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Unlocking Public and Private Finance for the Poor

CHALLENGES FACED BY REMITTANCE SERVICE PROVIDERS AND INITIATIVES TAKEN

BRIEFING SUMMARY

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Global remittance volumes are on the decline. As the COVID-19 pandemic sweeps across the globe, remittance service providers (RSPs) have undoubtedly felt its impact. In a recently conducted survey by the International Association of Money Transfer Network (IAMTN) in collaboration with the United Nations Capital Development Fund (UNCDF), 91 percent of the 75+ RSP respondents from 30+ countries state that they have experienced changes in remittance volumes. The majority (69 percent) have noted a sudden decrease. This downward trend corresponds to recent estimates by the World Bank, according to which the flow of global remittances is projected to decline by about 20 percent in 2020, from US$554 billion in 2019 to $445 billion this year.

Amid lockdowns and social distancing measures, many agent locations have had to close, or operate with reduced working hours and staff. When asked about the key challenges to their operations, RSPs identified limited agent networks, staffing and operational issues, and reduced business volume as major roadblocks. Not considered essential businesses, many RSP agents are not operating at regular business hours, if at all. Even if an agent location remains open in the sending country, entities in receiving countries may be closed, impacting transactions such as cash-over-the-counter at the pick-up location.

Alongside liquidity management issues, health risks for agents are further impeding RSP operations. At the agent outlets themselves, direct customer contacts, handling of cash notes, and lack of protective gear pose health and safety risks for staff. RSPs state that although some employees are working remotely, a number have fallen ill. Agents are also struggling with liquidity challenges because of volatile exchange rates and cashflow disruptions, hindering the rebalancing of digital and cash accounts. Restrictions on movement and transportation make access to bank services even more difficult.

Falling business volumes and ongoing operating costs translate into financial losses for many providers. Declining customer numbers due to loss of income, lockdowns or repatriation to home countries have led to a sharp decline in remittance volumes. At the same time, RSPs continue to incur operating expenses, such as rental and building maintenance costs and salary payments for their employees. The widening gap between reduced business volumes and mounting operational expenses results in lower revenues for RSPs, putting their livelihoods and those of their agents at risk.

Digital channels could ease remittance flows, and RSPs are already working on digital innovations to their services. When asked about new initiatives in response to COVID-19, RSPs overwhelmingly highlighted the need to scale up digital channels. While the current crisis brings great momentum and political goodwill for the digitization of remittance services, RSPs recognize the need to further develop their digital offerings. Some have already started, for example, by developing mobile remittance apps, or exploring novel partnerships with digital solutions providers in sending and receiving countries. Several are working on integrations with mobile money services, particularly for disbursements in receiving countries. Value-added services, such as telemedicine and micro-insurance bundled with remittances, are also under consideration.

The transition to a fully digital customer journey is complex, and requires further awareness raising and uptake efforts. In an ideal scenario, the entire remittance customer journey would be digital: migrant workers would receive their wages directly into a digital account, from which they would remit straight into the account of a family member back home. For this to work, however, employers would have to shift from cash-based to digital wage payments. Additional use-cases such as utility bill or merchant payments would be needed to encourage the continuous use of digital transaction accounts. In addition, migrants and their families would have to be convinced of the many benefits of digital versus familiar cash-based channels. As such, RSPs propose partnerships with public-sector institutions to better acknowledge the physical and financial journey of migrants moving into a digitally engaged experience – and to promote digital financial literacy among migrants. Cross-border coordination would be required for such efforts, so that both sending and receiving ends are reached.

To keep remittances flowing, RSPs are exploring short-term incentives such as waiving transaction fees, and expanding their agent networks. Among the RSP survey respondents, some are considering incentives, such as reduced fees to stimulate remittance flows. Providers are also investing in training customer support staff to better assist their clients remotely (24 hours a day, 7 days a week). Given ongoing lockdown measures, RSPs are also rethinking ways to expand their agent networks. Some are planning partnerships with petrol stations and post offices, which largely remain open as essential businesses, and could provide access points for migrants and their families. In addition, RSPs are implementing heightened hygiene measures at the agent locations themselves, such as sanitation and protective gear, to mitigate health risks for agents and customers.

In these turbulent times, the remittances industry remains resilient and eager to adapt

The impact of the COVID-19 pandemic on the entire remittances industry is grave, and some RSPs suggest they may not be able to operationally and financially sustain the crisis for more than three months. As such, many of the proposed interventions depend on financial investments and regulatory enablers. However, the survey responses suggest that all RSPs are nonetheless resilient and are eager to continue to facilitate the critical lifeline support of migrants to their families, including beyond remittance transactions.

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