible with the mentioned models have been conducted in different contexts. Most studies on the determinants of remittances – both in developed and in developing countries – have generally rejected the pure altruism hypothesis. Therefore

[10] Indeed, many theoretical papers have emphasized the trade-off between incentives and insurance, but there are few empirical tests.

[11] As pointed out by Lucas and Stark (1985), the fact that more educated migrants tend to remit more is coherent both with the repayment of the family loan due to the repayment of the principal (plus interest) invested by the family in the migrant's education and with the altruistic model, since educated persons tend to earn more. Moreover, generally a combination of different motives apply, and the mixture tend to vary over times and places. Finally one should consider, as above mentioned, the matter of the availability of data.

remittances behaviors are better explained as familial inter-temporal contracts than on the basis of individualistic motivations [12].

With reference to the other research questions (Who does remittances ? How much ? and also: Why do consumers choose mainstream financial providers, such as banks or other financial services (i.e. check cashers or wire transfer companies) ? and, sometimes, How to encourage them to use the official channels and, in particular, banks ?), restricting our attention to the European literature, to the best of our knowledge, some empirical studies have been conducted in the UK, the Netherlands, Germany, Spain and Italy. Moreover, at European Union level, the European Commission realised two surveys on workers' remittances from the EU to third countries[13]. Here the aim was to gather basic information from the EU Member States about the importance of workers' remittances[14] from the EU, in particular about the amounts involved, the country of the non resident counterparty, the main transfer channels used, the transfer costs and institutional conditions. The main finding of the survey (conducted through a questionnaire sent to Member States) is the scarcity of information about the phenomenon in many countries[15], the general difficulty of capturing certain flows, especially the ones sent through informal channels and the emerging "preferred" destinations that seems to arise in certain Member States such as Latin America in the case of Spain, the Mediterranean for Germany, France, Belgium and the Netherlands, or Eastern Europe for Germany. In contrast other Member states show more diversification (like Italy, Greece and to a lesser extent Portugal). The scarcity of data is confirmed by the very few answers received with reference to the question on the average amount of money remitted per individual transfer. As far as the question about the main channels in use for remittance transfers is concerned, information submitted by Member States confirm the difficulty of distinguishing among different transfer channels, because the only record often comes from the banking system, while high transaction costs appear to favour informal transaction channels. Transfer costs are difficulty too to estimate due to various circumstances: the fact that user costs for transferring money abroad vary widely and depend on a range of factors, such as the institutions used (e.g. banks, non banks money transfer providers, different companies), the amount involved, and the means of payments[16]. However, there is no clear evidence that fees for channelling remittances through money transfer operators are higher than for bank transactions. Figures suggest that costs of transferring money across borders to non-EU countries tend to differ more among Member States than among different channels. In conclusion, it is affirmed once again the need to cooperate to facilitate the transfer of remittances and reduce costs.

Turning to consider surveys conducted in single countries, we find various analysis conducted in the UK, the Netherland, Germany, Italy, Spain and France[17].

As for the **macroeconomics approaches**, they are mainly concerned with the economic determinants and consequences of remittances[18] for developing countries (short run effects and long run impact), at the light of the fact that developing countries are characterised not only by high levels of poverty, but

[12] However it is worth mention that microeconomic studies often do not consider the social determinants of remittances, as community characteristics are generally not included in remittance regression analysis.

[13] See European Commission (2006).

[14] For this purpose, workers' remittances were defined as private cross-border money transfers from foreign employees living and working in the EU to their countries of origin. Transactions between counterparts both residing within the European Union were excluded (intra-EU transfer). Cross-border money transfer providers are defined widely, including banks, postal services, and wire services as well as non-registered remittance systems.

[15] Eight countries (Czech Republic, Denmark, Luxemburg, Malta, Austria, Slovakia, Finland and Sweden) out of 25 Member States did not reply to question 1 concerning the Global amount of annual remittances to non EU-third countries. Moreover, when compared with the first survey sent in 2004, data revisions are observed for all reporting countries, and some are of sizeable amount (Italy, the UK, the Netherlands, France, Spain, Portugal, Belgium and Greece).

[16] Relatively charges typically decline with the amount remitted.

[17] See Appendix I for the aim, the methodology, main findings and policy recommendations.

[18] At a macroeconomic level, remittances include both periodic transfer between the migrant and the family and the larger social network at home, and repatriated savings upon return.

also high levels of inequality and income volatility (which, in turn, make access to credit and insurance so crucial). From a macroeconomic perspective, the relevant questions are: "How much income earned abroad is sent to the home country?", "Which segments of households – by income distribution – are the most affected?", "How are these resources used?", "Do they increase consumption or investments?", "What are the consequences in terms of income and wealth inequality in the receiving countries?" and "what are the consequences on the education of the new generations or in terms of brain drain?"

Short-run approaches focus on the impact of remittances on relative prices and welfare.

According to the standard microeconomic view, when remittances constitute a significant source of foreign exchange, they may clearly affect the equilibrium level of the gross national product and other macroeconomic variables. Various models have been elaborated for analyzing the short-run economic consequences of remittances. Other studies applied the international trade theory to analyse the impact of international transfers on relative prices and trade flows.

Long-run approaches considers the long-run performance of receiving economies in a way that depends on whether remittances are used for consumption or investments. The dynamic positive effects result limited if remittances finance consumption and housing expenditures. Furthermore socioeconomic studies revealed that if remittances are used for considerable consumption, they increase frustration and resentment among non-migrants. Moreover, they can discourage labour supply and efforts to increase economic activity by the recipients, thus increasing dependency and delaying economic development. Other studies suggest a more optimistic view of remittances and highlight the positive impact in terms of financing productive investments, especially in the rural sector. In more recent times, in the 1980s, the debate on the growth effects of remittances shifted from productivity to inequality. Generally these studies support, with empirical evidence, the finding that remittances reduce economic inequality in the origin communities and contribute to alleviate liquidity constraints, thus promoting investments. Further studies on long-run impact of remittances has been developed considering that the growth effects of remittances cannot be dissociated from their distributive effects.

Evidence on the growth effects of remittances is available on the relationship *migration-remittances-inequality*, on that *remittances-human capital formation*, or that *remittances, return migration and entrepreneurship*, or finally that on *migration-productivity and rural development*.

Concluding, generally migrations and remittances tend to have an overall positive effect on origin countries' long-run economic performance. How to increase the social value of remittances is still a pending issue.

3.2. Microcredit

As far as studies on microcredit in developed countries are concerned, the body of literature is wide, partly promoted by the UN's designation of the 2005 "International Year of Microcredit" in an effort to build support for making financial services more accessible to poor and low-income people.
The attention to microcredit as a tool to facilitate self-employment or micro-enterprises start up and growth initially paid in developing countries, has since a decade been shifted also to developed countries where new areas of poverty and social-economic exclusion have emerged.
With reference to Europe, too, the body of literature is wide and it adopts mainly empirical approaches.
Migrants are normally among the target groups of microcredit initiatives and often they are regarded as a segment that it is easier to serve for the following reasons:

- they have often the features of persons who want to emerge as entrepreneurs, with strong motivations and personal attitudes appropriate for developing one-person self-employed businesses and micro-enterprises;
- they often need and appreciate the offer of advisory services complementary to finance, such as fiscal, financial planning and accountancy, and marketing advice, as well as training initiatives;

- among them there are large groups with a high level of formal education, technical know-how and managerial skill, but they lack finance and knowledge of the institutional context of business activities;
- they are part of identified – ethnic – communities, so that it is easier to promote collective initiatives:

Furthermore migrants are among the target groups of new customers for a growing number of banks in Europe that are competing for serving this emergent market segment. Consequently, as the aim of subsidies often associated to microcredit is to build bridges between the persons at risk of social exclusion and mainstream financial institutions and once the bridge is built the subsidy should disappears, there are good reasons to promote microcredit among migrants.

Indeed most studies on microcredit in Europe[19] enlighten that those of migrants is a common target group of the MFI institutions and programmes within the European countries.

The literature in this field generally adopts a case study approach, therefore it is difficult to summarise the findings. However the following points can be highlighted:

- it is generally considered of great value an integrated approach to self-employment and microfinance in such a way that there is a one-stop shop for immigrants that want to be self-employed or micro-entrepreneur and are searching for financial and mentoring assistance;
- it is important to promote also a context with a positive attitude towards entrepreneurship and the ease of creation, registration and management of micro-enterprises;
- often, the most successful experience see the cooperation of different type of stakeholders: public, private and non for profit;
- the level of default on credit is generally low, and the ability of screening and monitoring the project is appropriate;
- an open question is still that of the sustainability of the initiatives and the result of the cost-benefit analysis, in other terms the financial system approach, based on long-term sustainability, in contrast to poverty lending approach based on the goal to provide assistance to the poorest, would like that the costs of microfinance should be primarily covered from financial operations. This is rarely the case. However this is a common problem, not specific to microcredit to migrants. If ever, as below discussed, migrants are often a kind of customer that become profitable during his life cycle when the banking relationship become deeper and richer.

3.3. Access to banking and financial services

Finally, considering studies on the wider and more general issue of access to banking and financial services by migrants, to the best of our knowledge, specific surveys have been conducted in Europe in the UK[20], the Netherlands, Germany, Spain and Italy.

Appendix II provide an overview of these surveys.

It is difficult to summarize in a few sentences the results of various surveys conducted in different countries, aimed at different goals and adopting different methodologies. However, these surveys show a growing interest by banks to serve this market segment. In our opinion, immigrants are a market segment where market responses can be provided quite easily. Several banks have started to consider the market segment of immigrants in terms of the potential for business development they offer. An answer to the question of whether the migrant population is seen to have specific financial needs that require a targeted and dedicated response, or whether they are to be seen as low priority customers for whom the cost of providing services is inadequately covered by earnings and risk

[19] See Siewertsen H. et all (2005), part II, Viganò L. (2004), and http://www.european-microfinance.org/microfinance_unioneuropeenne_en.php. With specific reference to migrants and ethnic minorities see also Calderón M.L. et all (2006) for the Spanish experience, Pilley C. (2004) for the experience in the UK, and Hayen A. et all (2006) for the German experience.

[20] See Aktinson A. (2006), Pilley C. (2004),.

coverage margins, can be found by looking at the issue from a perspective that includes the changing dynamics of needs and how these will change over time.

An understanding of needs within this more dynamic context can help explain whether the limited financial inclusion of, possibly large, groups of immigrants may be due to the lack of, or at least limited extend of, needs that can be meet by the banking system or, on the other hand, whether difficulties in access are rooted in cultural, linguistic factors, procedural aspects or assessments of cost, or even to other factors of individual psychology and views individuals have of banking relationships. It could also help understand whether, as an alternative or in addition to these shortcomings on the demand side, there might also be something lacking as regards what they are offered, either because products and services are unsuitable to their needs, or because the procedures, communication methods or pricing policies adopted have the effect of discouraging, whether by design or by chance, access to banking relations. Taking a dynamic approach and a longer term perspective opens the way to a modification of both views: on one side immigrants might appreciate the convenience of access to the banking system on the other side banks might see the benefits in targeting the immigrant market. As a result it might be easier for supply and demand to come together.

Adopting this approach might also make it easier to provide an accurate assessment of remittance services, which are specific and exclusive to the migrant population. In recent times they have been analysed on a number of occasions and from several viewpoints taking into account the connection this issue has with other macro and micro-economic questions[21]. Remittances are a primary need, generally used recurrently by immigrants, though remittance models vary depending on the reasons the person saves money to send it back home, on how long they have been living in the host country and on their plans for the future.

The following sections outline an approach that looks at financial needs taking into account the phases of migration that mark stages in the life cycle and of migrant's actual plans. This makes it possible to provide a comprehensive assessment, based on individual personal variables (social, cultural and psychological characteristics) and to demonstrate that the range of products and services supplied is likely to become broader. This is especially the case as the initial needs to access an account to make deposits and use payment instruments (and the need to make remittances) is supplemented with additional financial requirements for increasingly complex services that are likely to be profitable.

4. Migration phases and personal variables as key elements of financial needs[22]

As previously stated, immigrant groups often show characteristics and attitudes typical of other socially excluded groups, such as low income, low skills levels, a lack of language knowledge and of technical – i.e. legal and financial - aspects, mistrust of suppliers, and also psychological barriers including lack of confidence. These characteristics are partially related to migration phases and levels of integration in the host country, as well as to economic, social and educational levels, as well as to the type of banking system existing in the country of origin.

However immigrant groups may differ, under certain conditions, from other socially excluded groups. In particular, second generation immigrants, those in the last phases of their migratory projects, or immigrants from certain ethnic groups, can gradually overcome initial economic exclusion, when they obtain a regular job and a house, and when they start saving and using bank services and products. Eventually they may become sought-after customers who will be supplied by bank service providers with a range of services. However this is not the case for all immigrant groups. Thus, the migrant universe is a complex one, made up of various ethnic groups which differ widely. Consequently, theoretical considerations may apply to one situation but not to another.

[21] See also § 4.2.
[22] Part of this section was adopted from Anderloni L. (2006).

Migrant social and financial exclusion also differs according to geographical context, with considerable variation to be found in Europe. Some countries, such as the United Kingdom, France and Germany, have experienced migration flows for many decades, and their "integration problems" are different from those experienced by countries with recent, more varied migration flows, such as Italy and Spain. Recent migration flows are much more mixed than those in the past: in countries where migration is more recent, there are many different nationalities of immigrants, from Asia, Africa, Eastern Europe and Latin America.

4.1 Demand for financial services aimed at immigrants

In drawing up a theoretical framework based on variables that may influence migrant demand for financial services and products in the host country, we should remember that financial needs are generally considered to be "secondary level" needs, rather than the "primary level" basic needs required for survival in a foreign country[23].

With this in mind, we need to consider the relationship between the following variables:

- migratory project (phase and goals of migration plan);
- priority of basic needs and resulting prioritisation of intervention by social and governmental institutions;
- structure of banking markets, extent of development of a cashless society in the host country.

The implementation of plans to move from one country to another can be divided into a succession of phases[24], each of which has differing priorities in terms of basic needs and in terms of financial needs.

The first phase is "initial settlement", when immigrants first enter the host country. Basic needs in this phase relate to labour (finding a job or obtaining money for basic living needs), housing (finding a place to live, often shared with many other immigrants), and language. In this phase financial needs relate mainly to the use of money for survival. The key variable in the initial phase is the issue of legal or illegal entry, as this heavily influences immigrants' way of life and the visibility of their activities. Whether immigrants have entered the country legally or not has implications for how easy it will be to find jobs and housing, both of which are very important basic needs in the initial phase. Generally illegal immigrants have no official access to the services provided by financial institutions[25]. It is practically impossible for immigrants to save money during this economically unstable first phase. Housing problems may lead to financial needs, such as the need to obtain a bank guarantee to rent a house, in cases where immigrants favour or are able to choose the legal approach and do not have to rely on the "irregular" rental market. More often, immigrants share housing with friends, relatives or simply other immigrants from the same country or ethnic group. Illegal entry is, furthermore, often associated with incurring large debts to finance the journey.

The second phase is characterised by the following basic needs: for illegal immigrants, to obtain a regular residence permit; to have a regular job; and to work towards reuniting the family. This need shapes choices in different ways, depending on what their main goal in coming to a country has been. If the goal has been to stay permanently in the host country, immigrants often try to arrange for other family members to join them. If they only want to stay on a temporary basis, they prefer to help the family while staying in the host country and will send them money for food, housing, education, and emergency medical services. In this phase, financial needs consist mostly in saving and transferring money abroad through remittances. How often they send money depends on how important an individual's help is for the survival of their family in their country of origin and the amount will

[23] See Anderloni L. (2003a) and Anderloni L. (2003b).

[24] See Sergi N. and F. Carchedi (1991), pp. 8-9 and Anderloni L. (2003b), pp. 163-164.

[25] Actually, in most countries there are no legal restrictions because a valid passport suffices to open a bank account as a "foreigner". However, these accounts have very high fees and costs. For commercial reasons, i.e. for internal policy reasons, banks often do not publicise this.

depend on how much they manage to save, given low salaries and high expenses[26]. Other financial needs may include personal loans or consumer credit to buy furniture or household appliances, or, micro-credit for the self-employed to purchase business equipment. Sometimes the demand remains only latent due to a failure to meet the requirements that banks generally stipulate in order to grant a loan in the first place.

The third phase of “stable settlement” involves a greater degree of integration in the host country. Priorities may shift to setting up business or commercial activities (such as shops, restaurants, or small businesses in the services or industrial sector), to buying “superfluous” goods or services (such as a car, or more furniture, or entering into a rental agreement), and in certain cases even to buying a house. In this phase, saving is characterized by more medium-term goals, and immigrants look for basic savings products. As far as credit is concerned, demand will focus on micro or consumer credit, mortgages for house purchase, and business loans. The amount and frequency of remittances generally decreases as many immigrants now have a family living with them in the host country and prefer to invest most of their resources in improving their life in their adopted country.

The exact features of the fourth phase of “consolidation” will depend on the original plan or model of migration[27]. If the plan follows the “transit” model, where the aim is to work abroad for a certain period of time, to save money for the family in the country of origin, to be able to buy, build, or refurbish a house and then return home, needs are similar to those in the previous phase. An untapped area of offer for this segment of immigrants may be that of savings and transferable pension schemes and the formation of deferred annuities[28]. If the project follows the model of “final settlement and succeeding generations”, the financial needs will become more sophisticated, and resemble those of people in the host country with the same characteristics. Remittance services become less important than in the previous phases.

Further stages are those of second and succeeding generations. Only countries with a long tradition of incoming migrations (the US, the UK and France) have already experienced these stages. However, in all these phases, remittance is an important service for migrant populations, even though its relative importance tends to decrease as other needs increase.

Therefore, considering that remittances are only one type of financial service a person may need, we should remember that migrant demand for financial services and migrant financial behaviours are also influenced by such factors as:

- country of origin;
- personal attitudes;
- ethnic group.

[26] As previously said (3.1) different theories have been developed explaining the reasons why a migrant makes remittances and according to these theories how – in principle – amount and frequency of flows will change during the life cycle.

[27] Massey D.S. et al. (1993) and Schoorl J. (1995) show two different research approaches to international migration: studying why migration processes begin, and studying how the migration process continues over time.

[28] See the later section on pension schemes.

Figure 2- Financial needs and migrant life cycle

STAGES	**FINANCIAL NEEDS**
I INITIAL SETTLEMENT	SURVIVAL – DEBT RUN UP
II LEGALISATION	REMITTANCES LATENT DEMAND OF CONSUMER CREDIT AND MICROCREDIT
III STABLE SETTLEMENT	REMITTANCES SAVINGS AND PAYMENT SERVICES LOANS FOR : ***consumption*** ***start up of economic activities*** *(self-employment or microenterprises)* ***mortgages*** NON LIFE INSURANCE "BASIC DAMAGES"
IV CONSOLIDATION	REMITTANCES (reducing importance) BASIC SERVICES AND MORE SOPHISTICATED FINANCIAL NEEDS *including* ***investment and asset management*** ***life and non life insurances*** ***pension schemes*** ***loans and mortgages*** ***electronic payment services***

FURTHER STAGES

DEPENDING ON MIGRATORY PROJECT

"**TRANSIT**"	"**FINAL SETTLEMENT"**
coming back to the country of origin If well marketed with tailored products: ***Savings and transferable pension schemes*** ***Formation of deferred annuities***	*succeeding generation* Similar – *ceteris paribus*- to those of the comparable local population

4.2 The special role of remittances

Remittances represent a major area of financial intermediation for a variety of reasons. As the previous section pointed out, they are a service which represents an exclusive need for this market segment, even though their importance in the immigrants' portfolio of services and products generally changes throughout their life cycles. Remittance services can therefore be considered a way of starting off a relationship with a bank. The relationship gradually strengthens and eventually more complex services are used that incorporate greater added value.

It should also be pointed out that recently, considerable attention has been paid to this area of business from a number of perspectives which are not just restricted to the strategies of individual banks or financial operators, but which also involve international financial organisations (starting with the World Bank, the United Nations and the IMF), policy makers and international and national regulatory and supervisory bodies.

The reasons for this interest can be summarised as follows. As far as macro-economic aspects are concerned:

- flows of remittances represent highly significant qualitative and quantitative flows of capital, not only for individual families, but also for local communities and national economies;
- the direct impact is mainly on current family incomes, but families also use them to pay school fees for children in the home country, therefore investing in human capital for the next generation. Furthermore, some remittances are channelled into investment goods, such as machinery, tools and as a source of operating capital for small businesses. There is, therefore, growing interest in using these flows to invest in human capital and in entrepreneurial and micro-business capital;
- remittances are also used to purchase land or homes, as well as to repair and refurbish homes, sometimes producing disorderly and erratic agricultural and urban "development". This means that the potential for development runs the risk of being demeaned and that environmental and social consequences are negative.

As far as the functioning of banking and financial markets are concerned:

- a large part of remittance flows are channelled outside the banking system both by specialised agencies which belong to the official system as well as through informal channels of various kinds. This has clear consequences for the following aspects;
- the cost of remittance services in its various forms has considerable impact on the amounts sent. The composition of cost elements can vary and can include commissions and administrative costs in the country from which the money is sent and even in the country it is sent to, as well as a currency exchange commission, while the exchange rate applied can also contribute to overall costs. It is therefore difficult to calculate these costs in abstract terms (often rough estimates calculate a cost of 10% for average amount remittances). In any case, these charges represent a drain on the resources of the poor population in the country where the money is received and of the workers who have to make a considerable effort to save the money. Therefore, it seems important to raise public awareness on the issue;
- the infrastructure of the payment system is very important in this field. Improvements could increase efficiency, reduce costs and offer a higher level of welfare both from the point of view of the individual families involved as well as in terms of their countries;

In terms of regulation, the issue of remittances is particularly relevant to:

- how payment systems relate to deregulation of the markets and functioning of the single European market, both in terms of guaranteeing solvency conditions and efficiency of consumer protection as well as, more generally, of the individual customers. In terms of the latter, the importance of enforcing transparency regulations should be stressed, regarding conditions and user friendly procedures that can be used in the event of breech of contract and disputes;

- the problems involved in using financial systems for money laundering and money dirtying transactions. The latter includes, in recent times, the problem of financing terrorist activities.

Indeed, discussion on global remittances is an area where debates and the process of regulation are ongoing[29]. These are complex regulatory procedures because often they must be co-ordinated with different concerns and various legal systems - from international law to private and banking law. Moreover, it is now a commonly shared opinion that every regulatory change must carry out an assessment of the regulatory implications, with a cost estimate and an evaluation of the benefits of the regulation. The point that should be emphasised is how these regulatory or re-regulatory processes can represent a kind of institutional innovation which in turn can stimulate innovations in remittance products and processes.

As regards the innovation in the institutional context, the most important stimulus is the likely introduction of a new European Directive on Payment services in the internal market[30]. Among the three main building blocks of the proposal, with reference to the right to provide payment services to the public, a new category of service providers, named "payment institutions", is created[31]. Payment institutions should be subject to a set of conditions and prudential requirements proportionate to the operational and financial risks faced in the course of their business[32]. It is worth mentioning that money remittance services are included in the list of "payment services"[33] contained in the directive. As regards the area of activity and the way of rendering payment services, payments institutions should be prohibited from accepting deposits from users and permitted to use only funds accepted from users for supplying payment services. This provision limits the area of innovation for money transfer operators, while banks, as credit institutions, can offer services with higher added value. The approach of the European discipline is indeed – in principle – flexible in order to avoid the risk that some institutions are "forced into the black economy": mechanisms are therefore suggested with the aim to allow that providers unable to meet all the conditions may nevertheless be treated as payment institutions[34].

Another important improvement in the institutional context is that of transparency and of understanding of conditions. The underlying objective is to facilitate payment service users to make well-informed choices and to be able to shop around with different providers. Adequate information should be given to payment services users with regards to both the payment service contract as well as to the authorisation and execution of a transaction. In this area a balance should be found between full details of information and the real needs of the users; a standard form of communication of the

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[29] Here different sources drive the process, such as the recommendations of the Bank of International Settlements and the World Bank, and also the OECD with the FATF-GAFI on Money Laundering and the European Commission.

[30] See COM (2005) 600 final and Report A6 -0298/2006, Committee on Economic and Monetary Affairs. The objective of the proposed Directive is to create a Single Payment Market where improved economies of scale and higher degree of competition would help to reduce the cost of payment systems. Therefore the Directive is aimed to establish a common framework for the Community payment market creating the conditions for integration and rationalization of national payment systems through: *i)* enhancing competition between national markets and ensuring a level-playing-field; *ii)* increasing market transparency for both providers and users; and *iii)* harmonising rights and obligations of users and providers in Europe.

[31] Aiming to remove legal barriers to market entry, establishing a single licence for all providers of payment services which are not connected to taking deposits or issuing e-money. See the mentioned proposal, point (8) of the introductory "whereas".

[32] In principle those requirements should not be heavy due to the fact that these kinds of operators engage in more specialized and restricted activities. In fact, they generate risks that are narrower and easier to monitor and control than those that arise across the spectrum of credit institutions' activities.

[33] In the Annex to the Directive, point (7) includes money remittances services, mentioned as follows: "*money remittances services where the cash, scriptural money or electronic-money is accepted by the payment service provider from the payment service user for the sole purpose of making a payment transaction and transferring the funds to the payee*".

[34] Those cases should be subject to strict requirements related to the volume of transactions and importance of the public interest.

conditions is suggested to the Member States with the recommendations that they have to be set out in easily understandable words and in a clear and readable form. In this context there is also room for enhancing transparency regarding fees, charges and exchanges rates for currency conversion applied to the payments.

The Payment Services Directive, in providing an institutional framework for the activity of payment institutions, creates also a prerequisite for rendering these operators subject to a more effective anti-money laundering and antiterrorist financing requirements. This need has caused some countries to regulate the sector of money service businesses, which includes money transfers, bureaux de change and cheque cashers[35].

Another boost towards an improvement of remittance services and in facilitating access to financial services for migrants comes from the publication of general principles by Bank for International Settlements and World Bank[36]. These principles are aimed at achieving safe and efficient services. The main idea is that remittance services are part of the broader retail payment system, both domestic and cross-border, and that an efficient infrastructure is key in reducing costs of remittances. This is particularly true of receiving countries, where these services are usually expensive, slow, inconvenient, and sometimes unreliable. Moreover new remittance products improve value to the user in the short term and gives access to other financial products in the long term, moving transactions to the formal sector. We should also consider that new technologies may significantly help to offer better quality at lower costs.

Synthesizing these principles, the general regulatory principles applied to remittances, these are related to: 1) transparency and consumer protection[37]; 2) payment system infrastructure[38], 3) legal regulatory environment[39], 4) market structure and competition[40], and 5) governance and risk management[41]. In addition, there is also a call for taking actions both from remittances service providers (which should participate actively in the application of the general principles) and public authorities (which should evaluate what actions to take to achieve the public policy objectives through implementation of the general principles).

This convergence of interest in the field of remittance services from different perspectives strengthens our conviction that in the near future this market will be the theatre of stronger competition and innovation. This idea is reinforced by the belief that, in terms of volume, remittances may represent a larger potential source of funding for development of receiving countries. However their development impact could be further enhanced by adding incentives for more virtuous plans of savings and investments that see banks or money transfer firms to co-operate with not-for-profit organisations in achieving these goals.

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[35] This is the case of the UK, where in 2001 the Government introduced a regime for the MSB sector, taking the approach of "light touch" in line with the principle of "starting low", and after five years is doing a structural assessment of the current regime in order to discover possible areas for reform. In Italy the anti-money laundering regulation was an occasion to regulate the activity of the agency of financial activities (in 1999), while money transfers where already subjected to a light regulation according to the Banking Law. In Spain, since 1996, enterprises specialized in the activity of money transfer are registered in the official register of foreign exchange institutions and money transfer agencies, i.e. "*establecimientos de cambio y transferencias de divisas al exterior*", and they are submitted to the discipline regarding transparency and customer protection.

[36] See CPSS-World Bank (2006).

[37] It states that "*The market for remittance services should be transparent and have adequate consumer protection*" with the aim to foster a competitive and safe market for remittances.

[38] It says that "*Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged*".

[39] According to this principle "*Remittance service should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions*".

[40] Here the principle is "*Competitive market conditions, including appropriate access to domestic payment infrastructure, should be fostered in the remittance industry*".

[41] "*Remittance services should be supported by appropriate governance and risk management practices*" this principle states considering that these conditions can improve the safety and the soundness of remittance services and help protect consumers.

5. Areas of financial innovation[42]

As previously stated, migrants constitute a market segment with a specific demand for financial services, varying according to migratory project. As with any other market segment (e.g. women, students, the elderly), banks may develop dedicated products in order to satisfy migrants' specific financial needs. However, unlike in other market segments, the business strategy of developing new products is not enough to serve immigrant customers because barriers exist that sometimes keep them away from the banking system or make the access more difficult.

In order to serve this market segment, and thus achieve advantages in terms of business volume, income and customer relations, banks need both to develop strategies to reduce these barriers and to create new products. Hence the immigrant segment acts as a driver for two areas of innovation in financial services: innovation in customer relations and product innovation.

5.1 Re-inventing customer relations

Various barriers may keep immigrants away from the financial system. Some, such as language barriers, cultural differences, location inconvenience, and banking service hours, relate particularly to the migrant population. Others relate more to the unbanked population in general, such as low levels of financial literacy, lack of information about appropriate products and services, and a general distrust of banks.

Serving immigrant customers means developing strategies that can reduce the above mentioned barriers, build trust in the banking system, and thus avoid immigrants remaining unbanked[43]. To this end, banks have to re-invent customer relations and develop strategies, such as tailored outreach and targeted marketing that bring these products and services to immigrant consumers[44]. Re-inventing customer relations is important both in order to establish basic connections with new immigrant customers and to strengthen these relations by matching customers with higher-end financial products, such as housing loans and pensions.

Although the cost of these strategies is high, the business opportunity is clear: financial institutions looking to increase their customer base have become increasingly interested in reaching out to untapped immigrant markets, bringing them into the financial system and establishing long-term banking relationships.

The following four areas - multilanguage material, multilanguage staff , dedicated branches, community partnerships - are drivers of innovation. The first three areas, which involve increasing levels of complexity, require adjustments in aspects of bank staffing and procedures. The fourth area requires the direct involvement of local communities in order to build trust.

Table II. Few initiatives to reduce barriers through innovation in customer relations

While the provision of multilanguage informational material and the use of multilanguage staff constitute fairly widespread strategies in the banking sectors of countries which have considerable immigrant populations, the opening of dedicated bank branches is still unusual, although some pilot-projects have already implemented this strategy.

In Italy, Banca Carige was the first bank to open a dedicated immigrant customer branch in 1996. The bank opened the branch in the vicinity of the port of Genoa, with its high level of concentration of immigrants, in order to access a type of customer which was showing strong growth in terms of numbers, and also in demand for financial services. At the time, the press gave considerable publicity to the initiative; however, after ten

[42] Part of this section was adopted from Anderloni L., D. Vandone (2006).

[43] Hereinafter the term "unbanked" describes people outside the mainstream financial system.

[44] See Carbò S., EP.M. Gardener, P. Molyneux (2005), Federal Reserve Bank of Chicago and The Bookings Institutions (2006), FSA (2006), Milhaud C. (2006).

years, it remains the only dedicated immigrant customer branch opened by the bank. The Sanpaolo Imi Group has also adopted a Multiethnic Point strategy, with branches located in areas with high immigrant density, employing mother-tongue speakers of French, English, Chinese and Arabic, dedicated to a immigrant clientèle. The Group, which is well-established at a local level and gives importance to client and local community relations, has established four Multiethnic Points in four cities where there is a strong immigrant presence: Turin, Padua, Naples and Pescara. The aim is to encourage immigrant access to bank services, and to eliminate language and cultural difficulties. While providing better service to immigrants, the Multiethnic Points also enjoy the benefits resulting from links between the bank and representatives of the main local foreign communities. This has made it possible to combine a more immigrant friendly environment with a range of services which can satisfy the specific financial requirements of this client segment.

In Spain there are many initiatives for facilitating access to the banking system. For example, Caja de Madrid has implemented a programme for hiring personnel of various nationalities (e.g. Chinese, Moroccan, Guinean); they are employed in branch offices in the Madrid Region, which has a large concentration of immigrants.

As regards community partnerships, in the UK, Barclays Bank has developed many partnership programmes with non-profit organizations, which are designed to tackle financial exclusion. One of these projects aims to provide down-to-earth information and advice in order to make financial information more available and improve the overall level of financial literacy.

5.2. Product innovation

The second driver of financial innovation is product innovation: banks may offer products and services specifically designed to meet immigrant needs and interests[45]. In developing new financial products, banks must take into account the two following points:

- the financial services that immigrants need change over time, as we have seen; this means there are opportunities to develop products that serve people differently at different points in their lives; and
- customers are likely to move beyond basic transactional services to asset-building financial services.

For this reason, banks should offer a full range of financial services: basic products that meet simple financial needs and bring immigrants into the banking system, and more complex financial services designed to meet more sophisticated needs. There are three main drivers of product innovation, each one related to a different life cycle phase of immigrants. The products / services where innovation has been most apparent relate to remittances, mortgages and pensions schemes.

a. Remittances

Various surveys in different countries prove evidence that remittances are largely made both through official non-banking channels and unofficial channels. However, in the last few years banks are increasing their share in the remittance business, first of all because it is an area that seems worthwhile to be developed itself and furthermore because it represents an important opportunity to reach potential customers. In order to become competitive, banks should work on reducing upfront fees and exchange rate spreads, guaranteeing delivery time, guaranteeing access to a large network of pick-up locations.

For many immigrants, cost is not the main factor in deciding how to send remittances[46]. Rapid delivery time is more important because it gives a sense of security. When remittances are sent by

[45] See Carbò S., E.P.M. Gardener and P. Molyneux (2005), Appleseed (2006b), Federal Reserve Bank of Chicago and The Bookings Institutions (2006), ABA (2004).

[46] See Paulson A., A Singer, R. Newberger and J. Smith (2006).

international bank transfer, money transfer times depend largely on the wholesale payment system linking the sender bank to the receiver bank. In the last few years, changes at system level in clearing and settlement procedures have decreased the time required for processing operations, thus enabling transfers to be completed more rapidly.

In order to make money available rapidly and securely to family members in the country of origin, banks can also provide ATM access cards (debit cards or store value cards) that allow the recipient to access remitted funds at a local ATM in the country of origin. The bank issues two ATM cards to the customer, who sends one to a family member abroad. Unlike in bank transfers, in this case recipients do not need to have a bank account, because they withdraw money directly from the sender's account or from a dedicated sub-account. The delivery time problem is also solved because money is not actually transferred: the card recipient has immediate access to money deposited in the sender's account.

However, there is a further factor which affects a bank's ability to attract immigrants through the provision of remittance services: the distribution of payment locations in the receiving country, or in other words, the size of the network of pick-up locations. Many remittance recipients live far from bank branches or ATMs and this is especially true for families in rural areas. The largest money transfer operators have invested heavily in establishing extensive distribution networks that serve both rural and urban areas in receiving countries. Thus they have the advantage of being geographically well-placed in both sending and receiving locations. The lack of bank infrastructure in receiving countries is a significant barrier to the expansion of bank-based remittance products, particularly outside urban areas. At the same time the operating volumes of this business are still small and cannot cover the costs of setting up a whole network of branches. To overcome these problems, banks may establish partnerships with foreign banks and with money transfer operators. These agreements enable the bank to provide a service which is as rapid and as widespread as the networks of the largest specialist agencies, and at the same time to acquire clients, who can then be offered other financial services. In this case, the degree of competitiveness of the product depends to a greater extent on the commission applied by the sender bank and those requested of the recipient by the domestic bank, when the money is withdrawn. Many banks offer remittance services with innovative elements (see table III).

b. Mortgages

Immigrant demand for mortgages to buy homes is growing. Banks have a competitive advantage here, in comparison to alternative finance providers such as investment or trust companies, because they have easy access to funding. Moreover, this is an area where banks have been active for decades and have acquired much experience and expertise.

The experience of the UK shows that the proportion of migrants remitters who own financial products; this proportion is lower than that found within the UK population as a whole [47]. As far as mortgages, it is 28% against 41% and this reveals that there is room for a further demand growth. However, at the same time, it is important to point out that the provision of mortgages to an immigrant clientele comes up against a series of specific difficulties. Many immigrants have thin credit histories or none at all; they normally have no collateral; they do not always have income from a permanent job or provable income (they may have no job security or work in the underground economy); they have difficulty saving the money not covered by the mortgage because they may have no savings and high rental costs to meet while waiting to buy a house; they favour forms of flexible financing that take account of temporary moments of crisis.

In order to attract this demand, banks must act on a number of fronts such as clear and transparent products, relationship-building in the target community, financial education, flexible lending criteria,

[47] For the US see Inter-American Development Bank and Multilateral Investment Fund (2006a): this survey describes which insurance and banking products are the most attractive for both senders and recipients and how these products may be acquired and applied in the remittance process.

flexible debt-to-income ratios, full finance and flexible loan payment plans and maintaining relationships with borrowers after loans are closed.

We have already discussed the benefits of the first three measures in the previous section. They enable banks to reach immigrant markets and to develop closer relationships with potential customers. This helps to guarantee successful lending: immigrants can learn to manage their finances so that they can afford loan payments, and banks have the opportunity to work with them to help them reach the goal of home ownership, for example through asset building programmes or offering flexible payment options. In order to overcome the problem of lack of credit history, banks may add flexible lending criteria to their underwriting models. Common practice is to use non-conventional sources of information, which nevertheless enable evaluation of creditworthiness of immigrants who apply for mortgages. These non-conventional sources, which indicate ability to make significant payments, include remittance history, utility payments, and regularity of housing and rental payments.

Providing flexibility in debt-to-income ratios to take into account the specific circumstances of the borrower also helps to reach immigrant markets. In this case too, banks need to take a more flexible approach, recognising, for example, that documented income does not usually provide the full picture of a immigrant family's finances. Most families have additional income which may include income from other working family members in the household or income from work with cash payments. Some lending programs automatically provide a 25% allowance for undocumented income in calculating the debt-to-income ratios.

Banks should also provide finance for 100% of the value of the property, since immigrants often have difficulty accumulating the part of the money not covered by finance. In addition, banks should provide flexible loan payments in order to avoid problems with loan payments. In fact, the most common reasons for missing payments include temporary unemployment and illness. Banks could provide, for example, flexible instalments over a limited space of time, such as a three-month period.

Finally banks should maintain a closer relationship with the borrower after the loan is closed, in order to identify crisis situations and intervene promptly so as to overcome these temporary difficulties and ensure the loan has a good outcome.

Nevertheless it should be noted that, although these measures are able to meet the specific requirements of immigrant mortgage demand, the cost of these mortgages for the client may be too high, because of the difficulty of evaluating risk profile in the absence of traditional credit history, and because of the inclusion of flexibility clauses in loans.

As an alternative, or at the same time, banks could act to develop products aimed at building savings for buying a home (see table III) [48]. These asset-building tools enable a number of objectives to be reached:

- the creation of a credit history that facilitates evaluation of immigrant creditworthiness or more generally that improves their credit-risk profiles, thus lowering the cost of payment services;
- building up funds needed to meet the expenses connected with starting a mortgage;
- financial education, since these programmes are usually accompanied by programs of financial education; furthermore asset-building programmes involve rigid saving plans and strong restrictions on withdrawing deposits, thus "teaching" immigrants how to save, with positive effects on subsequently meeting for deadlines in the mortgage repayment plan.

c. Pension schemes

The third type of product which has growth potential for financial institutions is private pension schemes. Reductions in state pensions lead to increasing reliance on private provisions. However, the self-employed, those in low paid and part-time jobs, and those not in the labour market at all, usually lack a private pension, and this is usually the case for immigrants. Financial intermediaries thus have

[48] See Caskey J.P. (2000), Friedman R.E. and R. Boshara (2000), Braga M.D. (2006), Kempson E. (2005) for further information on asset-building accounts and savings-building accounts.

a chance to acquire this market segment which represents a strong source for collecting funds that are modest in quantity for each individual but which overall form a considerable amount.

To this end financial institutions should firstly stimulate demand for pension schemes by immigrants and then propose retirement-focused asset-building savings able to meet immigrants' financial constraints. This is because the two most important reasons why immigrants do not have private pension schemes are:

- lack of knowledge; immigrants do not know about pension scheme opportunities or think these products are not suited with their profile;
- lack of disposable income: immigrants may be less able to sacrifice current income for future income.

Financial education, and accessible, transparent information, are important tools in helping immigrants to become aware of the importance of pension schemes and how they work: few people understand how personal pension contributions will translate into an income in old age and usually they are not in a position to calculate how much they need to contribute to a pension in order to secure an adequate income after retirement. To this end, it can be important for financial institutions to establish partnerships with ethnic associations, because of their role as privileged channels of access with local communities. These agreements, by facilitating the spread of pension schemes in this market segment, would ultimately help banks to bring to scale their supply of these products.

Moreover, immigrants generally earn low to moderate incomes and this is why they lack disposable income to pay contributions to private pension schemes. For banks, facing the problem of lack of disposable income means providing savings plans which involve periodic payments by immigrants of modest sums. Moreover, since immigrants are more vulnerable to fluctuations in their income, these products should include the possibility of withdrawing money paid in or of closing the relationship, but without losing capital paid, as happens with many current pension plans if the subscriber ceases to make payments within the first two or three years of life of the product.

Financial institutions should thus provide products that are sufficiently portable and flexible to accommodate an insecure pattern of work that also involves frequent job changes and periods of unemployment, that are easy to understand, and that are low-cost, but that will provide a guaranteed retirement income[49].

Finally, for people that remit money to overseas accounts with the intention of returning to their country of origin in their old age, banks should arrange products that provide retirement incomes in the currency of the country of origin, or, better still, in dollars, since savings in a strong currency are preferred.

Of course, there are doubts about whether the amounts immigrants can afford to put into a personal pension would be sufficient to provide an adequate retirement income, but this problem probably requires government intervention to be solved. Some retirement-focused asset-building schemes have been formulated with features similar to IDAs, aimed at building retirement savings for low-income earners. These initiatives are designed to include state intervention, and do not meet immigrant needs because they are directed at the local population.

Table III. Few initiatives to of product innovation

Remittances
In Italy a number of remittance services are beginning to appear with competitive costs and additional services aimed at better serving customers and developing remittance products[50]. Banca Popolare di Milano, which is particularly active in Milan where there is a high concentration of immigrants, offers an "Extraordinario"

[49] See FSA (2000).
[50] From an institutional perspective on the Italian debate about remittances see Gaggi P. (2006) and Ministero dell'Economia e delle Finanze (2004).

(Extraordinary) account which consists of a line of dedicated bank services for immigrants. The cost of remittances varies according to destination. Additional services are also offered, such as an assistance policy, which covers transmission of urgent messages to families, travel expenses for a family member if a immigrant who lives alone should require hospitalisation, interpreter services, and retum of the body to the country of origin in case of death. Monte Paschi has created "Paschi senza frontiere" (Paschi without borders), an integrated package which offers current account, remittances and bank transfers at no cost if sent to the country of origin. Credito Cooperativo Emiliano has produced the "Radici" (Roots) Account, which offers tailored products such as remittances at pre-established costs and special insurance formulas for the requirements of this type of clientèle. BNL issues account holders with pre-paid cards which can be sent to family members and topped up as required by the account holder.

In Spain, BBVA offers a dedicated package of services to immigrants, "Cuantas claras internacional", which includes remittances at no cost, the possibility of ordering operations not only from the bank branch, but also through ATMs, or by telephone, with money being immediately available for withdrawal at any branch of a large number of banks which BBVA has agreements with.

Mortgages

An important example of asset-building tools aimed at obtaining home mortgage loans[51] are the Individual Development Accounts (IDA) programmes, developed for the first time in the United States[52]. IDAs are run by non profit organizations in partnership with financial institutions that hold the IDA accounts. The purpose of these programs is to "provide individuals and families with limited means an opportunity to accumulate assets and to enter the financial mainstream". IDAs are restricted saving accounts that provide financial incentives for low-income individuals to save toward a particular set of approved purposes. Individuals make monthly deposits in their IDAs, over a specified time period; the deposits are matched on a one-for-one or higher basis[53] by outside contributors like local charities, foundations and the federal Assets for Independence Program, a grant program administered by the Office of Community Services in the US Department of Health and Human Services[54]. When the saving goal is reached the full account balance of saving plus matching contributions becomes available.

Pension schemes

In Australia there is a product called Super Co-contribution[55]. It is a Government initiative that assists individuals to save for their retirement since the Government will match individual contributions with a co-contribution on a 1.5 dollar for 1 dollar basis, up to a certain limits. However, eligibility criteria include people that do not hold a temporary resident visa; this excludes immigrants from participating in these programmes.

6. Conclusions and future perspectives

Theory and evidence suggest that it would be useful if the targeted response policies drafted by banks for migrants made reference to the needs expressed in the different phases of their life cycle. The aforementioned approach, which considers the development of needs over time, highlights the potential demand both from a qualitative and quantitative point of view and should make it easier to achieve a positive consideration of the potential represented by this market segment. The most far-

[51] It should be noted that homeownership is only one of the possible aims of IDA programs; the other two are education and small business development.

[52] See Braga M.D. (2006) for critical analysis of the characteristics of IDAs.

[53] All IDA program consists of two components for each participant: an Individual Development Account to which an individual contributes a predefined amount of cash and a parallel account to which all matched funds are deposited. For each dollar that the holder puts into the IDA, the program will add a matching $1, or less depending on the match rate, in the parallel account.

[54] Normally the minimum amount is defined that must be deposited monthly by the participant; the participant may also deposit a higher amount but in this case the part exceeding the agreed amount is not included when calculating the matched funds.

[55] See Australian Taxation Office (2005).

sighted banks could become the first to occupy these new market niches, which in the long run could turn out to be highly profitable ventures.

A point that we suggest for further analysis is about the possible approaches to be adopted in addressing this market segment. The two alternative approaches are, on the one hand, the search for integration of the migrant population and, on the other, the highlighting of specific ethnic features. The first approach consists in an offer which is not differentiated, but associated with the services supplied to local market segments with similar economic resources and needs. Possible differences are found in specific services for fund transfers abroad related to remittances to the countries of origin. This still happens quite seldom, as shown by the fact that the migrant population mainly resorts to agencies with specialized financial operators or to informal networks and circuits regarded as more efficient than banking networks. The second approach is based on a targeted offer; this means that dedicated counters are opened with suitably skilled staff and with ad-hoc commercial and legal communications, but also that both specific products or product packages are prepared for the market target, and, in general, that the strategic orientation goes more towards a specific customer segment.. With this approach, the strategies might go as far as making agreements or alliances with ethnic organizations.

Each of the aforementioned approaches has pros and cons, nevertheless, it is worth all bank to consider these possibilities. One of the attractions of the first approach is that it prevents the risk of creating ghettoes, and de facto discriminating immigrant customers. As regards the second approach, the opposite may be the case – initiatives geared towards a specific ethnic segment may alienate other groups.

In this paper, we suggest various types of financial innovations that can be targeted to migrants and we implicitly recommend that the second approach is preferable However both the pros and cons of each approach should be carefully considered in elaborating strategies and offer policies: probably the above mentioned approaches will be differentiated according to the various stages of the migrant life cycle, moving from targeted offer to undifferentiated offer in order to promote migrants integration, with customised products for specific needs.

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Appendix I

AIMS, METHODOLOGY ND MAIN FINDINGS OF STUDIES AND SURVEYS ON REMITTANCES.

Context: The UK

Various studies and surveys conducted in the UK, often promoted by he Government's Department for International Development.

DFID-BCSB (2005), **Sending Money Home ?. A Survey of Remittances Products and Services in the United Kingdom,** had the aim to provide a comparative assessment of the products and costs of the UK remittance services to six target countries[56]. Banks and building societies, money transfer operators (MTOs) and banks based in the six receiving countries have been surveyed on their remittances products[57]. On the demand side, a qualitative research among members of the six target communities was conducted with the aim of developing an understanding of some key aspects of the UK residents' experience when deciding on and using remittances services[58]. The report presents the key findings on the demand side are as follows[59]:

- people making remittances to it for a number of reasons, including family subsistence, ad hoc contributions, business building, project fulfilment, or make a gift;
- choice of provider depends on what is required with each money transfer – some may be urgent and require speed, others may be large and require security;
- security is the most important factor in choosing a money transfer provider. Speed and cost are traded off as a second key factor;
- a good network in the receiving country is a further key criterion;
- UK banks and building societies are perceived as trustworthy and secure, but slow and expensive for small transfers. Home country banks, on the other hand, are not trusted by those from African nations but are used by those from India and Bangladesh. Home country banks are perceived as inefficient compared with UK banks;
- customers felt that banks could improve customer service, including language skills and knowledge of countries to which people send remittances;
- informal methods are viewed as cheap but risky;
- identification requirements are viewed as onerous, particularly at UK banks and building societies. However, with adequate information, as the mystery shopping research shows, this problem appears to lessen.
- information tends to be gained by word of mouth. Focus group participants elicited a strong desire to be able to source reliable, comparable information on the services available to them.

In order to provide answer to the need of a wider and clearer information about money transfer products, providers or ID requirements, the report has led to the creation of a website and leaflets containing easily accessible and comparable information on available services[60].

The UK Remittances Working Group (2005), **UK Remittance Market**, pursued the following objectives: 1) identify and analyse existing data on the UK remittance industry, including customer preferences for remittance product and feature; 2) synthesise good practices and emerging innovation in remittance services; 3) explore and recommend standards and guidelines for the performance and attributes of remittances products; 4) explore client ID requirements and reporting thresholds that are appropriate for users of remittance services.

The key findings of the study are listed as follows:

- there is significant uncertainty regarding market, market economics (i.e. pricing, costs, commissions, elasticity of demand to price or other changes), lessons from other corridors and customer preferences and

[56] Namely Ghana, Kenya, Nigeria, Bangladesh, China, and India.

[57] The survey on the supply side was based on a self-completion questionnaire, and supplemented by telephone discussions and investigation of websites and literature. Mystery shopping, involving remittance service purchase scenario, completed the study. Key questions for the providers included: 1) cost of transfers, 2) extent of branch/outlet network in the UK, 3) extent of branch network in each receiving country, 4) other service variable such as speed of service, regulation, opening hours and ID requirements.

[58] For each target country, one group discussion and one in-depth interview was carried out with people who send money home. The latter involved an individual or couple from each country. The aspect analysed are as follows: 1) background to need for remittance services, 2) the decision-making process, 3) triggers and barriers to using particular services, matched with needs, 4)initial perceptions of the way that the service works, matched with reality, 5) dynamics of choosing formal or informal channels.

[59] See DFID-BCSB (2005) p. 16.

[60] See http://www.sendmoneyhome.org . Leaflets have been distributed among the communities involved in the survey.

behaviour. This information is needed by industry to realise the potential of the market, as well as by the Government and regulators of the sector to underpin future policy development and regulatory actions of the remittances[61]

- remittance providers are not always clear as to what steps they need to take to identify potential customers, and practices vary considerably between providers. This scope for misinterpretation of the requirements results in excessive inconvenience to the customer, representing a potential barrier to access (if the standards applied are higher than required) or an inadequate management of the money laundering/terrorist financing risk (if the standards applied are lower than necessary)[62].
- the FSA, the Banking Code Standards Board (BCSB) and HMRC are responsible for regulating remittance providers, the first two covering banks and the last, MTOs. There are significant differences in the level of risk involved in the activities of banking and money transfer, both in terms of financial risk and in terms of money laundering or terrorist financing, which is why the different sectors face different levels and types of regulation. There is a perception among some players in the industry that the FSA and HMRC do not always work in a coordinated manner and that a single regulator would be preferable[63];
- small MTOs, which are key providers in certain country corridors, are inadequately supported in their representations to government and regulatory bodies[64]:
- international comparative evidence suggests that wider use of registered remittance channels can, in certain circumstances, increase the overall level of remittance flows[65];
- many remittance companies are not perceived to be "secure"[66];
- informal channels are well established and difficult to regulate[67];
- customer awareness and understanding of the market is low, possibly deterring remittance flows and resulting in significant market failure[68];
- customers are unaware of the full costs involved when sending remittances[69].

ICM-DFID (2006), **BME remittance survey** is a survey based on interviews[70]. It was conducted with the following aims: 1) to establish a basic portrait of those people most likely to remit money; 2) to get a better picture of the experience of those sending remittances and understand the whole process of sending money abroad; 3) to understand their motives for sending money; 4) to look at the incidence of use of various remittances services; and 5) to see how sensitive remittances are to cost and income fluctations.
The main findings are as follows:

[61] The recommendation here is to implement further research.

[62] The recommendation here is for a joint action of the Committee and the Joint Joint Money Laundering Steering Group (JMLSG), Her Majesty's Revenue and Customs (HMRC) and FSA aimed at promoting good practice guidance in this area, stimulating the production of new guidance and training material as necessary, and encouraging firms to act in accordance with these.

[63] The recommendation is that the Committee should consider whether the industry's perceptions about coordination of regulation and the desirability of a single regulator are well founded, and feed into discussions at the Money Laundering Advisory Committee as well as HM Treasury's forthcoming consultation for its review of the regulation of Money Service Businesses.

[64] The recommendation is that the Committee should support the nascent Money Transmitters' Association and encourage small MTOs to join. This will enable the government to understand better the impediments to flows in these country corridors and so work to remove them

[65] The recommendation is that the Committee should go further in this analyse and if the relationship is verified work with the private sector participants on encouraging the entry of migrants into the system. In particular it should review the role of "basic bank accounts" in providing remittance services.

[66] Therefore, the Committee should explore, in light of developments on the draft EC Payment Services Directive, the costs and benefits of establishing guidelines for a code of conduct or quality mark for remittance providers which, if achieved by the provider, would enable consumers to choose products on a basis other than perceived security. The Committee should also consider how providers' standards could be measured against this benchmark. There should be a section on www.sendmoneyhome.org, which allows customers to assess service providers on the basis of security and other customer service dimensions (e.g. actual cost and time of transfer, customer charters, redress procedures).

[67] However, the activity of firms that are not registered or regulated needs to be prevented. The Committee should look at ways to helps firms, whether banks, MTOs or traditional practitioners, meet their legal requirements and the needs of their customers.

[68] Therefore, the DFID should continue developing its customer information initiative (www.sendmoneyhome.org)

[69] The option of a requirement for remittance providers to display a single figure showing total charges (similar to an APR in the lending market) should be evaluated.

[70] Almost 10,000 Black and Minority Ethnic (BME) households were contacted by interviews across the UK. More than a quarter said that they remitted money within the last 12 months. Two thirds of those (1,778 households) accepted to answer the questionnaire.

- as far as the question "who remits?" is concerned, Black African has the highest propensity to remit (one third of all remittances from within the BME community emanate from this group), followed by Indians (14%) and Black Carribean and Pakistani (both with 12%). Differences there are about the average amounts : higher for Pakistani, Bangladeshi and "other" Asian (over £ 1,000) and above average (£ 910) for Black Africans. Remitter are slightly more likely to be male than female – with the exception of Black Africans where the opposite is true. The average remitter's age is 36 years and while working full-time is not a pre-requisite for sending money; the greater the income gained through work, the higher the level of remittance;
- as for remittance service awareness, preference and use a, the high street money transfer operators, like, Western Union, enjoy the highest level of availability awareness, incidence of use and indeed preference (awareness 82%). While they are not thought to be as easy to use as UK based High Street banks, (56%) the difference is offset by a perception of faster transfers, with each matching the other on the key issue of secure delivery of monies. The use of travelling members of the family or other acquaintances is something that 45% have taken advantage of within the last 12 months.
- the most important factor that influences service provider choices is security – rather than ease of use, followed by ease of recipient collection and only then ease of use for the sender. Convenience is effectively hammered by the need for the money to arrive safely in the recipient's hands;
- the main barrier to additional remittance payments being made is the lack of a financial ability to do so. Transaction costs are sometimes cited as an additional barrier, and if they are, it is because higher remitters may feel more than lower remitters that commissions are a problem, even though the standard 'fixed rate plus variable' cost structure implies that the cost per pound sent falls with increasing amounts sent;
- excluding 'free' remittances linked to family and friends personally delivering money, the average transaction costs are £12.80. High street banks charge the most, followed by the Post Office whose relatively high fees appear to undermine a popular perception of cost effectiveness.
- respondents stated that a reduction of 50% in costs could induce them to increase remittances by up to 10%, while an increase in their income by 50% could induce them to increase remittances by up to 17%. These numbers are based on potential reported behaviour rather than computed calculations.
- one in three remittances do reach the target recipient within the day, but on average, they take just over two days to arrive – longer for Chinese destinations but shorter for Caribbean destinations. The most likely recipients of monies are parents, with the most likely use of the money being food purchases, medical expenses and clothes.

The World Bank-DFID (2007), **The UK-Nigeria Remittance Corridor**, is other interesting survey on how United Kingdom residents of Nigerian origin transfer remittances home and how the funds are distributed to the beneficiaries in Nigeria[71] has been promoted within the framework of a larger World Bank's project[72]. The research findings on the origination of the remittance flows in the UK[73] are summarized as follows in the study:
- the typical remitter is altruistic and sees remittances as a means of providing economic support to individual recipients at home
- the length of stay determines sending patterns. Sending patterns are different for migrants who plan to return after temporary residence abroad, those who prefer to maintain residences in both countries, and some who have no plan to return;

[71] It is worth mentioning that Nigeria is the largest recipient of remittances in Sub-Saharan Africa, but UK banks are cautious about conducting transfers to Nigeria because of reputational risks associated with Nigeria's financial sector and their conservative approach to accountholder relationships. Furthermore one should keep in mind that UK-Nigeria remittance corridor has an equal dominance of formal and informal remittance intermediaries.

[72] In the G8 Sea Island 2004 Summit, the Action Plan "Applying the Power of Entrepreneurship to Eradication of Poverty" includes actions aimed at facilitating remittances to help families and small business, articulated into 6 points (make easier remittance processes and operations, reduce the cost, promote better coherence and coordination of international organization that are working in the field, encourage cooperation between remittance service providers and local institutions, encourage the creation of market oriented local development funds and credit unions, support dialogue with governments, civil society and the private sector to address specific infrastructure and regulatory impediments). The World Bank's Financial Market Integrity Unit has launched the Bilateral Remittance Corridor Analysis (BRCA) initiative. An important objective of these series of studies is to develop a better understanding of the incentives and other factors that shape the remittance markets in sender and recipient countries in order to promote effective policies for inducing the shift from informal to formal remittance systems.

[73] The research is organized around the three fundamental stages of remittance transaction: 1. the UK, whereby Nigerians make decisions regarding the amounts to send home and choose among the alternative remittance instruments and service providers, 2. the intermediary stage with reference to the payments infrastructure when funds are transferred by remittance service providers in the UK to distribution service providers in Nigeria; 3. in Nigeria, when funds are paid to the recipients. The research is based on interviews with authorities, remittance industry players, Nigerian senders and relevant literature.

- sender choices are influenced by the following circumstances: convenience, favourable exchange rates, senders' residency status, use of formal financial services, and limited knowledge of available remittance options;
- sender consider money transfer operators, and gradually banks, as the most reliable means of sending money home. Senders also perceive informal providers, such as migrants carrying cash, to offer security and ultimate sending and receiving convenience with no commission there is a need for remittance products tailored to the needs of Nigeria diaspora;
- an enabling regulatory environment for remittance services providers has not significantly increased the participation in this remittance market;
- governments' intervention beginning with bilateral agreement is important to encourage formal transfer.

As limited availability of remittance products are keeping transfer fees high, competition and innovation in the provision of remittance services to Nigeria are needed.

The main policy recommendations formulated by the authors concern:

- building confidence in, and capacity of, formal institutions,
- increasing capacity in data collection and research; and
- enhancing the regulatory framework affecting remittances.

Higazi A. (2005**), Ghana Country Study, A part of the report for Remittance Systems in Africa, Caribbean and Pacific countries**, surveyed a specific ethnic group: Ghanaian. It concludes that informal remittances constitute a large proportion of total migrant remittances to Ghana. According to the researchers, the purpose of migration and the role of the family in facilitating migration have an impact on the volume, frequency and possibly method of remittance transfers. Courier and cash-in-hand systems, money transfer operators and foreign exchange bureaus are all likely to be significant informal remittance channels. The fact that there is a variety of channels through which remittances can be sent outside the formal system of banks and money transfer agencies is not necessarily a bad thing. The role of remittances in rural development could also be explored, particularly through their connection to micro-finance institutions, which could benefit from investment to generate the credit needed to support farmers.

Finally, Electronic Payments & Commerce (2006), **UK Remittance Study for the UK Remittance Task Force,** conducted a survey limited to a geographical area – London Borough of Islington – that has a wide variety of migrant communities with differing levels of immigration status, length of stay and income levels, together with numerous providers of remittance service[74].

The general findings are presented in the study as follows:

- the findings of the ICM BME survey data are broadly confirmed
- great diversity of remittance behaviour patterns between and within communities are found;
- a general preference for the big and high street MTOs is found, but continuing use of private MTOs, direct transfers by hand-carrying (personal and 'family and friends' – i.e. method often underestimated in survey data) are still relevant;
- donations to charities (development, religious and other) appear more significant than other sources suggested and may be increasing
- most money transfers are small amounts – calculations of mean and median do not reveal this well, but modal class is probably £100-200;
- interesting differences have been highlighted among different ethnic groups[75].

Context: the Netherlands

In the **Netherlands** studies have been conducted with reference with two main ethnic groups present in the country: immigrants from Suriname and Morocco[76].

[74] Electronic Payments & Commerce (2006).
[75] Electronic Payments & Commerce (2006), pp.35-41.
[76] Both the studies are promoted by the above mentioned project launched by the Financial Market Integrity Unit of the World Bank.

As far as Suriname is concerned[77], the Dutch-Suriname corridor for remittances is rather a special one case, due to the post-colonial history[78]. Summarising it is worth noticing that a small percentage of both senders and receivers use banks as a main channel for remittances[79], while a higher proportion use formal or informal money transfer agents as remittance channels[80]. In the Suriname for Surinamese people there is no difference foe legal money transfers and illegal (i.e. without licence) money transfers. Furthermore, it is still popular to carry money, deliver cash oneself, or send it through relatives and friends[81]. only 19% of the senders and 18% of the receivers use banks as their main channel for remittances. The main reasons why formal banks are rarely used are: 1. the large diffusion of the informal sector in Suriname 2. people frequently use dubious backdoors in shops because they have personal relationships with the operators and trust them, and because transactions with them are fast and convenient, 3. Suriname people consider banks more expensive than Western Union (also if they do not consider how much the sender has to pay and what happens with exchange rates[82]), 4. people do not trust the government and feel that, if they use a more formal way of transferring money, the government might find out about their money[83], 5. banking transactions are not necessarily cheaper then money transfer agents, but they are definitely slower and necessitate more paperwork. People trust banks to deliver the money but they do not trust them with regard to privacy matters.

One other finding is related to the trade-off between consumer protection and anti-money laundering and costs and fluidity of the transactions: to promote more use of the formal banking sector requires to find a better relationship between regulation goals and soundness, security and fair trading nd, as stressed by the money transfer operators to facilitate establishing of legally licensed money transfer operators.

As the researchers point out, other hindrances for shifts to the formal sectors are:

- the well functioning of the informal sector that creates no incentives for changing channel;
- familiarity that is the most important reason for people using a specific channel
- remittances do not seem to be seen as a lucrative business by commercial banks;
- the “unfair” competition by illegal –no licensed money transfer in the Suriname allows them to offer better exchange rates, lower costs elements that can be added to the good personal contacts existing with their clients.

Policy recommendations include:

- need to boost the development of better-developed formal financial markets in Suriname in order to reach the goals of provide banks with resources for investments, to encourage greater savings, improve the allocation of investment sources, open access to broader range of services, and provide greater opportunities for managing financial risks.
- more should be done to bring remittances from a cash-to-cash relation into an account-to-account relation. In order to reach this goal, there is a need to integrate people more into the financial system, since developed financial market are a prerequisite for development and growth;
- promotion a higher explicit interest in remittances both in the Suriname and in the Netherlands where there are not updated date both on how much is sent and through which channels.

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[77] See Unger B. and M. Siegel (2006). It also provide information and findings from an other study published only in Dutch by the Consumer Association of the Netherlands. See Counsumentenbond (2005). The more recent study basically supports the finding of Consumentenbond (2005). The research questions behind the study are: 1. how much is being sent and how important is this category of income for the Suriname economy? 2. who are the senders ? and what is the source of their income ? 3. Who are the recipients ?, 4. What are the goal, purpose and use of remittances ? 5. What is being sent and how frequently ? 5. what channels are being used to send the money ? 6. what are the various transaction costs involved ? 7. what role do regulation play ? 6. which policy recommendations follow? How can a shift from informal to formal transfers be facilitated ?

[78] The study investigated the following aspects: how much is being sent, who are the senders and recipients, what is the money being used for, how is it being sent, what – if any – are still hindrances to the remittance flow, and how could such hindrances be removed. The study used a variety of sources of information, including a survey among Surinamese and a field study involving sending money through various channels of the corridor.

[79] Only 19% of the senders and 18% of the receivers.

[80] Respectively 31% of the senders and 47% of the receivers.

[81] About 30% of the people still use non financial channels.

[82] Due to the fact that Suriname uses three countries, the remittance channels and their prices are opaque.

[83] This concerns even people not holding criminal money. Many are just concerned about the government knowing how much money they have.

As far as the corridor the Netherlands-Morocco is concerned[84], the first finding to point out is that actual remittance data are ambiguous with the problem of significant differences between recorded remittances in the corridor. The answer to question : “Who is remitting” is as follows: 1. men are substantially more likely to remit than women; 2. migrants in the age group 39-49 are the most likely to remit; 3. second-generation migrants have a similar likelihood of remitting as first-generation migrants; 4. as easy to understand, migrants with a job, those incapacitated for work and retired migrants remit more often than housewives, unemployed migrants and students.

The answer to the question: “What factors influence the choice for the formal channel ?” is as follows: 1. occupational status: remitters who are working, unemployed or students are more likely to remit through the banks than retirees, housewives and others; 2. preferred frequency and speed of remittances – remitters using banks remit one to four times per year, whereas migrants using MTOs send money more often. When speed of transaction is important, MTOs are used; 3. first or second generation migrants – second (and subsequent) generations seem to have a higher tendency to use the bank channel, whereas the first generation seems to favour MTOs.

As far as costs, speed and requirement of transfers are concerned, this kind of information are not available for all providers and the researcher conducted their own transactions. The conclusions are listed as follows : 1.Total costs varied between EUR 7.50 (Postbank) and EUR 39.60 (ABN Amro, urgent counter transfer) for a transfer of EUR 250; 2. The BMCE bank used the same exchange rate as the Moroccan Central Bank, while the exchange rate costs for MTOs we used amounted to almost 50 percent of the total transfer costs; 3. MTO transfers were direct, whereas bank transfers took two to six days; 4. MTOs were transparent on fee costs and speed prior to the transaction, but only provided exchange rate costs when the transaction took place; 5. most banks could not provide information about the fees charged by the correspondent bank or exchange rate costs prior to the transaction; 6. all providers required some form of identification.

Factors hampering the use of formal systems have been distinguished by the researchers in two ways: those related to migrant status, and those related to inefficient formal systems.

Illegal migrant status impedes the use of formal channels. Illegal remitters are forced to use informal channels, as they lack appropriate identity papers needed to open a bank or remit through MTOs. Though MTOs also accept a Moroccan passport, illegal persons are not inclined to use formal channels which require some form of registration. In the Netherlands, the number of illegal Moroccan migrants is small. Therefore, there does not seem to be a large base for informal remittance channels in the corridor. The other group of factors hampering the flow of remittances through the formal sector relates to inefficient formal systems. Examples are:
- underdeveloped banking networks in the recipient country;
- high costs involved in using formal remittance channels;
- poor knowledge of alternative products because of weak marketing by the formal institutions;
- illiteracy or financial illiteracy among clients;
- lack of confidence in official transfer systems;
- unfavourable exchange rate through official channels;
- familiarity with informal systems and proximity.

Concluding, recommendations to improve the formal remittance market are related to improving in the following areas[85]: 1. transparency; 2. payment system infrastructure; 3. legal and regulatory framework; 4. market structure and comp etition.

[84] See Barendese J. et alii (2006). The study is part of the BRCAThe research questions behind the study are as follows: 1. What is the size of formal and informal remittance flows from the Netherlands to Morocco ? 2. What are the main distribution channels ? 3. What are the major factors that influence the choice between informal and formal channels ? 4. Is there a potential to formalise the remittance stream in the corridor the Netherlands-Morocco? If there I a potential, what are appropriate actions? 5. What is hampering the increasing of remittance flows through the bank channel in this corridor ? If there are hampering factors, what are appropriate actions to address them ? The adopted methodology is that of the Bilateral Remittances Corridor Analysis (BRCA) methodology of the world bank. Information have been collected from research on remittances, balance of payments, regulatory framework and governance procedures and, in addition, through a customer survey, in particular targeting migrants of Moroccan origin in the Netherlands. Additionally key stakeholders in the Dutch banking sector have been interviewed in order to verify the findings and recommendations to improve the use of the bank channel. Experiences of remittance transactions by the researchers complete the study.

[85] See Barendse et alii (2006), p.71-87.

Context: **GERMANY**

In Germany the remittance corridor studied is that with Serbia [86]. The study finds that - despite the availability of modern payment platforms to transfer money from Germany to Serbia through financial institutions and the fact that practically all documented foreign workers in Germany have a bank account – according to the estimates only 50 percent of all remittances from Germany to Serbia are channelled through remittance service providers (RSPs), such as banks and licensed mo ney transfer companies. In Germany, Serbs prefer to bring the money in cash when they visit their country or send it home through other informal channels (for example, bus drivers, or friends and relatives travelling to their home country).The large use of informal channels to remit reduces the developmental impact of remittances in Serbia.

Various factors are found that discourage migrants from using financial institutions for remittances, including:
- limited (but growing) trust of Serbs in their banking institutions,
- high fees for using remittance products offered by financial institutions,
- low competition in the remittance marketplace, and
- limited (but growing) level of bank penetration in Serbia.

The study also argues that there is also a need to increase the supply of financial products available to Serbs that send or receive remittances on a regular basis. Financial institutions do not offer Serbs in Germany attractive instruments to invest in Serbia, acquire real estate, or contribute to the development of their towns. Investments by the Serbian migrants have occurred outside the financial system. Similarly, by law, Serbian banks cannot offer consumer credit or mortgages to remittance-receiving households, unless they have a regular source of income from Serbia. Finally, it is important to improve data on remittance flows between Germany and Serbia [87].

In Italy the study on the Italy- Albania Remittance Corridor[88] confirms that Italy-Albania is mainly an informal corridor, and the physical transfer of cash is the most popular method to send remittance to Albania. Money transfer Operators dominate the formal market for money transfer to Albania, as they offer a reliable and rapid way of making remittance transfers. Other formal intermediaries such as banks and the postal office play a small role in the corridor. Recently, some Italian banks have started to offer pre-paid cards. The number of ATMs in Albania is limiting the use of the pre-paid cards for remittance transfers. Factors limiting the expansion of the formal remittances market include: limited access to bank services by senders in Italy and remittance-recipient households in Albania, lack of trust in the Albanian banking system, limited number of remittance banking product, cost considerations, and black market for foreign exchanges. One major concern in Albania is that remittance flows are mainly used for consumption purposes. However, recent studies reveal that the migrant population in Italy is increasing its demand for banking products. One of the key challenges for Albanian authorities is to create mechanisms to allow better access to bank products and services.

Policy recommendation in order to increase the use of formal remittances channels, as listed by the authors, include:

- increasing collaboration among Italian and Albanian authorities;
- promoting access to financial services in Italy and Albania through a series of actions, such as new remittance product, SMEs financing tailored to migrant workers, and consumer lending as an entry point for electronic remittance transfers. Moreover postal office could play a major role in providing remittance services and other financial services in Albania, thanks o its extensive network;
- designing and implementing a comprehensive plan to promote financial literacy among Albanian migrants in both Italy and Albania to increase awareness and strengthen confidence in financial institutions in both countries.

Context: **ITALY**

[86] See De Luna-Martinez J., Endo I. and Barberis C. (2006). The study is part of the BRCA project. The amount of remittances sent by Serbs working abroad measured by the ratio to GDP (about 12%) makes Serbia one of the largest recipients of workers' s remittances in the world. It is believed that Germany – which hosts the largest community of Serbs, constitutes the largest source country of remittances to Serbia, contributing with 20% of all remittance flows. Serbs are the third largest group of foreigners in Germany after Turks and the Italians. Due to the lack of published data and research on this remittance corridor, the main source of information was a series of interviews with representatives of the various authorities and agency responsible for migration, labour, foreign affairs, national statistics and financial supervision in both the countries.

[87] For details on policy recommendations see De Luna-Martinez J., Endo I. and Barberis C. (2006), pp.37-42

[88] See Hernández-Coss R. et alii (2006). The study is part of the Bilateral Remittances Corridor Analysis. Italy is among the 10 largest remittance providers in the world and the sixth largest provider of remittances in Europe. Among the corridors originating in Italy, Albania ranks among the top ten destination countries in terms of value of formal remittances transfers

In Italy a survey was conducted in 2002 concerning the access to financial services by immigrants[89], including a section on remittances. As far as the factors determining the choice of the channel are concerned, the survey found that the element considered most important are: 1. the certainty of delivery date (31,3% for the banked and 32,4% for the unbanked); 2) the speedy of the transfer (27,6% for the banked and 30,4% for the unbanked); 3) costs and fees (19,6% for the banked and 23,4% for the unbanked). Other considerations, such as easy of remittance collecting in the home country by the recipient household and facility to choose the delivering operators in the home country, follow with a lower frequency.
It is worth mentioning that economic considerations are not so relevant in choosing the channel to remit.

Context : **SPAIN**

In Spain a survey focused on the specific needs associated with sending money back home analysed remittances made by Latin American immigrants from Spain to Columbia, Ecuador and Dominican Republic[90]. The research gives interesting information about the relationship with banks and saving banks with reference to other services and facilities.

The on field research reveals the strong preference for money transfer agencies and this preference is mainly due to their efficiency in performing the activity. Furthermore it highlights the trend towards fee reduction, thanks to the competition that banks are promoting in their attempt to win market shares. As banks are concerned, all the three ethnic groups prefer saving banks: for tradition this category of banks serves also low income population and has a range of products and services more suitable for less educated and simplest customers.

The reasons why specialised money transfer agents are preferred to banking providers for carrying out remittances are indicated by the authors as follows:

- fast transfers with problematic incidents being extremely rare;
- transfers virtually always carried out successfully, with payment in cash,
- access to a wide variety of agents and intermediaries throughout the world and, in effect, throughout Spain;
- many agents inter-related to one another and to other sectors dealing with the needs of immigrants;
- agents' premises throughout major city centres, or in the residential districts of immigrants.

Looking at the economic profile, i.e. looking at the fees, the survey reveals that:

- the fees asked by the two major companies (just about monopolist) become virtually identical and differences between fees among local, smaller providers of money transfer services are reduced significantly;
- competition to win market shares is reducing fees and costs. More competitive and aggressive money transfers offer fixed costs, not based on the amount of the sent sum, as low as about 6€ for each transfer.

Other aspects related to the quality of the services are shown as:

- the bid price or exchange rate when the agent purchases currency for sending it abroad is worse that those quoted by banks. However the survey point outs that migrant population is not aware of this or seems to pay little interest to that profile of the transaction. This situation resulting in a rise in the cost of transfer, generally a cost needless to say already not appreciated amongst both immigrants who make the transaction and the beneficiaries who receive them;
- a wide range of ways and condition for delivery money to the beneficiaries is offered. It may be not only through the promises of the local agent in the home country, but also through "at home delivery", "telephone call notification" and a service may be added that offers the opportunity to enclose further messages.

Context: Comparative study: **FRANCE, SPAIN, ITALY**

Finally a comparative study conducted in France, Spain and Italy on access to finance by low-income people and including a focus on migrants[91], analysed also the issue of remittances and the following areas were selected for investigation: a) whether remittances were made or not; b) frequency (regular or irregular) of remittance transmission; c) average size of sums sent; d) channels used; e) reasons for choice of channel.

For the last area, participants were asked to indicate elements considered important. They were also invited to make suggestions for improvements in services.

[89] See Libanora R. (2003).
[90] See CECA (2002).
[91] See Anderloni L., Braga M.D. and Carluccio M.E. (2007).

The frequency of remittances appears to confirm both assumptions advanced on a theoretical level and the results of other surveys: the greater the degree of integration in the host country in the early phases of arrival in the country, including the creation of a family unit, and the resolution of housing and work problems, the less likely it is that funds will be remitted to the country of origin. In Italy, 92% of respondents made remittances, in Spain 65.8% (attributable to the high number of recent immigrants) and in France 55.2% (attributable on the contrary to the greater age of immigrants there and their high level of social integration). The data relating to frequency (regular or irregular according to circumstances) seems to confirm the theoretical assumptions: a correspondence was noted between making (or not) remittances in the early phases of the migration life cycle and later phases. In Italy transmission tended to be regular, generally on a monthly basis; 68.5% of migrants who made remittances said they did this regularly. In Spain 60.4% of immigrants sent remittances regularly. In France 52.8% sent remittances on an irregular basis, and 42.3% on a regular basis, generally every 3-4 months. In Italy and Spain monthly transmission was more common. The average amount sent in regular transmissions tended to be generally limited: mainly in the bands between €50–100, €100-200 and €200-300, with the greatest frequency of the highest bands in Italy, and the lowest in France. It is worth noting the average amount sent for each transmission, as there are clear implications in terms of the proportion eaten up by commissions. Remittance service providers generally charge fixed commissions, which can weigh heavily in percentage terms on small remittances. For some immigrants, however, remittance transmission is a way of building savings and storing money, and hence the frequency of transmission of even small amounts meets this need, even if the cost is high.

As regards the channels used to make remittances, banks and post offices do not play a major role in France and Italy, where specialist agencies are normally used. The extent to which they are used is very different in the two countries, however. In Italy money transfer agencies account for 64.2% of responses (followed by unofficial agencies or networks with 14.2%, relatives and friends with 6.6%, banks with 5.7%, and last of all post offices with 1.9%). In France agencies account for 35.3% of responses, followed by post offices with 29.4% and then banks with 17.6%[92]. In Spain, conversely, banks and post offices (respectively 36.2% and 25.9%) are top of the list, followed by official agencies (20.7%) and unofficial agencies (8.6%)[93].

Of the official agencies, Western Union dominates the market, although to a differing extent in the different countries. In France it is used by 94.4% of migrants sending remittances, in Spain by 47.4%, and in Italy by 40.4%. Their traditional competitor, Money Gram, is less used than other specialist agencies for Latin American countries; there are 4 or 5 main agencies in Italy and in Spain.

As far as the reasons for choosing an agency are concerned, security, rapidity, ease of use and ease of access predominate in France, and economic considerations and ease of access in Spain. In Italy reasons given cover a wider range, including advice from friends, agency managed by friends, and cost considerations which have led to regionally specialised agencies being preferred to Western Union.

Participants were presented with factors that are traditionally seen as determining choice, such as efficiency, accessibility, security, cost, and ease of use, and were asked to rate the three most important in order of importance. Again participants in Italy and France gave similar responses, with, in order of importance, efficiency, security, accessibility ease of use and cost. In Spain, efficiency and security came first, followed by cost and then accessibility and ease of use.

The cost element, in second position in terms of choice of channel, moves to first place in all three countries when respondents were asked to put forward suggestions for service improvement. However, in France the majority of respondents did not make suggestions (although this was not generally the case), suggesting that remittance transmission is less important there than other services. Many responses indicated that remittance services generally work well, but that costs are too high. Responses that suggested giving priority to speed and security of remittance transmission appear largely to be emphasising the importance of these elements, rather than putting forward concrete suggestions for improving the service[94].

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[92] Relatives and friends play a more important role here; this can be explained by greater proximity to country of origin, given the different ethnic groups in the three countries.

[93] This also seems to be the result of the strategies that the savings bank system has applied, of serving this market which in the past was dominated by remittance agencies, and by the fact that commercial banks in Spain have responded to competitive moves by savings banks in this segment, and are guided by an approach that takes account of immigrant life cycles and sees remittances as an opportunity to establish client relationships that over time can be enhanced through a wider range of services.

[94] In Italy, respondents sometimes called for remittance agencies to control their distribution networks better, both in Italy and in the country of origin, so as to prevent delays that were sometimes attributed to inefficiency or to "dodgy behaviour" in some provincial agencies. However, the network was seen as reliable, although there were some differences in treatment between different transmission points.

In general, however, areas of access and method of remittance are seen as significantly less problematic than access to, and using, accounts, payment services and credit. Remittance services are seen as commodities, with a sufficiently wide and varied range of providers, and lacking barriers of prejudice or bureaucracy; they are seen as generally unproblematic, which is not the case in other services. The main complaint is about cost. The view amongst policy makers and international financial institutions and organisations suggests that cost reductions are possible provided actions are taken to remove inefficiencies[95]. The time is fast approaching when banks, post offices and other financial intermediaries will have to come up with innovations in the area of remittances, both in terms of products and processes.

As highlighted by the researchers, the size of the sample does not enable statistical significance to be attributed to the results: nevertheless the suggestions that emerge seem sensible and constitute a useful point of departure for further reflection and research.

[95] A task force consisting of representatives from international financial institutions involved in remittances and from central banks in both remittance-sending and remittance-receiving countries prepared a Consultation document for the Committee on Payment and Settlement System and the World Bank. It identified five areas of possible market weakness: *i)* lack of transparency in the market and of understanding by users; *ii)* weaknesses in the infrastructure that is used to provide remittances services; *iii)* the possibility of adverse effects from poor or disproportionate regulation or weak legal framework; *iv)* lack of competitive market conditions and *v)* risk. Therefore it has assumed the following public policy objectives for the provision of international remittance service: "*International remittances services should be safe and efficient. To this end, the markets for the services should be contestable, transparent, accessible and sound*". In order to achieve these objectives, the areas of intervention result to be: *i)* transparency and consumer protection, *ii)* payment system infrastructure, *iii)* the legal and regulatory environment, *iv)* market structure and competition, *v)* governance and risk management.

Appendix II

AIMS, METHODOLOGY ND MAIN FINDINGS OF STUDIES AND SURVEYS ON ACCESS TO BANKING AND FINANCIAL SERVICES.

Context: **The UK**

As for the UK, the most recent survey[96] first of all points out that, according to the Census data, over 92 per cent of the population of the UK is white, and that the distribution of the population neither British nor Irish varies in the country. Large regional variations exist with reference to the percentage of residents from various groups. A large proportion (45%) of minority ethic population in the UK lives in or near London. Secondly the study mentions that the minority ethnic groups are over-represented in the classes of unemployed people, of those on low-income and of those who rent social houses or live in deprived areas. As far the access to financial services by migrants is concerned, the author say that "*It may take time for new immigrants to become accustomed to the well regulated banking sector in the UK and make the decision to use services to offer*" and she adds that "*It is very likely that people accustomed to poor services from financial companies in their country of origin may be less willing to engage with companies on arriving in the UK*" while she observes that "*Migrants who have positive experiences of banking in their own country may look for equivalent services after arriving in the UK*".

Therefore a main point is that the level of financial integration depends also on immigration phase and for second and subsequent generations of migrants the demand for financial services is also linked to the overall level of social and economic integration.

As for the transaction accounts, the study reveals that generally the demand for transaction account is mainly related to the way transactions are normally undertaken within the country rather than on individual's status and ethnicity. It quotes the Family Resources Survey (DWS, 2003) pointing out that 85% of Asian and 77% of Black heads of households have a current account, while the percentage for white heads of households is higher, reaching to 88%. Updating the situation with the new statistics (DWP 2007)[97] the gap is less deep: the percentage of white heads of households having a current account is 90% and that of Asian and Indian is 90% (with a little gap for Pakistani and Bangladeshi behind with 89%). The ethnic groups of Black are far behind with a percentage of 85%, but the improvement – on average – of the situation is clear.

As for the savings products, the study observes that here the demand is largely a result of personal choice, past behaviour and current circumstances, but it is also partly linked to the availability of appropriate products. The researcher observes that these product may not properly met the needs of low income savers, or those who prefer more sociable form of savings.

Ethnic minorities are less likely than the white British population to hold money in formal savings product[98], but compared to people on similarly low incomes they typically save larger amounts. Interesting issues raised by the study are those of savings and loans clubs built on trust used – in different forms – by various ethnic groups, of the role of credit unions, and of the consequences of Islamic law on demand of life insurances policies by Muslim households. It also mentions, without go further on it, the importance of saving for retired age for migrants.

As for borrowing, the study points out the relevance of affordable tailored credit for people without a proven credit history and those with very low incomes. This both with reference to unsecured loans and secured loans and mortgages. The issue of products which are compliant with Muslim law is relevant also with reference to mortgages, however – according to the researcher – the reason why a higher proportions of Muslims lives in social housing or other rented houses is due to social-economic factors, rather than religious factors.

As for remittances, the study provides a broad picture not much different from that depicted in section 3.1. above.

Furthermore, the study provides a deep analysis of possible barriers that prevent immigrants and ethnic minorities from meeting their financial needs in the financial system. They can be summarised as follows:

- physical access (due to the less availability of bank branches in the poorest areas);
- language barriers (both in terms of difficulty of communicating and understanding in English, and in terms of literacy problems and understanding written communications, such as advertising and terms and conditions)

[96] See Aktinson A. (2006).

[97] Family Resources Survey 2005-2006.

[98] This finding is confirmed by the new statistics DWP (2007).

- financial capability and information gaps (in addition to difficulties coming from language and education levels, other difficulties with financial skills are specific to recent immigrants due to little experience with banking and financial services infrastructure);
- religious barriers (Muslims who do not have a bank account because they do not have access to Shariah compliant products)
- discrimination (due to behaviour amongst bank staff and to credit scoring models – although through indirect indicators such as postal code)
- identification requirements (due to the absence of a national identification (ID) card, to the difficulty to obtain proof of address, to the feeling of discomfort in showing passport as photographic identification);
- credit worthiness (difficulty of access to transaction accounts and credit for people without proof of income or a credit history). Here it is worth mentioning the case - very common among people from South Asian and Chinese communities – of workers within family business, without the ability to prove their own income;
- gender (in some ethnic minority groups gender problems and discrimination are exacerbated)
- difficulties in making remittances through the banking channel hinder access to other financial services.

British banks and public and private institutions already undertook some initiatives to ameliorate access to finance for migrants and ethnic minorities. These include:

- in general initiative to increase the skills of consumers and to improve the range of products available from suppliers;
- various initiatives aimed at improving the overall economic situation of new immigrants in the UK and, consequently, the integration and financial inclusion;
- measures to ensure that refugees move quickly into their first job and a new Refugee Integration Loan to support integration;
- promoting improvements in financial capability;
- encourage engagement amongst the unbanked and underbanked through basic bank accounts and ATC linked to Post Office Card Account and Universal Banking;
- facilitating identification methods and rendering less forma the identification requirement (this is a difficult task due to the Money Laundering Regulation and the rules for preventing terrorism financing);
- using also different languages in advertising, and recruiting branch staff according to the ethnicity of the neighbourhood;
- investigating the issue of religious barriers and seeking for appropriate technical solutions;
- improving access to finance at the community level ;
- assessing the role played by credit unions with regards to Black and Minority Ethnic;
- supporting small business and micro enterprises.

The general finding is that a large majority of more long-standing immigrants in the UK have become integrated into the use of financial. This is particularly true of they are second or subsequent generations. However the phenomenon of financial exclusion is still wide for more recent migrants, especially those who have arrived as refugees and asylum seekers.

A previous study on "Immigrants and Financial Services: Literacy, Difficulties of Access, Needs and Solutions. The UK Experience"[99], after having provided and comment on statistics on Ethnic minority Groups and access to financial services, presents seven experiences of good practices. They include microcredit project (Street Cred) , financial literacy project (Toynbee Hall with Services Against Financial Exclusion – SAFE), credit Union experiences (two in the London area), counselling and advice services (Birmingham Settlement and Dudley Advice Bureau), counselling services for supporting new and existing business from local ethnic minority communities (Black Business in Birmingham – 3b), initiatives targeted at the needs of Muslims (Muslim Loan Fund and East London Small Business Centre) and the set up of a special division of a large commercial bank (South Asian Banking as division of HSBC Bank plc.

The author presents his conclusions as follows:

- differentiated cultural traditions and needs pf different ethnic minority groups in UK bring immigrant to differentiated ways in which people relate to financial services;
- initiatives to tackle social exclusion and financial exclusion are closely linked;
- to make progress in this area it is relevant to promote financial literacy education and to pay more attention to tailoring provision to particular minority groups;

[99] See Pilley C. (2004).

- for some ethnic minority groups initiatives are particularly needed focussed on business, rather than on personal finance and the financial inclusion of individuals;
- in order to bridge the gap it is useful not only to put more ethnic minority employees at the branches in areas of high concentrations of immigrants and ethnic minorities, but also to work though the various networks that already exist in ethnic minority communities;
- an other need is that to develop appropriate financial products that meet the needs from different minority groups with reference to both personal finance and to business customers;
- on a more general level, not specific to ethnic minority groups, improvement in products flexibility, transparent charging structure and in consumers' and investors' protection could help to ameliorate the access of immigrants to financial services and their satisfaction.

Context: **THE NETHERLANDS**

As far as the Netherland is concern, a research carried out by NIBUB in January 2004 and reported in FACET (2005) on income, expenditures and financial management of ethnic households, shows that all migrant groups[100] make use of general banking services with relevant differences between the Turkish community and Moroccans on the one hand and the Surinamese and the Antilleans on the other. The latter tend to use bank services more actively and save more in the formal system than the first. The Turkish and Moroccan prefer to save in the country of origin. Surinamese and Antillean groups make more often use of bank loans than Turkish and Moroccan migrants, which are likely to borrow more often from relatives. A study on the Dutch case of Migrants and Financial Services reveals that at a quick look, the basic needs for financial services of migrants and native born people in the Netherlands does not differ significantly. At a closer look, differences could be noticed. They refer to cultural aspects and the purpose for which they use financial services. As for the financial services providers for Turkish and Moroccan community – and to a certain degree also for Surinamese and Antilleans – the main sources are various and composite: informal networks (i.e. relatives and friends), banks (Dutch and foreign commercial banks), public financial services (municipal credit banks, the social security program – BBZ, the tax facility for starters ("Aunt Agaath' facility) and the national Guarantee scheme for SME – BBMKB), and private initiatives of NGOs (including migrant organisations, special funds for migrants entrepreneurs who want to start a business in the Netherlands[101], and pawnshops).

The study approaches also other issues such as Islamic banking (noticing that it is "not a real option in the Netherlands", due to a shortage of demand and therefore of supply.), microcredit (pointing out that "*microcredit is not in line with prevailing credit needs and credit options*", due to the fact that generally people need larger amounts to start a sustainable income in the Netherlands) and the withdraw of the State in supporting programs for SME sector.

The main barriers to an easy access to financial services are listed as follows:
- on the demand side: 1 weak administration of many entreprenueurs renders more acute the problem of getting finance from banks, 2. limited knowledge about the regulation for starting new enterprises and programs to finance them is found;
- on the supply side the main barriers are: 1. staff attitude and loan conditions (migrants are ranked as higher risks and often they get loans under less favourable conditions such as personal loans instead of business credit), 2. local presence (the phenomenon of closure of branches in districts where migrants live in the Netherlands), 3. red lining (i.e. the method of excluding people from financial services such as loans and insurances based on ZIP/postal code), and finally 4. weak image of banks amongst migrants.

Some initiatives are already taken in order to facilitate access to financial services. The authors mention the following: 1. measures on legal conditions (including an initiative to facilitate access to asylum seekers and a Code of Conduct that pay attention to the problem of over-indebtedness); 2. investigation on practices by financial services providers and the practical application of the General Law on Equal rights; 3.. regulation developed by the Ministry of Finance for financial services providers that reinforce the availability of information to the consumers on financial risks of financial services and more strict rules for commercials on consumer credit; 4. attention by the government on the role of migrant entrepreneur in the Netherlands both with the launch of a discussion paper and with an action plan for ethnic entrepreneurship funded by € 2,9 million; 5. improved access to BBMKB, through lower conditions of the guarantee fund.

[100] It considers the four main ethnic group present in the Netherlands: Turkey, Morocco, Surinam and Caribbean. These groups stay already for relatively longer period in the country so that there is often more than one-generation present, with second and third generation of migrants growing fast.

[101] The experience presented in the report are SEON, Stason and IntEnt.

Context : **GERMANY**

In Germany a study has been conducted on the financial situation and behaviour of Turkish migrants, in view of recent reforms of the social security systems[102]. The results are listed in the executive summary as follows:

- on the demand side: 1. migrants save less often than Germans. More than one third of those polled stated that they have no savings at all. A main savings target is the future of their children, 2 Turkish migrants show a high affinity to real estate assets. They are increasingly likely to buy property in Germany. This implies a growing demand for real estate financing. 3 Financial remittances to family in Turkey only play a minor role today; 4. private retirement saving is not widely regarded as being part of personal financial responsibility; 5. it has been found a surprisingly high interest in sharia compliant products amongst second generation migrants.
- on the supply side: 1. compared to the German population, all researched banking services are used to a lesser extend by migrants; 2. regarding investments, Turkish migrants put main focus on real estate asset in Turkey. The financing was mostly met through expensive consumer loans; 3. private old age protection was identified as an area with serious deficits; 4. informal/private financing channels are less important than anticipated; 5. compared to the German population Turkish migrants seem to be less covered with crucial insurances (e.g. private third party liability insurance) and better covered with less crucial insurances (e.g. legal protection, accident);
- considering in general difficulties to access: 1. discrimination with regard to access to finance seems to be rare; 2. language problems are a serious access barrier for the target group. Across all generations nearly half of those interviewed vote for financial advice in Turkish language; 3. the majority of the target group feel that their financial skills are inadequate and do not feel well informed; 4. friends and family are important sources of information and advice, but not as dominant as expected.

Conclusions and policy recommendations of the authors are as follows. A range of opportunities to improve supply with and access to financial services of Turkish migrants by making accessible their full market potential is suggested::

1. transformation of identified demand into adequate products;
2. reduction of inadequate and substandard supply;
3. improvement of financial literacy and use of adequate information and marketing channels.

Therefore the three most promising measures that are recommended for public authorities are:

- financial incentives for innovative product research aiming on improving financial integration;
- campaigns in Turkish media as efficient measures for improving consumer protection and adequate supply amongst migrants;
- involvement of Turkish communities in a systematic complaint management strategy.

Context : **SPAIN**

In Spain, at the best of our knowledge two studies have been conducted on the broad issue of access by migrants to financial services

The first research, “Bancos e Inmigrantes” produced by GES in 2000 was part of a European research project aimed at facilitating access to banking and financial services by migrants in different countries[103]. In order to analyse the main problems or difficulties faced by migrant people when dealing with banks and savings banks, and eventually to discover cases of discrimination or other sort of barriers, the research design included also one section[104] based on meetings and interviews both with organisations dealing with migrants[105] and directly with migrant persons[106].

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[102] See Hayen D., Sauer M. , Habschick J. and Unterberg M. (2005). As far as the method of the research is concerned, it was conducted in three Stepps: 1. literature review and analysis; 2. qualitative methods (expert interviews with focus groups with Turkish migrants) and 3. quantitative standardized telephone survey of 1,002 Turkish migrants.

[103] The countries covered by the field research were Spain, UK, Belgium, Finland and Italy. See GES (2000).

[104] The other section was based on meetings and interviews with 10 banks and savings bank, most active with migrants in the area. In Spain, the geographical area of the study was limited to Barcelona: due to the high concentration of migrants it can be considered as appropriate for analysing the country situation.

[105] Between the 58 institutions that the researchers identified, 40 were associations promoted by migrant population, while the other 18 were public institutions promoted by local administrations or by labour organisations, by charities and other non profit organisations which provide assistance and advisory services, courses and formation/educational activities and other kind of help for migrants.

[106] 38 persons were interviewed (39,3% from Morocco,17,9% from other African countries, 21,4% from Asia, 17,9% from Latin America, and 3,5% from other countries).

The main findings of the research are:

- a low demand for banking services. Most migrants, at the beginning, have a project of life that implies to work abroad only for few years and then to come back home. Thus the main need is to send money back home to their families. For various reasons[107] they prefer to use money transfer agents or other channels, different from banks. Some of them, due to their illegal situation prefer to remain anonymous, but the motivations are diverse. A second reason for a low use of banking service is their precarious social-economic position: their life style relies on very simple financial transactions based mainly on cash.
- Due to the above mentioned conditions, obstacles or barriers[108] are not felt as important, almost for obtaining basic banking services . Generally speaking, it is seen as easy to access savings bank books.
- The demand for banking services and facilities by migrants shows a moderate demand of current banking accounts (46,4%) and a higher demand of savings bank products (78,6%). Modest is also the demand of loans (35,7%) and stronger that of debit cards (81,5%) and credit cards (69,2%). It also confirmed little interest by migrants towards money transfer services offered by banks (17,9%). It is interesting to notice that for almost the cited services the percentage of people who obtained the services is very high for deposits, money transfers and foreign currency exchanges (100%) and, as it is easy to understand lower for loans (40%), debit cards (51,9%) and credit cards (23,1%). :These data confirm that it is easy to obtain basic banking services, while it is more difficult to obtain facilities that imply credit risk for the bank.
- As regards the documents needed for dealing with banks, they depend on banks and types of service/facility. Generally speaking, to open a bank account it is necessary to produce a valid document of identification, i.e. a passport or a residence permit, for a minority – but significant number of cases (about 30%) – banks require also an employer's statement on the monthly salary . When a loan, or a debit or credit card is involved in addition to the residence permit and the statement of the employer, an income declaration is also required. Furthermore a large percentage (37,5%) reported that banks are used to ask for endorsement by a Spaniard person, already customer of the bank. To obtain debit or credit cards, two other elements are considered: the average balance of the banking account, and the length of the relationship with the bank. As the pay roll credit on the bank account is generally a requirement, only employees can access to these services, while self-employed are excluded.
- As regards as problems or difficulties encountered in the first contact with the front-office staff, the situation is fairly positive[109]. More critical is the quality of information with reference to why a service or a facility cannot be provided.
- In brief, with reference to the customer satisfaction, the survey shows that 68% of the interviewed people believe that there are areas that banks ought to improve, 7% believe that there are no problems and nothing has to be changed, and the remaining 25% has no precise ideas.

The areas of improvement are:

- personal attitude of front-office personnel towards immigrants when dealing with them for services different from the basic ones;
- easier access to loans and financing facilities, to credit and debit cards, applying requirements and conditions analogous to those asked from native Spaniards;
- clearer and more detailed information about each product that is offered, above all for mortgages. The request is to improve not only commercial information, but also economic, financial and legal aspects of banking product and services.

As far as the second study is concerned[110], it is focused on the issue of financial literacy, difficulties of access and needs of migrants. Different types of organizations dealing with migrants have been interviewed in order to collect different points of view. Compared to other countries, the Spanish banking system, and especially the savings banks, pay more attention to the needs of low-income people and of migrant population. Here various initiatives have been undertaken such as dedicated branches, forms of "virtual remittances" and hiring of ethnic personnel. The reasons of difficulties are linked to lack of residence permit, uncertain working conditions, feeling of being at risk, difficulty to understanding rules and complex agreements and, to a lesser extend, prejudice towards migrants and discrimination and languages and comprehension difficulties. As for expectation

[107] See also the second survey quoted here.

[108] Barriers or cases of discrimination are quoted as rare exceptions. See GES (2000), p. 26.

[109] In fact the assessment was: unpleasant: --; distrustful/suspicious: 23%; pleasant-positive: 57,8% and collaborative: 19,2%. See GES (2000), p. 34.

[110] See Aro E., Bornati M. (2004).

from migrants, the areas of needs indicated as more relevant those of access to credit for housing or for starting a micro enterprise and of contracts and information in different languages.