Report to

UK Remittances Task Force

Research on Migrant Remittances and Linkage to broader access to financial services

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Executive summary

Within the UK there are approximately 2 million people who are financially excluded – they do not have access to any form of mainstream financial service. Migrants form a part of that group and a recent survey noted that bank account ownership was between 3 and 10% lower than the UK average[1] (Atkinson, Adele 'Migrants and Financial Services: A review of the situation in the United Kingdom', Personal Finance Research Centre, University of Bristol, March 2006).

Yet, the majority of migrants use one form of financial service on a regular basis – remittances.

This report examines the business models used by a range of remittance methods and to determine whether there are any lessons that can be applied to aid financial inclusion. In addition, there are significant innovations taking place in financial services and the premise has been that remittance companies (RSPs) are taking a leading role in this. What is currently happening and what lessons from these developments can be applied to other financial service areas and aid financial inclusion?

The input sources for this project came from interviews with over 30 key stakeholders. These include bankers, technology experts, consumer representatives, remittance companies and service providers. In addition, a significant amount of desk-based research was undertaken and detailed interviews were held with random samples from three different migrant customer groups: Bangladeshis, Indians and Tanzanians .

There are a number of different formal methods that are used to transfer money. The most popular is cash-to-cash transfers and others include account-to-account, cash-to-account, card-to-card, mobile transfers and internet based transfers. Cash-to-cash transfers are used most commonly because:

- Consumers are often aware of the product before they leave their own country
- The product offerings are simple and effective
- The services are secure
- The pricing mechanism is easy to understand
- The companies offering them are specialists with strong brands
- Communication is made with customers in a language and manner that they understand
- The business model is relatively low cost for the operator because distribution is often handled by agents
- Marketing and awareness efforts are managed in a way that is pertinent to that community. It is often managed by word of mouth and highly targeted advertising
- A risk based approach to 'Know your customer' is taken which means that the person using the service does not need to have an account and often does not need to produce identification.

Other remittance products share some of these strengths although they have a number of draw backs from a remittance angle, including being highly complex, expensive and not being able to make funds available where the receiver needs them.

There are a number of initiatives which use remittances as a tool to attract other products and services that are relevant to financial inclusion. With a few notable card based exceptions remittance companies do not seem to be offering, or have a desire to offer, additional products that may help migrants into the financial mainstream. Most of the initiatives are being driven by the high street banks or specialist card companies.

A number of them have developed packages aimed at specific communities. The most common target communities are Non-Resident Indian (NRIs) and Polish groups. This is because these groups are sufficiently large, well established in the UK and have a reasonable level of financial literacy. HSBC are the only UK high street bank that has currently developed a package that is targeted at all migrants – the Passport account. Aside from remittances, other services included in these packages normally include a card based, basic bank account equivalent.

Spanish banks, in particular, have set a strong example of taking a long-term relationship approach to migrant banking which is not being seen in the UK to the same degree.

Methods of outbound distribution of services to the communities is variable. Remittance companies tend to use an agency model whilst banks use their own branch network and will not allow their brands to be diluted by making services available via agents. Banks do, however, appear to be looking to work with affinity groups, such as housing associations to help increase awareness. Credit Unions and CDFIs do not, at this stage, appear to be interested in remittances in themselves or as a tool to attract new customers. The post office appears to have all of the correct ingredients to offer services to the financially excluded but does not currently offer them in a coherent package.

Customer research provided some useful input and importantly showed that each community needs to be viewed individually, although there are common needs across all of them. The respondents all had banking relationships and most had mobile telephones. There were encouraging levels of interest for trying new technology methods for both domestic banking and international funds transfer. Key findings included, 29% of people would consider using their mobile phones for UK banking needs and 44% would consider using them to transfer money. 42 % of people had heard of prepaid cards and of those 40% would consider using them for UK banking needs and 63 % as a mechanism to send money.

The biggest barriers to increasing financial inclusion for migrants appear to be identification of clients and consumer financial literacy rather than the products that are available. Indeed, a recent mystery shopping exercise exposed that many banks were not adhering to the Banking code and often required consumers to bring in more identification than was required under the code.

New technologies that are being applied in an 'innovative' manner include prepaid cards and mobile phone based banking. Currently there is a preponderance of prepaid card programmes. These appear promising as a means to serve the underbanked because of their convenience, accessibility and liquidity. The models used in the UK are all broadly similar and some of them have a dual card associated to the account to aid money transfers. The financial models are complex and have many different charging points. Building volume has been relatively hard for the operators although there are some useful examples of payroll card programmes being run in the USA and Dubai that can help UK based businesses.

There are no UK based mobile phone money transfer or banking services that are aimed at the financially excluded. However, there are examples of mobile banking trials for the unbanked from countries like South Africa and Kenya. These show a high level of penetration and success.

This paper concludes with a number of recommendations. These include:

There are a number of recommendations from this report. They have been divided into sections to reflect whose 'responsibility' they may be:

Government

1. DFID to continue to develop education programmes to assist with awareness raising in the country of origin.
2. Government should continue with its UK based financial inclusion education programmes and should ensure that they engage with intermediary organisations that are in regular contact with migrant communities. Support could also be considered for some of the specialist migrant financial service companies in helping them to run seminars etc. These organisations often struggle to find the appropriate level of funding to raise awareness for the services that are available.
3. Government and other interested parties should monitor developments in mobile banking and transfers that are taking place in other countries and disseminate the information. This area is quite embryonic but the results are encouraging. Mechanisms to share the learning points from those trials should be set up. Examples could include working with the UK Remittances Task Force to provide publications and seminars that are relevant to the industry.
4. Identification documentation continues to be seen as a barrier to being able to access financial services although organisations are being more flexible. This area needs further explanation to the communities involved and some form of communication piece that says 'what ID is required to open an account or to send money' would be helpful to consumers. Government should also monitor adherence by banks to the Banking code in this area.
5. Involving RSPs in the government's financial inclusion programmes and schemes would be beneficial. Currently they are not involved, it is mainly the banks, credit unions and CDFIs. It would be helpful to have a representative from the UKRTF or UKMTA on some of these bodies. RSPs have regular access to migrant communities and could be used as communication conduits.

Banks/RSPs

6. Banks and prepaid card companies should examine how remittance businesses communicate with their customer bases. There are some key lessons to be learned in the language that is used, the intermediaries that work on behalf of the remittance companies and the places that they advertise.
7. Banks could use their own global networks to raise awareness of the services they offer in the UK. They could also use their global networks to undertake account opening formalities.
8. All stakeholders need to keep their product design and charging mechanisms simple. Card schemes in particular need to ensure that they keep the number of different charging opportunities for the core products to a minimum. Fee levels must also be kept at a reasonable level.
9. Stakeholders should look at establishing partnerships with other stakeholders to offer a more holistic solution. For example, RSPs have strong distribution networks in migrant areas which are also the types of places that migrants feel comfortable in although they are generally not offering broader solutions to the financially excluded. By working with banks and card companies RSPs could provide their agent networks with a broader range of services. The banks would benefit from increased accounts or volumes of business without having to build the same high level of infrastructure.
10. Banks could give consideration to the type of approach that is being taken in Spain for all migrant groups and determine whether that approach is relevant for their business model. In particular, viewing the provision of remittances as the beginning of a 'customer journey' and not a one off transaction.

Trade bodies

11. Creating mass is critical to the success of the new technology approaches. This is often difficult for the smaller RSPs, Credit Unions, CDFIs etc. Some consideration could be given by organisations like the ABCUL and UKMTA to see whether they can assist by perhaps negotiating an umbrella commercial agreement with banks or card companies. Members could then access these deals and provide additional services.
12. To help raise awareness and motivate the stakeholders some form of recognition scheme, perhaps an award at an industry event, should be considered for the 'best innovation in financial inclusion' etc.

Based on the research for this project it would appear that card based schemes currently represent a reasonable option as a first step towards financial inclusion. There are some challenges as well particularly in terms of the costs associated with them and how much of a real gateway to financial inclusion they are really able to provide. They offer an entry point to financial inclusion, particularly where people have a lack of documentation but ways need to be found for them to offer a broader range of financial services.

Mobile banking is changing rapidly and steps must be taken to keep up to date with all developments as logically this could represent a good medium term solution.

Contrary to previous opinion much of the innovation in this area is coming from the banks and card specialists rather than the RSPs. Mechanisms that enable these stakeholders to work together will benefit the financially excluded consumers the most.

1.0 About DMA

1.1 DMA work with donor agencies, governments and the wider business community in providing advice and management in its three areas of expertise - remittances, investment programmes and international development events.

1.2 DMA's goal within the remittances arena is to help encourage ever-greater amounts of funds to be remitted through formal channels at the lowest possible cost and at the greatest possible efficiency for the benefit of migrant communities and emerging markets across the globe. It achieves this through managing and hosting information websites and through specialised business consultancy.

1.3 DMA's team have over two decades of experience in working with globally respected industry specialists and research analysts in devising highly acclaimed information reports, communications strategies and events for governments and for the wider donor community.

1.4 DMA also provide market analysis, new product development, strategic planning, project design and programme implementation for the private sector as well as programme development, market data analysis and interpretation, mystery shopping and advisory services for the public sector.

2.0 Objectives and methodology

2.0.1 The purpose of this project is to provide insight into how remittances in general could be used to provide greater financial enfranchisement for migrants so that they can access more mainstream financial services including banking products. In particular two connected areas are to be focused on:

- Drawing some initial conclusions on how some of the specific product solutions and approaches that have been developed to meet the needs of remitters might be applied to reduce the number of un-banked or under-banked people in the UK

- Investigating how innovative banking approaches could be used to improve the design of and access to remittance services

2.0.2 To address these two areas the project had to examine five different areas:

- The range of remittance products available to migrants in the UK, with emphasis on the business model/type of innovation used and how different industry players (banking, telecoms, technology companies) are working/competing with each other

- The options migrants have in accessing banking/other financial services through their remittance providers , or vice versa

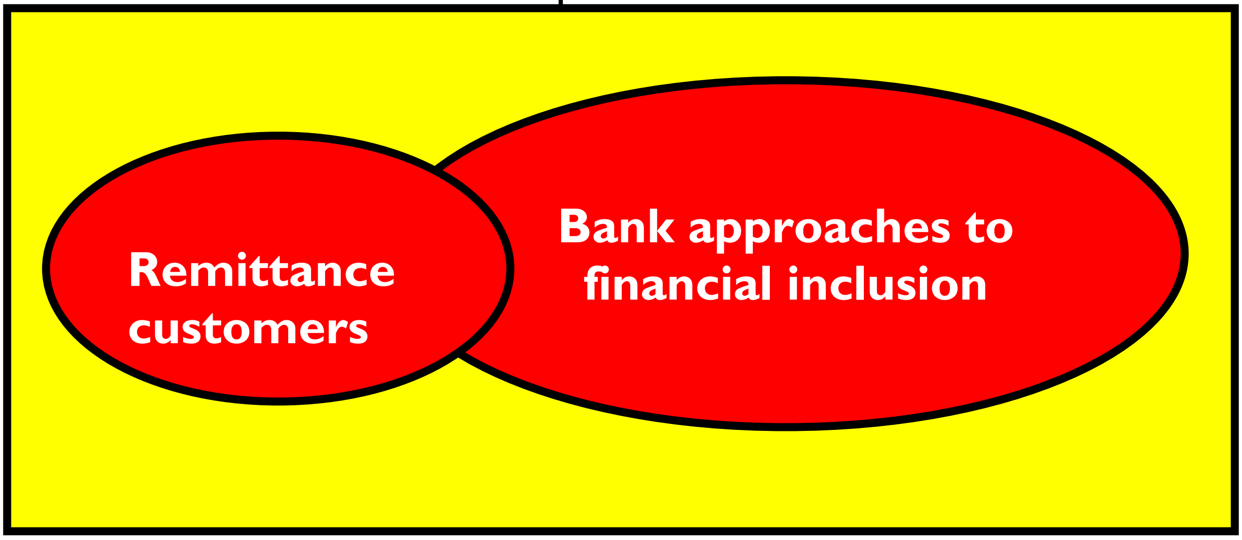
- The current efforts being made by the various stakeholders who provide financial services, in their broadest sense, to migrants banks, money remitters, credit unions, community development finance institutions (CDFIs), as well as the Post Office, individually or through joint ventures, to link remittance products with banking/other financial services. Ascertain the levels of uptake and the success achieved, and describe any barriers that have been observed.

- o The level of current and anticipated 'cross-pollination' between innovation in the remittances and broader financial services market in the UK, giving examples and trends

- o The lessons learnt from the First Solution case for access to remittances and wider financial services by migrants in the UK

2.0.3 As can be seen in Chart 1 the project aims to look at the products used by people who remit money, determine the key attributes and see how they can be applied to broader financial products. It will also look at products that are being developed by mainstream financial services and see if they can be applied to remittance products.

Chart 1 – The financial Inclusion landscape



2.0.4 The aim is to see if there are lessons that can be learned that will ensure that not only are financial services available to both of the ellipses in the Chart but that all of the adult population has access to the financial services that they need.

2.0.5 One of the key outputs is to advise if there are any models and lessons that can be applied by commercial businesses in order to increase the number of people who are financially included and the commercial impacts of doing so.

2.1 Methodology

2.1.1 The project required a variety of research methods to be applied. There was a combination of:

- Interviews with various stakeholders including banks, credit unions, money service businesses, card based technology companies, technology experts, telecoms companies, specialised migrant financial service companies, CDFIs and academics
- Consumer research. This took the form of a mixture of qualitative and quantitative research with a small but representative sample of individuals from the Bangladeshi, Indian and Tanzanian communities.
- Desk based research – in particular to establish the trends within the new methods of remittance based money transfers that are being established and to examine research that has been conducted in the USA

- Interviews with overseas based institutions, including those in Spain and USA

2.1.2 This is a broad subject area and one in which many advances are being made in a short period of time. This led to the number of interviews being expanded from those originally anticipated and to a slight over run in the timing of the project. This did, however, result in more rounded input being received.

2.1.3 A full list of the organisations that were interviewed as part of this project is shown in **Appendix 1**.

3.0 Financial exclusion and migrants

3.1 The financially excluded

3.1.1 HM Treasury's report 'Financial Inclusion: the way forward' published in March 2007 stated that in 2005-6 2.0 million adults in 1.3 million households did not have a bank account. This represents around 4% of the UK adult population.

3.1.2 The main thrust of the government's approach in this area is to help the financially excluded to:

- manage their money on a day-to-day basis, effectively, securely and confidently
- plan for the future and cope with financial pressure, by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities;
- deal effectively with financial distress, should unexpected events lead to serious financial difficulty.

3.1.3 The positive impact of this approach will help people who achieve these goals to enjoy significantly improved life outcomes.

3.1.4 In order to manage their money effectively, in the first instance people need to have access to a transactional bank account, and second, to have the confidence to make full use of it. People who do not have or use a bank account pay more for goods and services, and more to access their money. For example:

- essential utilities, such as energy and telecommunications, cost less for those who are able to make payments regularly from a bank account;
- cheques can be paid into a bank account for free, whereas those cashed at a cheque-cashing outlet attract a charge of 10% or more
- credit from responsible low cost suppliers is unavailable

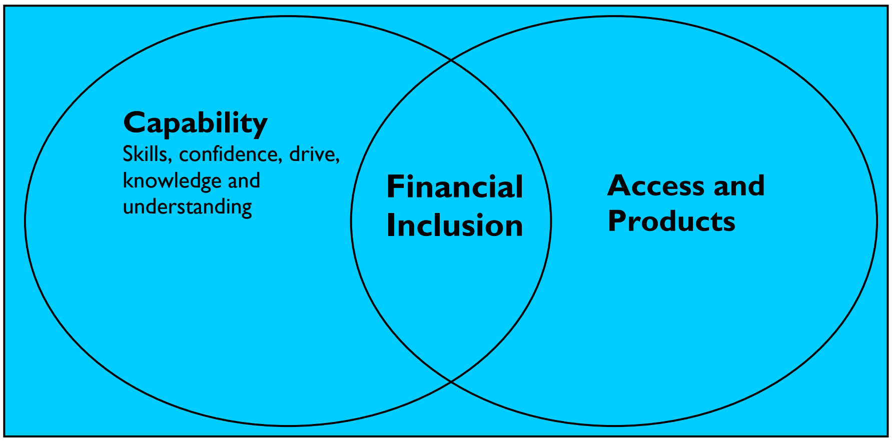
3.1.5 In addition, not having a bank account can be a real barrier to employment as many employers will now only pay employees via a bank account transfer and will not use alternatives such as cheque or cash.

3.1.6 The data that is provided in the Treasury report focuses on households and people that do not have access to a bank account. It does not necessarily include those who may have a basic bank account but are not able to access the broader range of financial services, perhaps because they are not able to obtain credit or do not have the necessary financial literacy skills to make an informed decision. This makes the range of people who could potentially benefit from the contents of these reports much wider.

3.2 Why people do not have bank accounts

3.2.1 It is not the role of this report to explain why people may not have access to the financial services that they require. However, providing some context will help understand why some solutions may be more useful than others.

Chart 2 – Drivers of financial exclusion



3.2.2 As can be seen financial exclusion is driven by two main factors – supply-side factors such as lack of access to appropriate financial products and services, and demand-side factors such as mistrust of financial institutions or a belief that mainstream banks are only interested in well-off people. Demand side factors are critical because lack of information and education is one of the main reasons why some people are not financially included. This applies equally to migrants and the local population. For many migrants bank account penetration is very poor in their home country and they maybe unaware as to why anyone would need financial service products. Of course, education and information provision needs to be married with a desire from the financially excluded to want to have financial services. Some people do make a conscious choice not to use mainstream financial products and services.

3.2.3 Even once educated, individuals need to be able have access to the right services in a manner that is convenient for them. There needs to be a convergence of supply and demand. These issues will be covered elsewhere in this report.

3.3 Migrants

3.3.1 Turning now to migration within the UK, the last census showed that there were 4.9 million people (8.3% of the population) who were born outside of the UK. On top of this government figures for the number of immigrants arriving into the UK put the figure at 190,000 per annum. In the last four years there has been a considerable change in the profile of migrants arriving in the UK. Since the accession of countries such as Poland, Lithuania and Slovakia to the European Union in 2004 it is estimated that over one million new migrants have entered the UK from Eastern Europe. This had had some affect on the number of migrants coming from other countries although there are still large numbers of new migrants from Africa, Asia and Latin America (in particular Brazil). Over recent years the number of people seeking political asylum has fallen from a peak of 84,130 in 2002 to 23,430 in 2007 (Source: Office of National Statistics).

3.3.2 The change in dynamics of the migration data is important in the context of financial inclusion because there is an implication within the Treasury report that financially excluded groups within migrant communities represent a higher average figure than for the UK population as a whole. Whilst there does not appear to be any official data to substantiate this anecdotal information from a number of sources, including Queen Mary University seems to substantiate this.

3.3.3 It is reasonable to assume that the newly arrived migrant may find it more difficult to access mainstream financial services for a variety of reasons that will be expanded upon in later sections. Therefore the composition of those groups will be relevant for recommendations that are made in this report. It is also quite clear that many of the newly arrived immigrants are able to access a form of financial service – remittances, even if they can not open a bank account. The report examines why this is the case and whether there are any lessons that can be learned by banks and credit unions from the work of the remittance companies.

4.0 Remittance product and market development models

4.1 The remittance market in the UK

4.1.1 Remittances are defined as regular person-to-person international money transfers.

4.1.2 The UK market is estimated at around £3 billion of outbound payments per year. The money goes to Asian sub-continent, the Caribbean, Africa, China and Eastern Europe. There are no precise figures on the total amount sent as there is currently no formal requirement to collect data and even projects that tried to research the results have produced a broad range of measures.

4.1.3 Remittances are currently sent in a variety of forms including cash-to-cash, account-to-account, cash-to-card, card-to-card, cash-to-mobile phone, mobile phone-to-mobile phone, cash sent through the post and cash that is hand carried by a friend or relative. Similarly, with respect to the size of the market, there is no official information on how much is sent though each method. Indeed, at least two of the methods would be termed informal and are even harder to measure.

4.1.4 However, market experience and feedback from the various operators leads to the conclusion that the majority of remittances are sent by cash-to-cash, with cash via friends and other informal methods making up the most of the remainder. Cash-to-account would be the fourth most used method.

4.1.5 The landscape is changing though. There is heightened interest in remittances as a result of a growing awareness of the global size of the market which is put at US$ 268 billion by the World Bank. This, combined with an increased in the use of new technologies in the financial services arena, has meant that there are a number of 'new technologies' that are being applied to remittances.

4.1.6 One of the key benefits which could arise from improving the remittance environment and financial inclusion in the UK for migrants is that it could lead to an improvement in the financial inclusion environment in the migrant's home country. In particular as financial literacy improves in the UK this knowledge will be transferred to the communities at home.

4.1.7 This section will list then types of organisations that send money, examine the key methods used across the remittance industry, describe the business models and draw out some of the key facets of the business model of each one.

4.2 Organisations providing remittance services

4.2.1 RSP – Remittance Service Provider – an organisation that provides/own a remittance service. Distribution of the service is via its own locations, networks of agents and other methods including internet based remittances. Examples include Western Union and MoneyGram.

4.2.2 MSB – Money Service Business – an outlet where a consumer can go to transfer money. An MSB may have its own money transfer service or be an agent for an RSP. Each MSB is registered with HM Revenue and Customs.

4.2.3 Banks – for the purposes of this document banks are taken to be account holding institutions that have the ability to offer services based on the ability to provide money transfer services for customers with whom they have a pre-existing relationship.

4.2.4 Phone operators – organisations that provide messaging and technology solutions that enable the transfer of funds via a mobile phone.

4.3 Different methods of sending money

Table 1 – High level comparison on key attributes of different remittance sending models

Method of transfer	Typically Offered by	ID req'ts	Typical cost to send £250*	Time taken to transfer	Ease of access in send market	Ease of access in receive market	Simple txn process	Value for money	Security
Cash-to-cash	• MSB	>£600 only	£15	10 mins to 48 hours	✓	✓	✓	✓	✓
Cash sent via friends	• N/A	None	£0	Over 24 hours	✓	✓	✓	✓	×
Cash sent via post	• N/A	None	50p	Over 1 week	✓	✓	✓	✓	×
Account-to-account	• Banks	Acc't holders only	£26	2 days to 1 week	×	×	✓	×	✓
Cash-to-account	• MSBs • Banks (for own account holders)	>£600 For account holders only	£15	2 days to 1 week	✓	×	✓	✓	✓
Card-to-card	• Some banks • Retail outlets • RSPs	ID required to register	£6	Repeat txns – instant	✓	×	×	✓	✓
Mobile phone-to-mobile phone	• Retail outlets • Online	Some form of ID required to establish a sending account	£2 + FX rate	Repeat txns - instant	✓	✓	✓	✓	✓
Web-based transfers	• Internet	Some form of ID	£15	Repeat xns - instant	✓	?	?	✓	✓

* Costs for representative transactions to India taken from www.moneymove.org on 25 May 2008
Txn = transaction

4.3.1 Table (1) outlines from a consumer perspective the merits of the various money transfer methods. The top row outlines the key requirements that a consumer has when selecting a method to use to transfer their money home. Each method is measured against these requirements. The following sections will examine each method in more detail with the exception of cash sent via friends and cash sent via post which are excluded because they are counted as informal transfers. However, it can be seen that cash-to-cash is the only method that 'ticks all of the boxes' for the money transfer customer. This may explain why it is the most popular method for transferring money.

4.4 Cash-to-cash transfers

Typically offered by: RSPs/Money Service Businesses
Key benefits for a consumer:

- Secure
- Can be cost effective
- Fast and reliable
- Available through the types of shops that the users are comfortable entering
- Relatively easy for the receiver to collect their money
- No onerous requirements for identification
- Easy to understand
- Customer probably familiar with largest companies before they leave their own country

4.4.1 These criteria are consistent with the previous DFID sponsored research which was undertaken in 2005 by NOP which showed that 'Security is the overriding factor in choosing a money transfer provider. Speed and cost are traded off against this.'

4.4.2 The cash-to-cash service is normally offered by an international money transfer company, such as Western Union, MoneyGram, Coinstar, Ria Envia, etc. These are specialist organisations for which remitting money is their core business. As such they have great experience in serving the migrant communities and in providing a remittance service that meets the needs of the consumer. In this document they will be referred to as Remittance Service Providers (RSPs).

4.4.3 They generally operate by appointing agents. These are normally based in the communities that need to send money. They are often local shops who speak the language of their local community, understand their needs and are well respected. Migrants feel comfortable in the surroundings of these locations. These agents are normally open for extended hours and over weekends. Many are convenience stores, internet cafes, pawnbrokers, etc.

4.4.4 Any outlet that offers a money transfer service must be registered with HM Revenue and Customs as a Money Service Business (MSB). The businesses owner(s) and key managers must pass a 'Fit and Proper Test'. In addition, these businesses are covered by the prevailing Money Laundering Regulations. There are over 35,000 MSB agencies in the UK.

4.4.5 As a result of the 'light touch' approach that is taken by the UK regulatory authorities these organisations are not controlled in the same way as banks who are regulated by the Financial Services Authority (FSA). Whilst all businesses that operate in the financial services arena adopt a risk based approach to anti-money laundering the RSPs have taken a different approach to identifying customers than that taken by banks and those organisations that come under the FSA's remit. Many of the RSPs do not require identification of any description for transactions that are less than £600 in value. In addition, there is a varied approach to how repeat transactions for the same customer are handled. Most MSBs do not ask for identification for repeat transaction customers. This is often because, being a community based business they feel that they know who the individual is and do not require an official document in order to be able to identify them accurately.

4.4.6 The area of identification is a key differentiator in the business models used by banks and RSPs. In order to comply with the various anti-money laundering regulations banks will only open accounts for people that are able to produce official picture identification and a proof of address. Whilst many banks have vastly broadened the types of identification that they will accept they will always require some form of ID. RSPs on the other hand frequently do not require ID and therefore are at a distinct advantage to gain business from those customers who do not have or do not wish to provide ID. In the current environment it is difficult to see how the different approaches taken by banks and RSPs can be reconciled. Identification is a major issue which should not be understated. Examples shown later in this report will show that some banks are taking a more pragmatic approach to the types of identification and proof of address that are acceptable. They are also looking at who may confirm having had sight of the relevant documents and the locations where they are seen.

4.4.7 The business model for cash-to-cash businesses also includes other aspects that are key to the consumers. The service they offer is simple to use and simple to understand. Most customers are familiar with the concept of cash-to-cash services before they leave their home country. They frequently do not have bank accounts and come from countries where bank account ownership can be as low as 5 per cent. This element could be described as financial literacy. Many migrants are not financially literate in the way that would enable them to understand the need for a bank account, the different types of accounts and other financial services that are available and how to obtain an account if they wanted them.

4.4.8 A significant number of RSPs whether they are corridor specific (they only send to one country or region) or global in their reach produce information in the languages of their target customers. This often proves effective in building usage of their services.

4.4.9 The final element that is critical to the operation of RSPs is to develop high volume businesses on a low cost base. They manage this by using the agent model to reduce distribution costs, offering a narrow range of specialised products, using marketing and communication tools that are highly targeted and relatively low cost, managing their support functions in a cost effective manner (often off-shoring them) and running very lean management structures.

4.4.10 Lessons that could be applied to assist with financial inclusion

- Produce services that customers really want
- Offer them at a place or in a manner that they feel comfortable with
- Talk to customers in their own language
- Utilise low cost methods of offering products

4.5 Account-to-account transfers

Typically offered by: Banks
Key benefits for a consumer:

- Secure
- Reliable

4.5.1 This business model is only available to individuals who have a bank account at the bank that they wish to send money through. As will be shown in Section 6.1, some banks are now offering special prices for remittance customers who open accounts with them as a means to help them improve their market penetration. These banks are communicating with customers in their own language and are developing services that they need and want.

4.5.2 Account-to-account transfers have the key virtue in that they are highly secure for both the sender and the receiver. Most transfers are sent using the SWIFT (Society for Worldwide Interbank Financial Telecommunications) system which connects over 8,385 'user organisations' banks in 208 countries. Every transaction is fully tracked so they will not get lost. The service normally takes two business days but it can take longer if the money needs to go to more rural areas.

4.5.3 The disadvantages of this model apart from the need for the sender to have a bank account are that in many parts of the world the recepient may not have a bank account and is not financially educated to understand why they might want one. In addition, in many parts of Africa and Asia there are either no banks or a limited number of them in the rural areas so the service is not relevant to them.

4.5.4 This type of service can be expensive for small amounts. Even though the cost charged by SWIFT is very low (a few pence) the banks naturally charge a fee that represents a full cost recovery of the labour involved. Most banks have a flat fee for this type of service that begins at around £20. As most remittances are for amounts under £500 this makes the service expensive for low value remittances. For higher amounts the banks charges are competitive.

4.5.5 Until recently the banks have not generally focused on the provision of remittances as a core activity. Their product offering has generally been inconvenient involving completion of a long form with lengthy IBAN numbers, a visit to a branch rather than internet access, etc.

4.5.6 Lessons that could be applied to assist with financial inclusion

- Produce services that customers really want

4.6 Cash-to-account transfers

Typically offered by: RSPs
Key benefits for a consumer:

- Cost effective
- Reliable
- Available through the types of shops that the users are comfortable entering
- No onerous requirements for identification
- Secure

4.61 This business model has similarities with both cash-to-cash and account-to-account for obvious reasons. There are a number of RSPs that have established relationships with banks in specific countries. The RSPs collect customer transfer instructions in the sending country via agents, over the internet or via a call centre. They then issue transfer instructions to the bank in the receiving country (usually this is handled via a direct relationship and not via SWIFT) who makes the payment. Settlement is made between the RSP and the bank normally by SWIFT or by the bank's account in the UK being credited.

4.6.2 Aside from the benefits of security and reliability this business model has the advantage that it is normally available in locations that migrants are comfortable visiting or are able to access easily. It is normally offered through the same types of agents that offer cash-to-cash services and therefore has the virtue that it is offered through agents from the local community who are part of the same culture and speak the same language.

4.6.3 This method of transfer also has the benefit that it is often cost effective. The RSP is using a bank in the receiving country to make payments to the receiver's bank. This is normally handled via the local clearing system and the cost for making that individual payment is significantly lower than making a corresponding international payment to that country. The RSP normally bulks together all of the send transactions to bank accounts in that country on a daily basis and therefore pays for only one settlement transaction. This reduces the cost and allows some of the benefit to be passed onto the consumer.

4.6.4 It can be seen that the operational model for this type of transaction is different to account-to-account as the transactions with cash-to-account tend to be sent as one batch on a daily basis whereas for account-to-account transfers they are sent as individual transactions.

4.6.5 Some RSPs do not require identification for amounts less than £600 on a per transaction basis and many do not require that any form of account based relationship is established. This clearly benefits those who do not have identification or do not wish to establish a long term relationship.

4.6.6 As with account-to-account this product offering is limited to those where the receiver has a bank account.

4.6.7 Lessons that could be applied to assist with financial inclusion

- Produce services that customers really want
- Offer them at a place or in a manner that they feel comfortable with
- Talk to customers in their own language
- Utilise low cost methods of offering products

4.7 Card-to-card transfers

Typically offered by: Money Service Businesses/Banks
Key benefits for a consumer:

- Secure
- Fast
- Available through the types of shops that the users are comfortable entering
- Can be easy for the receiver to collect their money

4.7.1 The key feature of a card based system is that a card is used by the sender, or by the receiver, or in many cases by both to transfer money. There are a number of different models for card-to-card services however most schemes in the UK appear to be prepaid dual-card schemes.

4.7.2 In these schemes the sender will complete some documentation in order to obtain a card. They will be required to provide identification in order to be issued with a card. In most cases the sender is provided with two cards. One is sent by the sender to the receiver. The receiver requires their own PIN number for their card.

4.7.3 To make a transfer the sender loads money onto the card. At this point a 'pool' of money is created that under most models can be withdrawn by either the sender or the receiver at either an ATM or at a merchant who accepts the brand on the card (normally either VISA or MasterCard). In some schemes the sender has to make a transfer request by either SMS or on-line. An example of this is the Crewcard product offering.

4.7.4 This model has a number of advantages as a remittance product. The service is secure as money is withdrawn at ATMs using a PIN number and therefore is very much under the control of the users.

4.7.5 The service is fast because funds are available to be collected by the receiver as soon as confirmation has been received that money has been credited to the card. In countries where there are large ATM networks it is normally very convenient for people to be able to withdraw funds quickly as they are often close to an ATM. There are now over 1.5 million ATMs in the world, most of which accept VISA and MasterCard, so this can represent a convenient solution for many users.

4.7.6 Importantly, topping up the card can be very straightforward in the UK. Depending on the scheme and operator agreements this can be made by cash at Post Offices, banks and retail locations who are part of Paypoint or Payzone networks. Top ups can also be made by a third party, such as an employer. This means that customers will be able to find a location that is appropriate for them in order to be able to top-up their cards.

4.7.7 The charging model used by prepaid card schemes can be quite difficult to follow and understand for most consumers. There are often fees associated with issuing a card, reloading a card (depending on method), monthly card fee, ATM withdrawal fee, foreign exchange fee, usage fee etc. This makes it very difficult for individuals to compare providers or in many cases to understand exactly all of the charges that there are. **Appendix 2** provides an example of the range of costs that a consumer can face in the UK as provided at the price comparison site www.what-prepaid-card.co.uk.

4.7.8 As well as being difficult to understand ATM withdrawals by the receiver can be expensive. This will vary by provider. A transfer of a representative sum can cost as little as £1.50 but can be in excess of £10. The challenge is that most funds are held in pounds sterling under this model and the amount that will be received is therefore not known until it is withdrawn. If the value of sterling decreases then the receiver will have less money than the sender intended.

4.7.9 Card-to-card schemes are a good solution where there is a good ATM network. However, in many of the largest remitting areas, particularly in Africa and Asia the ATM networks are not extensive and certainly do not reach a large number of rural areas. Whilst improvements are being made in this area and a high degree of innovation is taking place, for example in South Africa where there have been some successful trials of mobile ATMs, the card-to-card solution does not work as a remittance solution for many of the UK's largest migrant communities.

4.7.10 The cost operating model, as will be shown later, is not always straightforward with card-to-card operators. The key challenge is that to make the model work requires a significant number of parties to work together and each party clearly will require a share of the revenue. The various parties can include: the card issuer, the card scheme manager, the agent, the ATM network operator and the Electronic money issuer. The economics of the scheme mean that there needs to be enough volume and revenue to meet the needs of all of these partners.

4.7.11 Prepaid card schemes are being promoted in a variety of ways. Many are promoted via the internet and also by producing material in the language of the target customer groups. In particular there is significant UK activity that is currently targeted at Polish communities.

4.7.12 One of the key features of the card-to-card service offerings that are available in the UK market place is that the remittance service is one of a number of services that are offered to the user. Many of the services are targeted at migrants and include a number of UK based financial service products. This will be examined in further detail in Section 8.1.

4.7.13 Lessons that could be applied to assist with financial inclusion

- Produce services that customers really want
- Offer them at a place or in a manner that they feel comfortable with
- Talk to customers in their own language
- Access technology to provide multiple services on one platform

4.8 Mobile phone based transfers

Typically offered by: Phone operators and independent businesses
Key benefits for a consumer:

- Cost effective
- Reliable
- Easy availability for sender
- Easy availability for receiver
- No onerous requirements for identification
- Secure

4.8.1 This is one of the newest areas to have been developed for remittances. It has attracted significant media interest but it is fair to say that there are not many models that are currently in operation. The M-PESA service offered by Safaricom in Kenya is the one that has received the most media attention. This has been recently followed up with a UK test initiative being run by Vodafone for transfers between the UK and Kenya which builds on the M-Pesa platform.

4.8.2 Additionally, there has been a high degree of publicity from the GSM Association (GSMA) around its initiatives in this area. Announcements have been made to advise that there is a tie-up between GSMA and Western Union to write standards for mobile remittance transfers. Agreements are in place between Western Union and Bharti Airtel in India and Smart Transfer and Globe Telecom in the Philippines. These services are in their early stages of development and a variety of models are being developed. However, based on a number of discussions that have been held with the stakeholders a business model that is currently being used is outlined below.

4.8.3 The sender establishes an account with a phone company. This account will normally require some form of identification or password or a negative response from a third party credit reference and identity check agency. Value is then loaded onto the phone account either at a retail outlet or via the internet. This last option assumes that the person either uses a card related to a bank account or perhaps a prepaid card.

4.8.4 Once value is loaded on the account the sender is able to transfer any amount of money, up to the amount loaded on the card and the card limit, to the receiver. This is usually done by sending an SMS message to the operator's hub. This SMS will include the receiver's mobile phone number, the amount and some form of PIN number.

4.8.5 An SMS is then generated and sent to the receiver. The receiver has the option of holding the value on their phone or of turning that into cash. It is turned into cash by visiting a registered outlet. An SMS is then sent to the operator of that outlet by the receiver which transfers the value and the receiver is then paid out the cash.

4.8.6 There are a number of variations around this model. These include the downloading of, usually Javabased, software onto the mobile handset. This software will have a remittance based option that will enable the phone user to make a money transfer in much the same way as they would on-line. Another variation is the use of NFT (Near Field Technology) which is the 'contactless' technology that is used for the Oyster card on London's transport system for example. This can be used to help speed the transfer of value and some telephones are fitted with this technology.

4.8.7 Given the embryonic nature of this form of remittance transfer in the UK it is not possible to draw any lessons from local experience. However, this type of service has been operating in the Philippines for longer and therefore some lessons can be drawn from the experiences in that market.

4.8.8 This business model has the potential key advantage that there were, according to Informa, 3.3 billion phone subscriptions in the world in November 2007. Therefore the ability to send or receive an SMS message is widespread. In developing markets the growth of mobile phone penetration has been particularly fast, although in many countries that receive remittances the significant proportion of the community do not currently have access to their own mobile phone. Nevertheless, one of the key benefits of using a mobile phone for remittances is that it is available to a large community.

4.8.9 People understand how to use mobile phones. They have been educated or have taught themselves how to use it. If remittance based services can operate in the same manner then they will be easy for consumers to learn how to use.

4.8.10 The service is fast and appears to be low cost. The SMS is received almost instantaneously. Charging models vary with the distribution models and there is limited information available. However, examples of transfer costs for countries like Philippines or with WIZZIT and MTN banking in South Africa indicate that mobile transfers are taking place for a lower cost than cash-to-cash transfers.

4.8.11 As long as the users keep their PIN numbers and personal details secure then the service is safe for users.

4.8.12 Given the lack of UK based information around mobile money transfers it is difficult to determine what the likely drawbacks will be at this time. However, one key area that needs to be addressed is the availability of outlets, particularly on the receiving side, to take cash out of the system. The 'first mile' and 'last mile' issues that are common with all remittance methods are still present with mobile transfers.

4.8.13 To operate a mobile transfer will, most likely, require the same level of ID as any other method. The methods by which operating companies will complete their KYC appears, to date, to be the same as for an account-to-account based transfer.

4.8.14 Like the prepaid card, mobile transfers have the potential to offer multiple services on the same platform.

4.8.15 Lessons that could be applied to assist with financial inclusion

- Produce services that customers really want
- Offer them at a place or in a manner that they feel comfortable with
- Talk to customers in their own language
- Access technology to provide multiple services on one platform

4.9 Web-based transfers

Typically offered by: RSPs, some banks
Key benefits for a consumer:

- Cost effective
- Reliable
- Easy availability for sender provided that they have an internet connection
- Secure

4.9.1 This model can be a variation on many of the models that have been covered in this section. This is about how to access a money transfer service. There is growing evidence, particularly in the USA that internet usage among migrants is higher than many commentators have understood. Research by Orozco, Jacob and Tescher showed that for some communities, for example Jamaicans, internet usage was as high as 76% of the US Diaspora.

4.9.2 The business model used for an on-line transfer can be the same as for any of the other methods of transfer mentioned above. As such a number of the RSPs including Western Union and MoneyGram as well as a number of smaller companies offer an internet transfer service. This section will not repeat the contents of the previous sections, however, it is important to emphasise that providing identification for internet operators is a challenge. Many manage this by asking for some ID details that can be easily verified, e.g. passport details, driving licence number etc which are then checked against a third party database.

4.9.3 The other element in relation to this report is that to make a payment most providers require the sender to have some means of bank related payment which is usually a debit or credit card. Some providers do not require this and allow the individual to go to a bank branch and deposit money directly into the RSP's account.

4.9.4 As a communication tool with the sender the internet is a valuable resource. RSPs can devise campaigns, advertising and information in the language of the sender.

4.9.5 Web-based transfers can be low cost because the distribution is handled by the RSP themselves via their own website and often an associated call centre. This means that there is no need for an agent network which reduces the need to share revenue. Mechanisms described for other services, such as the bulking of transactions for cash-to-account transactions still apply.

4.9.6 Lessons that could be applied to assist with financial inclusion

- Produce services that customers really want
- Offer them at a place or in a manner that they feel comfortable with
- Talk to customers in their own language
- Access technology to provide multiple services on one platform

4.10 Summary of lessons that could be applied to assist with financial inclusion

Table 2 Summary lessons that could be applied to assist with financial inclusion by business model

Method of transfer	Lessons to assist with financial inclusion
Cash-to-cash	• Produce services that customers really want • Offer them at a place or in a manner that they feel comfortable with • Talk to customers in their own language • Utilise low cost methods of offering products
Account-to-account	• Produce services that customers really want
Cash-to-account	• Produce services that customers really want • Offer them at a place or in a manner that they feel comfortable with • Talk to customers in their own language • Utilise low cost methods of offering products
Card-to-card	• Produce services that customers really want • Offer them at a place or in a manner that they feel comfortable with • Talk to customers in their own language • Access technology to provide multiple services on one platform
Mobile phone-to-mobile phone	• Produce services that customers really want • Offer them at a place or in a manner that they feel comfortable with • Talk to customers in their own language • Access technology to provide multiple services on one platform
Web-based transfers	• Produce services that customers really want • Offer them at a place or in a manner that they feel comfortable with • Talk to customers in their own language • Access technology to provide multiple services on one platform

4.11 Competition or co-operation?

4.11.1 There are various types of organisation involved in providing remittance services. These include RSPs, banks, telecoms companies and technology companies. This brief section looks at how they are interacting with each other.

4.11.2 In general the main form of interaction is competitive rather than co-operative. For most business models including cash-to-cash, account-to-account and cash-to-card the only form of co-operation appears to be for settlement where the RSPs (and some banks) need to use the mainstream banking settlement channels. There is potentially more co-operation in the areas of card-to-card and mobile phone remittances.

4.11.3 In the card-to-card model there are more entities involved and this requires greater co-operation in order to ensure that a workable product can be offered. To succeed there need to be good working relationships between the card companies, banks and organisations that can distribute the service to the consumer (normally retail outlets).

4.11.4 The mobile phone area shows the greatest level of partnership building at the present time. Here the successful models work with a partnership between a telecoms company and a bank. In the case of the Vodafone service to Kenya for instance the partnership is between a telephone organisation (Vodafone) and a bank (Citibank). The telephone company provides the messaging and the customer contact whilst the bank is providing the 'back-office' servicing for the product. The bank is able to provide the exchange rate information and the exchange of value on a bulked up basis. This is a good example of two business streams combining their core strengths to deliver a product that can add value to a consumer.

5.0 The options migrants have in accessing banking/other financial services through their remittance providers

5.0.1 This section will examine the different non-remittance financial service options available to migrants that are offered by the RSPs in the UK. This section, in particular, looks at the options that are available for the newly arrived immigrant, (that is one who has been in the UK for less than a year). It is divided into those products that are available via RSPs or their agents, those that are available via specialist migrant financial service providers and those that are provided via banks, Credit Unions and CDFIs. It also provides a comparison with efforts made in some other markets, most notably Spain and the United States.

5.1 The financially excluded migrant

5.1.1 The financially excluded migrant shares many of the same characteristics as the remainder of the financially excluded community with the exception that they do access one form of financial service – remittances. However, the challenges they face and some of the reasons they face them are listed here.

- **Opening a bank account**. This is often necessary because many employers will only pay an individual directly into a bank account. If a person does not have a bank account then they may not be able to obtain employment that is appropriate for them. This can lead to exploitation. Opening an account has been a relatively difficult process although the increased flexibility in ID requirements for opening a basic bank account have made a positive difference in this area as will be outlined in section 6.1.
- **Self-exclusion**. A number of migrants do not establish banking relationships because they do not have the correct documentation and occasionally because they are not sure how long they will stay in the country.
- **Financial literacy**. A number of the migrants who arrive in the UK have never had a previous banking relationship. Often they arrive from countries where only 5% of the population has a bank account. Therefore they can find banks intimidating places and they do not understand the range of the products or services or why they are relevant to them.

5.1.2 With these key challenges in mind it is relevant to look at the different options available to the migrants from different categories of providers.

5.2 Remittance Service Providers

5.2.1 As a generalisation the remittance service companies tend to be specialist organisations. They provide remittance based solutions. Although a number of their customers are financially excluded, but are able to use remittance services, many RSPs do not view the provision of additional domestically based financial services as an area that they wish to explore. In some cases this is due to those products not being strategic. In others it is because there is a concern that if these customers begin to use mainstream financial services then they may feel that there is little need for them to use the RSP to remit money home. Rather the customer may begin to use their bank to do so.

5.2.2 Some RSPs are taking a different view and are providing prepaid card services. Two examples of these are Western Union and Chequepoint. Prepaid cards are a good option for those who do not have a bank account as they can be used to perform many of the same functions as a debit card from a bank. Importantly it is possible to have a salary credited to the card account. As covered in **Appendix 2** there are a variety of charges associated with these products. The Western Union and Chequepoint charges are shown in **Appendices 3 and 4**.

5.2.3 MoneyGram offer a money transfer card in the USA. Coinstar Money Transfer is owned by Coinstar who are one of the major gift card providers in the USA and also operate gift cards in the UK. So far neither company offers a prepaid card to their customers in the UK.

5.2.4 RSPs are not offering other forms of financial products to their customers. Western Union have announced that they are looking at micro-finance initiatives but it is not clear exactly what that will entail and what the timing is. They have also offered free repatriation insurance in some markets, such as the Middle East which cover their customers to pay for them to return home in the event of an immediate family member bereavement.

5.2.5 To conclude this segment, whilst there is limited activity by RSPs in offering other financial services to migrants there is a trend that is likely to continue for prepaid cards to be offered. From a marketing angle these are being positioned as services for customers who do not have a bank account and therefore could represent a reasonable alternative for the financially excluded if their salary/wages can be paid into them.

5.3 Specialist migrant financial service providers

5.3.1 There are few businesses that are established to provide financial services to migrants. However, one such business is Oakam (see case study box 1). This organisation provides a good example of an organisation that has focused on the specific requirements of the migrant populations and has provided a range of services that are designed to specifically meet their needs.

Case study 1 Oakam

Oakam commenced trading in 2007 as a specialist financial services business. The organisation is run by a number of experienced ex-bankers and is backed by strategic investors.

The premise behind the business is that with the increased levels of migration into the UK and with the existence of some sizeable migrant communities there is a gap in the market in respect of providing targeted financial services that are aimed at migrants.

Oakam has seven stores which are all in London including Barking, Dalston, East Ham, Kilburn and Shepherds Bush, Streatham and Walthamstow. There are plans to open more locations during 2008

including some outside of London. Each location has a staff of between three and five people, most of whom are recruited from the local area and are representative of the local community.
Services offered include:

- Money transfers – Oakam are an agent of MoneyGram
- A prepaid card that is Maestro branded
- Cheque cashing
- International phone card
- Payday loans
- Unsecured loans

In addition to these services Oakam invest in running seminars to improve financial literacy and awareness of the communities in which they operate.

Development is at an early stage but it is fair to say that take up has been encouraging. The largest volume product is money transfers and the largest community have been the new arrivals from Eastern Europe.
Money transfers are being used to drive footfall and the information gained can be used to support lending decisions.

Loans are used most often for purchasing a car, paying a deposit on a flat or for holidays. Oakam have highly skilled loan advisors and run their own loan book. A track history of using other products and services is therefore a useful tool to have. Customer information is reported to the credit bureaux so the customer has the opportunity of building a credit profile.

Oakam are members of the Consumer Credit Association and have an MSB registration.

Promotion of the service is largely through word of mouth. As a relatively new business Oakam does not have access to large marketing budgets. 25% of Oakam's new customers are through referrals and this is testament to the quality of service offered and is an effective low cost marketing approach.

Oakam's model is based around understanding a customer need, providing access to simple and transparent products and services and building long-term mutually beneficial relationships.

5.3.2 Oakam has used remittances as a tool to attract customers and offer them additional products.

5.3.3 There are, however, very few companies that use the model that Oakam use. There are a number of cheque cashing businesses that offer very similar products to Oakam, such as Money Shop, Albemarle and Bond, etc. although these businesses do not have the same focus on the migrant businesses. This is clearly a specialised area where the business case for investment has yet to be proven.

5.3.4 The conclusion must be, however, that there are few specialist migrant financial service providers.

5.4 Other countries experience

5.4.1 Analysis of activities in countries such as the USA show that the remittance industry outlets are offering a similar range of products to those that are available in the UK.

5.4.2 In the USA there is a significantly larger unbanked community than the UK, and among migrants this figure is almost fifty per cent. This is often driven by the immigrant not having the correct legal status. Aside from remittances which are predominantly provided by the RSPs the other non-bank financial services that are provided by RSPs or their agents are cheque cashing and money orders.

5.4.3 Cheque cashing is provided by specialist cheque cashing companies, some of whom (such as Dollar Financial) operate in the UK. This is a vast industry and in the USA is largely driven by the much larger unbanked population and the broader use of cheques for payments of wages and salaries. It is estimated that there are 13,000 cheque cashing outlets in the USA cashing $80 billion of value a year (Mark Gottleib, MSG, 2007).

5.4.4 The other financial service provided by the RSPs, in particular MoneyGram and Western Union is money orders. These are paper based 'cheques' issued by a third party. Vendors prefer them as a means of payment because they are more certain than a personal cheque. In 2005, 899 million money orders were purchased in the United States for a gross transaction volume of $145 bn (source, Federal Reserve).

5.4.5 There is an increased marketing of remittance card based products in the USA. Research has shown that phone cards are used by over 80% of migrants and therefore people are familiar with how some cards work. In addition, 63% of migrants use cards on public transport systems. There is currently significant work being undertaken in the US by banks and non-banks to provide card based financial solutions for consumers that cover a broader area than purely remittances.

5.4.6 Other countries have a well developed remittance industry although there is limited evidence of remittance agents offering non-bank financial services. In most cases this is due to the regulatory environment that is in operation. Spain has a very active remittance industry and although some cards are provided the area of innovation, as is shown in section 6.1.4, is being driven by the banks.

5.5 Summary

5.5.1 This section has described the initiatives of some of the RSPs who provide additional financial services that are not remittances. It has also looked at specialist migrant financial service providers.

5.5.2 The conclusion is that in the UK there is some card based activity that is currently taking place in the market to assist migrants. There are one or two businesses that are focused on using remittances to offer other financial services but generally there is limited activity in a non-bank world in offering domestically based financial products to remitters.

6.0 Current efforts made by financial service providers to link remittance products with banking/other financial services

6.0.1 This section outlines a variety of programmes that are being run by banks that use remittances to attract customers to use other banking services. It examines the role being played by a number of different sectors and provides feedback on the current experience. The majority of the information in this section was gathered from interviews with various stakeholders in the industry.

6.1 Banks

6.1.0 This section is split between high street banks (e.g. Barclays, HSBC, RBS, NatWest, HBOS, Lloyds TSB, etc) and overseas banks that serve particular communities, e.g. Sonali Bank, Habib Bank, Union Bank of Nigeria, etc. It also looks at the approach that banks are taking in Spain as a comparison. The information in this section was largely gained from interviews with a range of banks and from desk research.

6.1.1 High Street Banks

6.1.1.2 Remittance customers have gained a higher profile within banks over the last two or three years. The key drivers for this are the recognition that some of the migrant groups represent sizeable and attractive customer segments, leveraging of the international networks that a number of banks have and a growing awareness of the size of the remittance market. Pressure on the banks to address the problems of the financially excluded has also been a factor.

6.1.1.3 As part of their customer segmentation exercises the banks have focused on the Non-Resident Indian (NRI) communities (Lloyds TSB were the first to offer this service in 2006 in partnership with ICICI) and have also developed Islamic banking services. Interestingly, the NRI communities have a fee free remittance component as an intrinsic part of the programme that is used to attract new customers. The selection of this feature is partially driven by the fact that India is the world's largest market for receiving remittances (Source IFAD 2007) and therefore there is a strong demand for these services but also because it is a discrete market and it is easier for partnerships to be formed. Case study 2 shows Barclays approach to this area.

Case study 2 - Barclays

Barclays is a global bank and has offices in over 50 countries. It is now beginning to use this global network to offer services to certain communities to help them open bank accounts and relationships in the UK. Their most advanced programme is the Non-Resident Indian account (NRI).

The service enables an Indian national to open an account with Barclays in the UK before they have left India. It is well known that it is difficult for people to be able to open accounts in the UK when they arrive from another country even if they had a banking relationship there. With this new service people in India can go to a Barclays location (or locations of a partner organisation that helps to open accounts) and complete the documentation to open a Barclays account in the UK. The location in India takes the relevant identification documentation and relays the forms to the UK. An account is then opened for the individual and is ready when they arrive in the UK.

One of the hooks that is used for the account is that remittances between the UK and India are at no fee (a foreign exchange margin is applied) for transfers between a Barclays account in the UK and a Barclays account in India.

Other features of the service are:

- Entry level bank account
- Cash card for withdrawals at Barclays and Woolwich ATMs and post offices
- Direct debits
- Standing orders

This service meets the needs of Indians who are new to the UK banking market. This helps ensure that those who use the service have access to financial services and are not excluded. It differs from other schemes in that there are no minimum amounts that are required to open the accounts, all of the work can be done before the person comes to the UK and they have sufficient information to provide to an employer.

6.1.1.4 The Islamic banking model has not used remittances as a tool. This is because the initial focus has been on developing savings and investment products that are Sharia compliant and remittances are seen as a second stage service that will be added over time. In addition, consumers of Islamic Banking services come from many different countries and it is therefore harder to set up bilateral agreements or to offer a free transfer service to one country and not to another.

6.1.1.5 Aside from NRI programmes some of the high street banks are developing services for other communities. NatWest, among others, have developed a specific proposition for the Polish community which is highlighted in case study 3.

Case study 3

NatWest Welcome Account

Official estimates place the number of Polish people in the UK at over 500,000 with 10,000 new arrivals every month. As a result of this RBS through NatWest introduced the Welcome account. It is based on the Step and Key accounts that NatWest already offer. These are described as 'light' versions of a current account as they do not grant credit facilities. This is an account, launched after significant research, which is totally geared to the Polish market and carries a lot of features including the following:

It provides Polish customers in Britain with an account for their day to day needs and it also comes with a Money Transfer Account into which customers are able to transfer funds straight from their Current Account. This then allows a family member or friend in Poland, nominated by the NatWest Welcome Account holder at account opening time to withdraw those funds from that account via a cash machine card from cash machines in Poland or anywhere in the world.

The key features of the Current Account and the Money Transfer account are:

- A credit only linked Current Account and Money Transfer Account which are sold as one package and cannot be sold separately
- Account holders will be entitled to a debit card for their Current Account which can be used in the UK and abroad
- Cash withdrawals of up to £250 a day are permitted on the Current Account
- Account holders' salaries can be paid into their Current Account
- Funds deposited in the Money Transfer Account can be accessed by a beneficiary (elected by the account holder) anywhere in the world through an ATM card and a PIN
- Each money transfer from the Current Account to the Money Transfer Account costs £4 per transaction with an additional foreign exchange rate of 2.5% per withdrawal – this fee is pre-notified and charged monthly

- All application forms and account documentation are in Polish apart from statements and pre-advice notification
- The account has a monthly charge of £2
- This product, together with the relevant application forms is available in all NatWest branches
- The only form of ID needed to open the account is a passport or ID card and a letter from the customer's employer to prove their employment credentials
- The automated telephone banking service is available 24/7 and the Polish Centre of Excellence Telephony unit is open Monday – Friday, 8am-8pm

Since its launch in February 2007 there has been significant usage of the account and a number of enhancements have been made. These include:

- The service needed to be made even easier to access so now only one piece of ID is required (a passport or ID card)
- Forms can be completed and processed in Poland and the account opened before the customer arrives in the UK.
- The creation of 'Golden branches' which have Polish speaking staff – there are 20 of these
- Free money transfers (with an exchange rate margin) to PKO branches in Poland. This has been brought about as the result of an innovative commercial agreement which has created a joint marketing fund. PKO promotes the service in Poland and NatWest does the same in the UK. Much of the promotion in Poland is traditional above-the-line media. In the UK there is a mixture of targeted promotion, e.g. at airports and by word of mouth.

6.1.1.6 NatWest and other banks are looking to apply this approach to other communities particularly where the bank has a strong presence in the home country and the community is sufficient in size to be attractive to the bank. This approach should make commercial sense for banks. The challenge is that it can not be repeated for every migrant group in the UK. Some, such as Polish and Indians, are financially attractive. The Indians are attractive because they have been established in the UK for a long period of time, they are a large community and there is a high level of wealth. The Poles are attractive because there are a lot of them, they are financially literate, may have a salary going into an account and they have a strong saving mentality.

6.1.1.7 Other communities are not so attractive. Interviews with various banks did not show much enthusiasm for specific products for communities such as Somalis or Nigerians. All institutions were happy to open accounts for anyone who applied and all have 'basic bank accounts' an example of which is covered in case study 5. This more generic approach is understandable given the vast number of different ethnic communities in the UK who have different sizes, levels of financial literacy and income levels. It would not be commercially viable to offer a tailored product for each of those communities but as certain groups reach a significant size some will become commercially attractive in their own right. Clearly it is important that whilst there are not bespoke accounts for each group there is universal access to a basic bank account.

6.1.1.8 There is one bank in particular that has developed a proposition that can appeal to a broader number of migrant groups. HSBC's 'Passport account' is featured as case study 4 and is a good example of how a generic, but at the same time tailored, approach can be taken in this area.

Case study 4 – HSBC Passport Account

Passport account was launched by HSBC in June 2006. It serves all migrants in the UK regardless of their country of origin.

The drivers for the account are that:

- There are over 190,000 new migrants to the UK each year
- The Government has predicted that this trend will continue
- 85% of the UK population growth over the next 25 years will come from migration
- There is limited room for growth in the British financially excluded given that 91% of the population have a bank account

The service was launched after extensive research and was then improved further and relaunched in April 2007 after subsequent research had been carried out. The three main findings that the research showed was that what immigrants need when they arrive in the UK are a home, a job and a bank account. These three requirements are interlinked in that one normally requires proof of income and therefore a job in order to be able to have a home. To obtain a job you normally need a bank account and an address and in order to have a bank account it is normally necessary to have a home.

Passport account provides the following features:

- A current account
- A savings account
- Internationally accepted debit card
- Standing orders and direct debits
- 24 hour telephone and internet banking
- £6 per month to maintain the account
- £9 to send money using World Pay - covers 21 countries
- £17 to send a Priority Payment (this is a discount of £4) – account-to-account transfers throughout the world
- A relocation service called Red24. This provides a wider range of support services and information to people which they can access before they arrive in the UK. This service is available in English and five other languages.
- A pay-as-you go SIM card with low rates to some major migrant home countries
- Insurance – access to possessions and health insurance
- Multi-lingual brochures

Customers need to provide identification and proof of address (which can be in their own country). A credit check is then carried out to confirm the details.

The experience to date has broadly been positive. As of September 2007 there had been over 65,000 people open Passport accounts, they came from over 200 countries and 20 Passport account holders had been employed by HSBC.

6.1.1.9 HSBC have been able to offer this account because of their global reach and because they have taken a focused approach to it. The Passport account has now been launched in Canada as well.

6.1.1.10 The Passport account approach has a lot of merit to it. The drawbacks are that there is still an ID requirement which includes proof of address. Some of the financially excluded groups will not pass the eligibility criteria. Raising awareness and educating potential customers has been expensive in terms of marketing and challenging due to difficulties with financial literacy. However, taking into account these difficulties it does seem to represent a good option for migrants when they come into the country.

6.1.2 Basic bank accounts

6.1.2.1 This section describes a basic bank account. Although it has no direct connection with remittances the basic bank account is the entry level service that is offered by banks. It is clearly targeted at the financially excluded and therefore migrants could potentially be big users of this service.

Case study 5 – Basic bank accounts

Basic bank accounts were developed jointly by government and the banking industry to address the problem of financial exclusion and are offered by 17 banks that cover the majority of the UK market.

Figures from the British Bankers' Association indicate that since April 2003, over 3 million new accounts have been opened of which 2.4 million are accessible through post office counters.

During 2006 the Banking Code Guidance about basic bank accounts was amended and providers are now required:-

- To assess whether an applicant's needs are suited to a basic bank account and if they are, to offer one;
- To offer a basic bank account if specifically requested by someone meeting the qualifying conditions;
- To make reference to the availability of the bank's basic bank account and how to get further information
- To carry out identification checks in branches so that there is no need to send personal documents to a centralised opening unit
- Ensure that accounts are operational no more than 10 working days from completion of necessary identification and address validation checks.

A basic bank account, such as Barclays Cash Card Account will normally offer the following:

- A basic functioning transactional account with no cheque book
- Direct debit and standing orders
- Cash card which is linked to the banks own ATMs and those in other networks such as Post Office and Link
- There are no overdraft facilities but there may be a small 'buffer zone' (£10) to allow access to the 'last penny' via ATMs
- Application forms can often be taken away to an independent advisor
- Identification requirements are quite broad and there is no credit check
- Certification of ID can be done in branch or original documents can be sent to a branch

(Source BCSB)

6.1.2.2 Some of the banks are now beginning to work with intermediary groups such as housing associations as this helps social housing tenants. It also ensures that customers receive the education that they require about the product without having a pressurised sell. This innovative type of approach should assist the financially excluded to find it easier to open accounts.

6.1.3 UK based overseas banks

6.1.3.1 In the UK there are a number of overseas banks that offer UK based financial service products and remittances. Often remittances are a key part of the service offering and a way of attracting new customers or cross selling other products. Two good examples of these types of banks are Sonali Bank who serve the Bangladeshi community and Habib Bank who serve the Pakistani community.

6.1.3.2 This section provides details of the approach of these banks and begins with Sonali Bank.

6.1.3.3 Sonali Bank UK is owned 51% by the Bangladesh government and 49% by Sonali Bank Bangladesh. For a bank it offers a reasonably limited range of services but its main business is remittances. It offers:

- Current accounts – but not with any cards because the costs involved outweigh the anticipated return
- Deposit accounts
- Import and export trade finance
- Foreign exchange
- Remittances

6.1.3.4 Sonali open accounts for people who have a connection to Bangladesh. They have developed a specialised business by being part of and therefore understanding their community. They send money cheaply (£3.50 is the minimum charge) to bank accounts in over 1200 branches in Bangladesh. Their staff speak Bengali and whilst they strictly follow ID guidelines they have developed a pragmatic approach to the second piece of ID that is often required.

6.1.3.5 The current and savings accounts are often sold on the back of remittance services. The customers credit money to their accounts and then use those funds to send money home as required. Sonali have a reasonably conservative approach to risk and whilst they have a healthy account base they could, with their reputation and community contacts, offer a wider set of services some of which could help the financially excluded.

6.1.3.5 Habib Bank UK Ltd is a subsidiary of Habib Bank in Pakistan. It has seven locations in England and offers a broad range of banking services to Pakistani clients in the UK. Its services for individual clients include current accounts, savings accounts, personal loans and term deposits. It also has a well developed commercial services division.

6.1.3.7 Its remittance service is one of its key products. Account holders can transfer money to any bank account in Pakistan or can have a demand draft issued. For transfers made to a Habib Bank location the transaction is free of charge although a foreign exchange margin is made. Habib have recognised that there is a large market for sending money to Pakistan from the UK (estimated at $500 mn per annum) and have marketed their services accordingly. They also offer a multi-lingual call centre.

6.1.3.8 As with Sonali Bank, Habib Bank have developed a coherent set of services that meet the needs of their customers. In both cases it must be emphasised that the organisations operate under all of the same restrictions as UK financial institutions. Their approach may have some lessons for high street banks although their key advantage is that they are owned by organisations in the home country of the people that they target. Having staff who speak the appropriate language and offering services that show that they understand their customers provides the opportunity to cross-sell other products and to attract people from that community who do not have a banking relationship.

6.1.4 The Spanish example

6.1.4.1 It is useful to see if there are lessons that can be learned from other markets and a relevant one to the UK is Spain. Case study 6 shows the strategic approach being taken by Grupo Santander (who coincidentally own Abbey). This has a number of similarities with the Passport account offered by HSBC but it goes further.

Case study 6 – Grupo Santander

Immigration in Spain contributes over 80% of the population growth in the country. There are 3.9 million foreigners (7% of the population) and by 2015 this figure is forecast to grow to nearly 10 million people.

In the first year of being in Spain only 38% of immigrants have bank accounts but after 5 years this number has risen to around 95%. The rates in the first year vary depending on which country the migrant is from.

Importantly, Santander have recognised that peoples financial needs change over time in Spain. For the first one to two years they have more basic needs – find a job, send some money home, legalise their status and find an easy means of talking to their families. This requires access to remittances and basic bank account facilities.

Between years two and five their needs become more sophisticated. They still need to send money and to consolidate their job but they are also looking to increase local expenditure by renting a flat, etc. They need credit cards and small personal loans.

From year 5 onwards they are looking at possibly buying a car or buying a house, education expenses and saving (either in their home country or in Spain). This means that they will require mortgages or other forms of personal finance.

Santander recognise the actual and potential importance of total migrant business to their bottom line. Currently migrants account for 11% of mortgages and 22% of consumer finance. Their contribution to revenues of the bank are expected to rise from 3.7% in 2006 to 13% in 2010.

As a hook to attract people Grupo Santander have really focused on remittances. With an official market size in 2006 of €6.3 bn and growing at a compound annual growth rate of over 25 % (source Banco D'Espana) the remittances market looks buoyant. For many of the communities over 60 % of the migrant population remit money. Often they send all of the money that they would otherwise save. Banks account for only about 18 % of the market share. The reason for this is that are perceived to be high cost providers and have limited opening hours. Not surprisingly those people who have a bank account in Spain or in their own country have a significantly higher propensity to remit money through a bank.

Taking these trends on board Grupo Santander introduced the 'Queremos se tu banco' – 'We want to be your bank'. This offers the following:

- Commission free current account
- Commission free savings account
- Commission free MasterCard Debit card which also provides free ATM withdrawals
- Commission free cheque issuing
- Commission free money transfers
- Must have salary directly credited to the bank account

In the first year of operation over three million customers signed up for the account.

Grupo Santander developed its own money transfer service. It has ensured that it is in control of operations, pricing and delivery and is not working with RSPs as an agent – in fact the reverse is true. This has enabled it to offer commission free money transfers to its own clients **for ever**. This has led to savings of around €150 per client per year.

Fee-free remittances are the visible part of a coherent strategy that has been developed for migrants. It involves offering a full range of financial services to migrants through the whole network of over 3,000 locations. There is heavy marketing of the service and at all times the commercial value of the client relationship is always taken into account.

6.1.4.2 Grupo Santander are not the only Spanish bank to operate in this way. Indeed most of the main banks, including La Caixa, are taking a similar approach. The Spanish banks appear to be taking the approach of calculating the life time value of a client relationship and using fee-free remittances as a means to tie them in. Some of the British high street banks are adopting a somewhat similar approach to certain migrant groups. They are not approaching the migrant communities as a whole in the same way. Undoubtedly there are differences between the UK and Spain, not least being that the Spanish government specifically announced that it needs a million new migrants a year. This alone sparked the interest of the Spanish banks. In addition the Spanish migrants are not so disparate in terms of areas of origin, language or location in Spain so it is a little easier to target them. However, there is undoubtedly value in UK banks looking at the example of what is being undertaken in Spain and seeing whether it can be applied to the UK.

6.2 Credit Unions

6.2.1 Credit unions are financial co-operatives owned and controlled by their members. They offer savings and loans plus they are community based and understand what their members want. Many credit unions now offer a range of services including a current account, receipt of benefits, ISAs and Child Trust Funds.

6.2.2 Each credit union has a 'common bond' which determines who can join it. This determines who can become a member of the credit union. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union.

6.2.3 There are around 400 credit unions in the UK, providing financial services to over 400,000 people. Savings are over £380 mn and there are loans of over £350 mn. ABCUL (Association of British Credit Unions) represents the majority of credit unions within the UK.

6.2.4 Credit Unions offer a variety of services to their customers. These include current accounts (using a link with Co-operative Bank), savings accounts and insurance products. Products vary from credit union to credit union but, for example, Southwark Credit Union which was established in 1982 and has over 6,500 members, offers a full range of current account services to its members including direct debits, standing orders, CHAPS payments and a debit card.

6.2.5 Interestingly, Southwark Credit Union used to offer remittance services through Western Union. However, they decided to stop offering the service because the number of Western Union outlets in their catchment area increased dramatically which diluted their business. They decided to concentrate on their other core businesses of savings and loans as well as the relatively recently introduced transactional accounts.

6.2.6 Indeed, the findings during the interview process showed that there was some appetite to offer remittance products but that this was often limited by the size of the membership or its composition. Some Credit Unions have reasonable representation within ethnic communities. For instance Tower Hamlets Credit Union in the east end of London is examining offering a specific Islamic Fund to help its client base who wish to access Sharia compliant financial services. It also used to offer third party remittances.

6.2.7 The 'common bond' can be a double edged sword in terms of financial inclusion. Where the 'common bond' is open to all it provides universal access. Where it is based on employment, e.g. Heathrow employees, or a specific trade union then clearly there is a finite population that they can serve. Due to relatively small membership numbers it is often difficult for credit unions to justify the effort that is required to establish an agency relationship with an RSP. It may be advisable for ABCUL to establish a central partnership with one or more RSPs on behalf of its members. If standard commercial and operational terms were agreed then it would be reduce the administrative work on individual credit unions and expand the range of services available to them.

6.2.8 In other parts of the world, most notably North America, Credit Unions are part of the mainstream financial services. In the US alone there are over 10,000 Credit Unions. They are beginning to play a bigger role in remittances. The World Council of Credit Unions (WOCCU) has developed a remittance based service called IRNet which allows credit unions to transfer money around the world in partnership with organisations such as Coinstar Money Transfer, MoneyGram and Vigo. This is an example of credit unions responding to the demand from consumers for alternative services. It is also being used in the US, where over 200 credit unions offer IRNet, as a tool to attract new customers. It is recommended that the credit unions in the UK explore whether they should join IRNet.

6.2.9 Credit Unions clearly have a strong role to play in financial inclusion. Currently most are not offering remittance based services and there are no real examples of this category of this form of financial institution using remittances to attract new customers. Indeed there seems to be more opportunity to expand remittances via credit unions rather than use remittances as a means to expand financial inclusion in credit unions. This could change though with an umbrella agreement with some RSPs. Examples from the US show that this could be viable approach to take but further work at a central level will be required to do so.

6.3 Community Development Finance Institutions, CDFIs

6.3.1 CDFIs are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. They are a relatively new category of business for the UK although they are quite large in the USA. They are not for profit organisations.

6.3.2 Currently there are just under100 CDFIs in the UK. The primary service that CDFIs provide is small to medium sized loans. These are primarily used for establishing of supporting businesses. The loans are offered to those who have been turned down by the mainstream financial institutions. Capital is sourced by the CDFIs from the high street banks, often as part of those institutions Corporate Social Responsibility programmes, and from charitable trusts.

6.3.3 CDFIs are based in the communities that they serve, they often have a small staff base (three to five people). They differ from Credit Unions because CDFIs only tend to offer loans. Although most CDFIs lend for business projects there are around 10 who offer personal finance, usually under the xxxmoneyline.co.uk name.

6.3.4 As a community based business much of the awareness of their services comes from word-of-mouth or often from banks and other financial institutions that have declined to loan the money. Currently no CDFIs offer remittance services. Discussions held with a number of them showed that remittances were not being offered largely because it had not been considered a priority and they thought that other businesses in their area were providing a good service that meets customer needs.

6.3.5 CDFIs can clearly have a key role to play in assisting financial inclusion. Their services are geared to those who often find it hard to access financial products, they are community based and they could play a role in educating consumers. The challenges for CDFIs are that they are often relatively small organisations and have a very focused remit which is primarily concentrated on lending rather than other forms of financial services. Due to their lack of experience with remittances no further conclusions can be drawn at this time.

6.3.6 As a result of this project the existing CDFIs are to be canvassed to determine whether they have an interest in offering remittance service which may then attract more people in to use the main services that they offer.

6.4 Post Office

6.4.1 The post office has over 14,000 locations in the UK and a strong track record in the provision of both financial services and remittances. Its remittance proposition is primarily driven by its long partnership with MoneyGram although postal orders are still sometimes used for remittances.

6.4.2 Its financial service product range is quite broad and includes the following:

- Post office card account – Post Office won a tender to run this service on behalf Department of Work and Pensions and HMRC. The card effectively replaces the paper-based giro and benefits book. The service provides for free cash withdrawals at any post office although it can not be used as a debit card. There are currently four million customer using card accounts and observations of their behaviour suggests that a number withdraw cash from their card and then pay a bill (normally a utility bill) at the same time in the same location.
- A joint venture with the Bank of Ireland. This allows post office to offer foreign exchange, loans, insurance (including house, car and life insurance). Importantly they are also able to offer instant savings accounts although this product does require a minimum opening balance.
- Electronic phone top-ups which are used by a number of migrants
- Postal orders
- Cash payout at post office counters for basic bank account customers of all of the high street bank accounts
- Bill payment

The post-office does have a language barrier given the variety of customer groups that they serve and also currently has a challenge in sharing data between departments within the organisation due to data protection legislation.

The post office is currently developing its strategy in relation to financial services and clearly services that could benefit the financially excluded are part of this review.

It would appear the post office is in a strong position to be part of any solution that combines remittances and financial service products that the financially excluded would find attractive. It has the largest financial services branch network in the country, is used to handling services for the financially disadvantaged and has a track record of handling remittances. It offers many of the services that would help the financially excluded but does yet package them as one coherent product offering.

6.5 Conclusion

6.5.1 This section has highlighted some of the programmes that have been developed by different organisations to link remittances and domestic banking services that could be attractive and useful to the financially excluded. A number of the high street banks have developed product packages for the particularly attractive migrant groups such as the Non-Resident Indians and the Polish community.

6.5.2 One British bank has an overall proposition for migrants but in general High Street Banks who are interested in this area would do well to examine further the examples coming from Spain such as Grupo Santander.

6.5.3 Overseas owned banks with retail presence in the UK ethnic communities are well placed to assist easing financial exclusion. They have strong community contacts and healthy remittance businesses and demand that could be utilised more aggressively.

Unfortunately there is little evidence that Credit Unions or CDFIs have much experience with remittances. As community based organisations their knowledge of what their customers need, their relationships with their clients and their ability to signpost to other organisations could all be mobilised around this issue. Although remittances are not a speciality if there was a suitable product for them to offer this could be integrated with their wider activities so that the impetus to remit could also facilitate clients accessing other services such as bill payment and transactional facilities. It may be that they will require some help from the UKRTF to facilitate arrangements with RSPs with the specific view that they would be used as a tool to bring in new customers who are financially excluded or not fully included.

6.5.5 The post office has the potential to provide a broad range of financial inclusion products in the right locations.

7.0 Customer research results

7.0.1 Much of this report has focused on what is being done by the various stakeholders to provide services and target migrants and the financially excluded. However, the question is, are these solutions looking for problems or are they what the customer really wants?

7.0.2 In order to find out consumer research was undertaken with three migrant communities in the UK – Bangladeshi, Indian and Tanzanian. These groups were selected because of their geographic spread, perceived size and, in the case of Bangladesh, the First Solution aspect to this project.

7.0.3 In addition to this research this section will also use data from a study entitled ‘Money matters: Exploring financial exclusion among low paid migrant workers in London’ that was produced in November 2007 by Kavita Datta from the Queen Mary University in London. This report used a similar methodology but covered some different consumer groups to the study in this project.

7.1 Methodology

7.1.1 Face-to-face interviews were conducted for all three communities. These were undertaken by researchers who are part of the community in question who could speak the appropriate language, know where people congregate and understood the subject matter. The interviews took place in a variety of locations including community centres, outside places of worship, at retail locations and in some interviewees homes.

7.1.2 A questionnaire was developed as a tool to capture quantitative information and as a format for a more broad ranging approach. It is important to note that a focus group approach was not used due to range of information that was required and feedback during the planning stage from the researchers that it would be difficult to obtain useful data as people tend to keep their approach to finances private and are sometimes uncomfortable in a group situation.

7.1.3 In total 52 detailed face-to-face interviews were conducted. 15 each for India and Bangladesh and 22 for Tanzania. Although the samples were relatively small the information gleaned was illuminating. The results are presented on both a corridor and also a consolidated basis.

7.1.4 Respondents were selected on the basis that they were migrants from the community being researched. There was no pre-qualification as to whether they did or did not have bank accounts or send money home. This was a litmus test to determine a number of factors within a community.

7.1.5 There were 25 question areas for each respondent and the key questions that the research aimed to answer were:

- What proportion have a bank account? What sort of bank account do those that have them use?
- Do you transfer money? If so, by which method?
- Do you have a mobile phone? If so, would you consider using it for UK banking? Or for money transfers?
- Have you heard of a debit card or a prepaid card? Would you consider using this for UK banking? Or for money transfers?

7.1.6 In addition, there were further questions for the Bangladeshi community in relation to First Solution that will be covered in that section.

7.2 Results

Table 3 What proportion of respondents have a bank account? (%)

Year arrived in UK	India	Tanzania	Bangladesh	Percentage of accounts held by year of arrival
Pre 1990	47	14	13	23
1991 – 2000	13	54	27	36
2000 – 2005	13	18	40	23
2006 – 2008	27	14	20	18
Total	10	100	100	100

7.2.1 These figures are surprisingly high. Clearly they may be driven by the communities that were selected and the places that people were recruited. They are higher than the Datta study that found that 80% of respondents in their study had a bank account. That study showed that the more recent an individual's arrival the more likely they were not to have a bank account. This is logical given the perceived difficulties with doing so but these results were not corroborated during this survey.

7.2.2 Another interesting feature of this part of the survey that Tanzania represented those that on average had been in the UK for the longest period, followed by India and then Bangladesh. Even with the most recent arrivals all the Bangladesh customers had some form of bank account. The perception within the market place is that India would have a longer established Diaspora than Tanzania.

Table 4 – Types of financial service used at banks by each community (%)

Product	India	Tanzania	Bangladesh	Total
Current Account/Basic bank account	100	77	80	85
Savings account	80	59	20	54
Internet banking	33	41	-	27
ATM/debit card	100	50	20	56
Prepaid debit card	-	5	-	2
Credit card	67	41	13	40
Personal loan	33	27	7	23
Other loan	-	-	-	-
Money transfer	-	14	20	12
Other	-	-	-	-

7.2.3 The results to this series of questions were very illuminating both in total and by community.

7.2.4 The Indian community clearly uses a broader range of financial services than the other two communities whilst the Bangladeshi community seem to use very few financial services apart from the basic bank account or current account. All of the Indian community have and use a debit card/ATM whilst only 20% of the Bangladeshi community do.

7.2.5 Taken in totality it can be seen that the significant majority of the communities have either a current/basic bank account or a savings account and just over half have an ATM card. A reasonable number have credit cards and some have loans. However, just 2 % have a prepaid debit card.

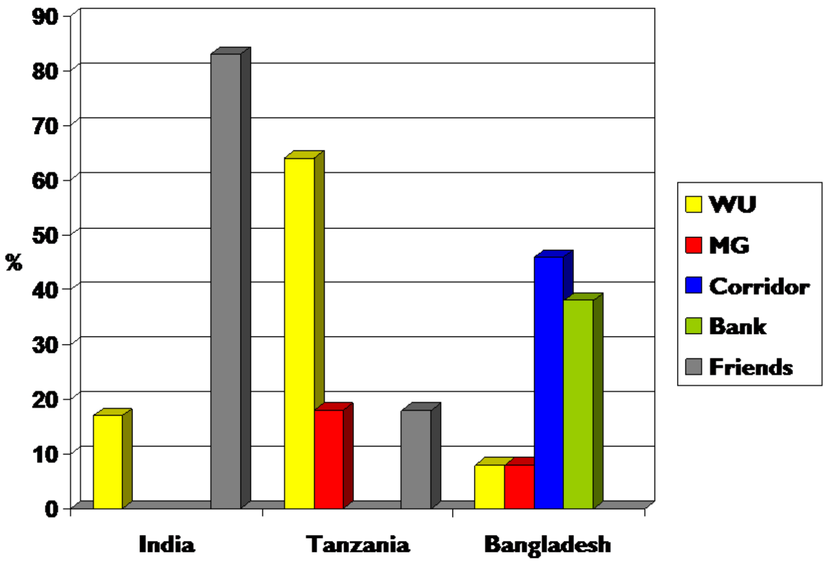
7.2.6 The other interesting aspect is the low number of people (12 per cent) who use a bank to make a money transfer. The Indian community that was surveyed do not use a bank at all for this product. This may present a commercial opportunity for the banks. The next table explores this a bit further and looks at how many people use to transfer money.

Table 5 – Proportion of people using money transfers (%)

India	Tanzania	Bangladesh	Total
40	82	87	71

7.2.7 This table clearly shows that the majority of the migrants surveyed send money back to their own countries. The total figure of 71 % is consistent with the figure in the Datta report which was 76 per cent. Looking at the individual country numbers it can be seen that the Bangladeshi and Tanzanian respondents have a significantly higher propensity to send than the Indian groups who were questioned.

Chart 3 – methods used by those who transfer money



7.2.8 This chart clearly shows that the methods used to send money vary by the country used. The Indians in the sample used friends and family as their predominant method, whilst the Tanzanians used Western Union almost to the exclusion of all other operators.

7.2.9 The Bangladeshis were slightly more mixed but Corridor providers and the Bangladeshi owned banks were the main method.

7.2.10 This chart demonstrates that in most cases each corridor must be examined on an individual basis and a generalised approach can not be taken.

7.2.11 The next area to be examined is the penetration of mobile phones and following on from that whether those that have mobile phones would consider using them for UK financial transactions or transfer money to their home country.

Table 6 – Mobile phone penetration and propensity to use for financial services (%)

Community	Have mobile phones	Would consider using for UK banking needs	Would consider using for remittances
India	87	15	8
Tanzania	82	39	72
Bangladesh	93	36	43
Total	87	29	44

7.2.12 This chart clearly shows that mobile phones are widely owned by the vast majority of each of the migrant groups surveyed. This is consistent with expectations. The interesting aspect of this research is the difference between the groups on whether they would consider using their mobile phones for banking transactions and for remittances.

7.2.13 None of the subjects use their mobile phones for these transactions and therefore care is needed when reading too much into the research results on a hypothetical topic (as far as the respondent is concerned). Nonetheless, the Indian respondents were the least likely to use their phone for domestic based transactions which is a little surprising as they had the highest usage of most of the banking services, including ATM cards and therefore it could have been anticipated that there would be more enthusiasm.

7.2.14 It appears that roughly one third of the Tanzanian and Bangladeshi community who have a phone would consider using it for their UK banking needs. This is a reasonably high figure for what is an untried service and would be worthy of further research by interested companies.

7.2.15 The picture is mixed in terms of money transfers. Not surprisingly the Indian sample would probably not use a mobile phone to send money to their home country. This is probably because the group that were surveyed tended to send money with friends and family and were happy with the elements associated with that. However, for Tanzania nearly three quarters of those who have a phone would consider using it for money transfers. The reasons given for this are primarily that they think it would be cheaper than their current methods and equally secure. The reasons given are that they using Western Union and MoneyGram to send their money and feel that they are paying too much.

7.2.16 The result for the Bangladeshi community shows that just under half would consider using a mobile phone to send money to their family. They also feel that they may get a better deal by using the mobile phone than through their existing supplier. The respondents seem to trust their phone provider and feel that they are able to obtain a good deal. They see that this could be translated into the service they would expect through a money transfer service.

7.2.17 A conclusion that could be reached from this limited research is that the propensity to use a mobile phone for financial services varies by community. For those that were surveyed there is more enthusiasm for the phone to be used as a tool for remittances than for domestic banking. For the communities concerned, therefore, an approach may be to pilot the phone for money transfers, allow the customers to become familiar with that and then cross sell its use for UK based banking services.

7.2.18 The final area that the research focused on was prepaid cards. Specifically it looked at customer awareness and their propensity to use such a device for remittances and for UK domestic transactions.

Table 7 – Prepaid card awareness and propensity to use for financial services (%)

Community	Have heard of prepaid cards	Would consider using for UK banking needs	Would consider using for remittances
India	47	14	14
Tanzania	45	60	80
Bangladesh	33	40	100
Total	42	40	63

7.2.19 The responses in this area are varied. On average under half of the respondents had heard of prepaid cards. Of those who had heard of them the Tanzanians were most likely to consider them for UK banking needs followed by the Bangladeshis. The Indian community that was surveyed was generally not very interested in this application. As with mobile phones that maybe because they already perceive that their banking needs were met.

7.2.20 In terms of transferring money, this application certainly appeared to receive a more positive response from those who were surveyed. This is quite surprising as ATM penetration in a number of the markets in question seems to be limited and therefore the service may not be totally applicable. This may again be driven by the perceived cost benefits of using a card as opposed to the current method.

7.2.21 A conclusion from this element of the research is that if prepaid cards are to be used by the migrant community, regardless of whether they are financially excluded or not, there is a requirement for significant investment in education and awareness around prepaid cards and what benefits they can bring, how they work and what the associated costs are. In fact, for both prepaid cards and mobile phones there will be a requirement for great education and for product design to be as simple and transparent as possible.

7.2.22 The next section looks in more detail at both of these technologies and outlines how some of the models may be used to help financial inclusion.

8.0 Newer technologies

8.1 Cards

8.1.1 A detailed overview of how and why the prepaid market exists and the different roles they play within it is shown in **Appendix 5.** Discussions with a number of the programme managers helped to provide greater clarity on their positioning in the market place. The main organisations are companies such as Advanced Payment Systems and Altair.

8.1.2 These companies, whilst often positioning themselves as providing remittance based card solutions are now looking to domestic applications for the prepaid card as being more likely to deliver long term value. The are aiming to provide a service that is a bank for the unbanked. Their key targets are the financially ignored, the underserved and the underbanked. They also target those who are fearful of using their own payment mechanisms on the internet, people who want to budget and those who are concerned about identity theft.

8.1.3 70 to 80% of the business in prepaid is coming from the unbanked. This is because the card does most things that a basic bank account does except the undertaking of bill payment and direct debits. (They are not able to make direct debits because the funds of the programme provider are held in a pooled account). The cards usually carry the Visa or MasterCard branding. This is positive from an acceptance angle but the utility companies do not accept payment by prepaid card due to the interchange fee that is charged by the brands.

8.1.4 As has been mentioned previously there are various fee schemes in relation to prepaid cards. The majority seem to be based on a monthly account fee and then charges for withdrawals and usage of the card.

8.1.5 The companies are regulated by the FSA. Online verification is used for customer registration and approval. A customer needs to produce a passport and proof of residence. If they can not provide the latter then there is still an option to have a limited use card with lower limits. Distribution is via a number of retail chains. These include money service businesses and cheque-cashers. In other words organisations that are already providing financial services to those who often can not get the services they require from the high street banks.

8.1.6 There are some interesting developments occurring in other parts of the world that could have some implications for the UK. Salary cards have been popular in the US for some time now. These are where an employer provides an employee with a prepaid card and then credits the employees with their wages at the appropriate time. This has the advantage for an employer that it reduces either their costs because they do not need to make a cheque run or it reduces their risk because they do not need to pay cash. This has not taken off as quickly as anticipated in the UK in comparison to the United States largely because there is a far higher proportion of the population that is unbanked in the US.

8.1.7 Another example is in Dubai where a change in regulation has meant that every worker is required to have a bank account. Dubai exists on migrant labour and most have never had a bank account. Altair have developed a card which has a one off cost of USD 45. This card (and a duplicate for the family member in the home country) is issued to a worker (perhaps on a construction site) and his salary is credited to the card every fortnight. He is then entitled to one free withdrawal from an ATM in Dubai, one free transfer to the other card holder and the other card holder is entitled to one free withdrawal as well during one wage cycle. Additional withdrawal attract a fee. Models such as this could be interesting for organisations in the UK such as cleaning contractors, construction, shipping companies etc.

8.1.8 Currently around 19% of loads onto prepaid cards come from wages.

8.1.9 One of the key challenges identified by the industry is that there is a lack of awareness of this product category and the benefits that it might bring. As many of the companies are in their early stages of development they do not have large 'war chests' for marketing purposes. The marketing is normally through trying to generate word of mouth, through the agent distribution networks and via the internet. Partnerships with organisations such as Toynbee Hall, or as part of the 'Now let's talk money' campaign could help with acceptance of these businesses.

8.1.10 It is interesting that the international money transfer side of the proposition accounts for less than 5 % of the transactions but these services are more than five times more profitable. This is because there is a foreign exchange margin that is made which is often around 2.5 to 3% of the amount withdrawn and also there are ATM charges to pay as well. The main migrant communities that appear to be using these services are from Poland, Romania, Brazil and surprisingly Nigeria.

8.1.11 A specific example of a programme is the 'Think banking' that is using cards issued by Newcastle Building Society who are very active in this area.

Case study 7 – 'Think Banking'

This programme has the following features:

- Customer applies for a card. Issuing cost is £25 which is taken from first credit to the account
- Customer arranges for salary to be paid into the account
- A personal money manager arranges to set aside money that is required to pay bills for the individual. This is an actual person who assists the individual with their budgeting
- Any remaining finds are transferred to a card account. The account holder can withdraw money using the MasterCard backed card that is provided with the account
- There is a monthly account fee of £12.50 and should the account holder require a second card to be issued there is a charge of £5.00 per month.
- Like other card schemes there is no chance of the person becoming overdrawn which also assists with budgeting
- 'Think banking' also work with a panel of lenders so they can help people organise a loan

8.1.12 VISA has developed a proposition called VISA money transfer which uses their payment system infrastructure for sending money from one Visa card account to another. (MasterCard has a similar product *MoneySend).* It can be adapted to a cash-to-cash system: cash is paid into a bank branch and the money is transferred from the 'branch' Visa card to a similar 'branch' card in the receiving country. Visa's own charge is €0.40 (US$0.52) and they expect the service to be priced by banks at around €3 (US$4).

The sender enters on their computer screen their user ID and password, the amount and the recipient's Visa card number or email address. They obtain a transaction reference which enables them to track the payment. The recipient receives an email explaining how to obtain their money.

This concept was developed a number of years ago by VISA and has not yet launched in the market. It is understood that some developments are expected in 2008 but it shows the challenges that bringing innovative products to market can pose.

8.1.15This document has covered card products in some detail. It is felt that card based programmes, if managed in a sensible, transparent and fair way have the potential to assist the financially excluded. There will need to be significant education that goes with their growth but they provide many of the attributes that consumers require in a manner that can be efficient and easy to understand. The card schemes, as they are today, need to be made far simpler though and the charging structure needs to be less complex.

8.1.16 As mentioned previously detailed investigation was conducted into NFT types cards and mobile phones. It was felt that many of these are looking at replacing cash rather than providing real solutions for the financially excluded. They could certainly be part of a solution but it was determined that they are not a core solution.

8.2 Mobile phones

8.2.1 Section 4.6 focused on the mobile phones as a money transfer tool. It is appropriate to bring in the case studies of Vodafone, Safaricom, M-Pesa and G-Cash to illustrate how changes can be made quite rapidly.

Case study 8 – Vodafone

Safaricom and Vodafone launched a mobile money transfer service called M-PESA in Kenya, in March 2007. Within the first 4 months there were 200,000 customers. It was recently announced that within the first 12 months there were 1.6 million customers who had signed up and around 200,000 are being added each month.

This innovation has grown so rapidly in Kenya because the metrics show that in 2007, there were 400 bank branches, 600 cash dispensing machines and over 10 million mobile phones. Cash can be deposited and withdrawn at small shops that sell cards for airtime. These far outnumber bank branches.

M-PESA is used by customers for a wide range of money transfer transactions, with an average value of €30. Companies also use the service: Safaricom pays casual workers and has distributed 40,000 low value cash prizes to its subscribers using M-PESA. A number of small businesses, such as taxi drivers and grocers, accept it as an alternative payment mechanism and it is often used by consumers as a secure method of storing and transferring money in dangerous times.

Looking to the future, Vodafone anticipates that pension payments, and the payment of standard services such as Safaricom contract phones, water and electricity charges will also be made by mobile money transfer.

Michael Joseph, CEO of Safaricom said: 'M-PESA is a service designed to meet the core needs of our customers in an emerging market. The fact that it has had a strong take up in such a short time demonstrates its potential to drive positive change.'

In February 2008 Vodafone also announced that it will be entering Afghanistan as the second market to launch a mobile money transfer service for mobile customers. The company has also announced that India and other African markets will soon join Kenya and Afghanistan in bringing this safe and secure service to millions more people.

The focus of the Afghanistan operation is different to the M-PESA service. Vodafone have partnered with Roshan, the leading telecommunications operator in Afghanistan. The service is branded M-Paisa and aims to facilitate economic activity in the region. Initially M-Paisa will act mainly as a vehicle for microfinance institutions' (MFI) loan disbursements and repayments, with an additional range of business to business applications such as salary disbursement and airtime distribution. Consumer person-to-person transactions will also be available from the outset, enabling those MFI clients and employees who have received their money via M-Paisa to benefit from the full capabilities of the service.

Roshan and Vodafone are trialing interactive voice recognition services which, when launched later in the year, will enable greater use of M-Paisa by consumers who might otherwise be excluded due to high illiteracy rates in Afghanistan.

8.2.2 This case study shows that it is possible to drive significant usage of mobile phones for both money transfer and also to assist with banking. M-PESA shows what is possible in a country that has high mobile phone penetration and a high unbanked population. The trialing of voice recognition software could provide some interesting lessons.

8.2.3 Another example is G-Cash in the Philippines.

Case study 9 – G-Cash Philippines

The two leading telecoms companies Globe Telecom, linked to the Bank of the Philippine Islands, and Smart Communications, linked to Banco de Oro, are competing to offer remittance payments by mobile phone.
In the case of the Globe system, mobile phone subscribers have to register for *G-Cash* by keying in personal information, including their mother's maiden name for ID purposes. Within the Philippines, cash (maximum of Pesos 40,000 - £500) per day can be credited to the phone account by visiting an authorised outlet, filling in a form and presenting ID. The Global fee for this is 1%, minimum 10 pesos (GBP 0.10).

The money can be transferred to another phone by keying in the sender's PIN, a simple code and the recipient's phone number. The cost is the same as sending a text message – 1 peso (GBP 0.01). The recipient receives the text message confirming the transfer and then withdraws the cash by visiting any authorised *G-Cash* agent. Outlets include Globe Telecom centres, selected retailers such as 7-Eleven and pawnshops. The Global commission is again 1%, minimum 10 pesos. Where outlets other than Global centres are used for sending or receiving, the cost of sending and/or receiving will be increased by the fees of the outlet which range from 1% to 5% plus.

Globe Telecom is creating a network of overseas outlets where migrants can deposit cash. At present coverage is claimed in Australia, Bahrain, Canada, Hong Kong, Israel, Malaysia, New Zealand, Saudi Arabia, Singapore, Spain, Taiwan and the USA. Global are active in marketing their mobiles overseas, for instance using social gatherings of Filipinos in Hong Kong or Malaysia.

8.2.4 It is questionable whether the size of the underbanked market in the UK is large enough to be commercially attractive to the companies that could provide solutions but there is not doubt that there are sufficient mobile phones to make distribution of the message services that are required with mobile banking to be something that is easily addressed.

8.2.5 Mobile banking requires co-operation between banking, technology and community organisations to make it a service that will be of value to the financially excluded. Countries where it can make the most impact are those like the US which has a significant underbanked population or developing markets where mobile banking can help made a quantum leap forward in making financial services available to large segments that are currently excluded. It may well be harder for mobile banking to help the financially excluded in the UK. To do so will probably require co-operation between government and the private sector and this is an area that it is recommended that consideration be given to.

9.0 First Solution

9.0.1 The collapse of First Solution, the Bangladeshi money transfer company, in June 2007 sent shock waves through that community and left up to 2000 people without the money that they had sent home. The sum involved is believed to be around £1.7 million. The company has been wound up and there was an investigation by the police.

9.0.2 As a result of the collapse and the high level of public interest in it the Companies Investigation Branch of the Insolvency Office (a division of BERR) has completed an investigation into what happened at First Solution. Under the 1985 Companies Act this information is to remain confidential and can not be shared. The information in this section of the report has been produced using publicly available legal documents, interviews with the Bangladeshi community and other sources.

9.1 How did they manage to grow the business to the size it became?

9.1.1 First Solution were established in 2004 and grew very rapidly. They operated through a number of agents throughout the UK.

9.1.2 First Solution's business model was to offer exchange rates that were better than any others in the market and fees that were at least as comparable with other market providers.

9.1.3 They had an office at the travel agency that is attached to the East London mosque which was a tremendous location for acquiring new business. They undertook very large advertising campaigns on Bangladesh TV.

9.1.4 The business model appears to have been one where First Solution received cash on the day of sending money or the day after. They then retained this for up to two weeks before paying to the beneficiary. Their income was therefore from fees and float earned during the period between collecting the money and paying it out. There should also have been a foreign exchange income but this was normally not realised due to the rates that were offered to customers often being better than the market rate.

9.1.5 To support the business they had an informal overdraft facility of USD 1 million with a bank in Bangladesh.

9.1.6 The concept appears to have been that the community would be attracted by better than market exchange rates and once customer loyalty had been built up then the rates would be adjusted to ensure that a foreign exchange profit was delivered.

9.1.7 By the time that the business collapsed it is estimated that First Solution were sending around £87 million a year.

9.2 What went wrong?

9.2.1 There are a number of factors that caused the collapse of the organisation. They can be distilled into the following areas:

- There was a flawed business model that relied on an unprofitable foreign exchange rate although it does not appear to have been recognised that it was unprofitable
- There did not appear to be sufficient understanding of how foreign exchange market operate. The business waited to see how much money was actually paid in by the agents and then converted those to US dollars and then to Bangladeshi Taka. In

other words there was no hedging of foreign exchange exposures. This meant that if funds were not collected from agents then US dollars would not be bought at that day's rate but at a later date which was subject to foreign exchange fluctuations. If the dollar then depreciated rather than appreciated there was a foreign exchange loss.

- The business grew too fast for there to be effective management control of the day to day running of the business
- The overdraft facility in Bangladesh was an informal arrangement and it was withdrawn after the Bangladesh media published concerns about First Solution.
- Agents were not closely monitored and if they did not pay the appropriate systems were not in place to identify them quickly. The accounts receivable process was not integrated with the point of sale system and therefore it took considerable effort to determine whether funds were owed and if so by whom
- The business was undercapitalised. If it had been properly capitalised (and if there was proper financial reporting system in place to alert them in time) it would have been able to weather exchange losses for and while (thus providing time to effect remedies, e.g. a further capital injection or a change to the business model). As it was they relied on overdrafts and client funds. Unfortunately the banks withdrew their support and clients lost confidence so they could not continue
- Agents sometimes made 'loans' to customers which meant that funds were sent to Bangladesh before First Solution had been paid for them
- Cash flow became a significant problem once the informal facility was withdrawn and the funds from new transactions were being used to cover the payouts from previous transactions. As a consequence pay out times increased
- There was no distinction in the company's bank account between client funds and company funds which clearly led to confusion in financial management
- Audits were not undertaken by a national high profile firm. Their involvement does not seem to have prevented the collapse or alerted the directors to that possibility
- Regardless of the motives of the directors (about whom it is not currently possible to gain an accurate picture) it is clear that there was a lack of understanding of how money transfers work and a general lack of management control over the business.

9.2.2 A combination of poor controls, a flawed business model and fast growth in the business were the underlying causes for the collapse of First Solution. The final trigger for the collapse was the publication of reports in the media that suggested that not all customers were receiving their money in Bangladesh. This caused an immediate loss of confidence by the community and a 'run' on the organisation where customers were demanding to receive their money back. As the company was using money it was receiving to pay for transactions on the previous day or two there was no ability to repay those who wanted refunds. Thus the company had not choice but to cease trading.

9.3 Effect on the Bangladeshi community

9.3.1 As part of the consumer research that was undertaken with this project Bangladeshi customers were asked a series of questions about First Solution and how the collapse had affected them.

9.3.2 The main reason that people used First Solution was that the exchange rate that they were offering was very attractive and often higher than the market. It seemed to be consistently around three percent higher than the rate offered by Sonali Bank. In addition their fee for transferring money was low. Around two thirds of the respondents had used First Solution.

9.3.3 When First Solution ceased trading most customers either complained to the local community groups, MPs and other regulatory authorities. However, a significant number just remained quiet as they did not want their business shared or made public. They did still have a requirement to send money to Bangladesh. Immediately after the collapse was known business was switched to the likes of Sonali Bank, Wall Street Finance and other specialist Bangladesh transfer companies such as K.S. Enterprises and Kushiala. Customers were very much driven by looking for a safer method to send money but they still required highly competitive rates.

9.3.4 There is still a lot of anger about First Solution within the Bangladeshi community.

9.4 Lessons that could be learned

9.4.1 It is important that these recommendations are read on the understanding that not all of the information surrounding this case is available and importantly that the motives of the directors are unknown. In making these recommendations it is also important to recognise that increasing the regulatory, compliance and reporting burdens on money transfer businesses may result in excessive administrative requirements which could in turn lead to smaller companies being unable to bear these extra demands. Therefore a balanced approach to risk and reward will need to be considered.

9.4.2 The key lessons that can be learned are:

a) **Registration** - First Solution were a registered MSB with HMRC. It is not known if any visits were made by HMRC but if they had been there would have been a review for anti-money laundering and not for how the business was being run. The government is currently completing the legislative process for the Payments Services Directive (PSD). It is interesting to note that if the PSD had been in place 2006 then under the proposed terms First Solution would have initially been a registered business as their turnover would have been less than €3 million per month. However, the business grew very rapidly and at some stage during 2006 or early 2007 the turnover would have increased to over the threshold amount of €3million a month and the company would then have needed to go through the application process to become an authorised company and therefore regulated by the Financial Services Authority. The application process to become authorised is much more rigorous than the registration process and it is possible that the FSA may have raised a number of concerns about the business. However, the onus is on the business to determine which type of registration to opt for in the initial stages. An unscrupulous business could opt to be registered rather than authorised. The other question that this raises is the time that it will take to gain approval or registration and the fact that businesses will be able to trade prior to approval actually having been gained – this may put consumers at risk if companies 'play the game'.

Recommendation – consideration be given to agreeing fast approval times for either registering or authorising a new business and that the business is not allowed to trade until approval is received. (Note as a balance this would be for new businesses initially).

Recommendation – all businesses whether registered or authorised should be required to make a very simple monthly return to the regulating body. The return should show the total money transfer turnover and possibly the number of transactions.

b) **Skills** – it would appear that the management of the business did not have the requisite skills to handle the increased volumes that were gained or the foreign exchange fluctuations that were experienced.

Recommendation – it is unrealistic and probably over zealous to set a specific skill level for all money transfer company managers or directors. However, assistance should be provided to the UKMTA to establish training courses that go beyond anti-money laundering and compliance into basic business management, debtor control, managing foreign exchange markets. For authorised businesses the skills and qualifications of the business managers should be measured by the FSA to ensure that they are of the requisite measure.

c) **Auditors -** Audits were not undertaken by a national high profile firm. Their involvement does not seem to have prevented the collapse or alerted the directors to that possibility

Recommendation – consideration should be given to providing lists of auditors who are specialised to undertake audits of RSPs.

d) **Separation of funds** – the financial systems seem to have been in a mess. In particular there was no separation of funds between client funds and company funds.

Recommendation – in line with the current requirement in the PSD all firms should have a system to ensure that there is a separation of funds.

e) **Exchange rates** – it appears to have been common knowledge that First Solution were offering exchange rates that were considerably better than its competitors and than the market place. It is clearly hard to monitor the exchange rates that are being offered or to determine the basis for the pricing.

Recommendation – exchange rates that are used for a particular day are recorded when a visit is made by HMRC or FSA and compared to the published central market rate. In addition, regulators could use the remittances price comparison websites to gain an impression of those companies that may be offering better rates that seems plausible. It is possible that the owners of the price comparison sites may be able to provide this information in a proactive way to the regulators.

f) **Customer communication and business growth** – a slightly different approach to the First Solution situation is to recognise that for all of the problems the company did understand about how to grow the business and how to communicate with customers. It based itself in the heart of the community, used appropriate media channels and key community leaders. Organisations that wish to communicate with similar communities could learn some lessons from this.

g) **Customer protection** – there is no consumer protection for money transfer customers. The PSD provides for some protection of funds for authorised firms but there is nothing to protect funds in registered businesses. It is not realistic at the current stage of its development for the companies to provide some form of self funding bond or guarantee that protects funds. This is an open issue and risk that must be acknowledged.

9.5 Conclusion

9.5.1 First Solution collapsed primarily due to poor controls in a rapidly expanding business. There are a number of regulatory and supervision measures that could be put in place which may minimise the chances of this happening again. However, unless there is the equivalent of an industry bond or commitment (similar to IATA in the travel industry) there is no real consumer protection solution available.

10.0 Conclusion and recommendations

10.0.1 This project has looked at the business models of the current main methods of remittances as well as some of the newer models. It has also looked at some of the banking programmes that have been established that use remittances as a hook to attract consumers and offer them a broader range of services. Observations have been made about developments in other countries to see if lessons can be drawn.

10.1 Conclusions

The key points are:

1. Cash-to-cash remittance products are still the main way that people remit money
   - They work because people have a need to send money
   - Consumers are often aware of the product before they leave their own country
   - The product offerings are simple and effective
   - The services are secure
   - Outreach in receiving countries is extensive even in rural areas
   - The pricing mechanism is easy to understand
   - The companies offering them are specialists
   - Communication is made with customers in a language and manner that they understand
   - The business model is relatively low cost for the operator because distribution is often handled by agents
   - Marketing and awareness efforts are managed in a way that is pertinent to that community. It is often managed by word of mouth and highly targeted advertising
   - A risk based approach to 'Know your customer' is taken which means that the person using the service does not need to have an account and often does not need to produce identification.
2. Other remittance based products have a number of strengths, from a remittance angle, but have certain drawbacks:
   - Account-to-account services are only offered for existing account holders and tend to be expensive for lower transfer amounts
   - Cash-to-account have many of the positive attributes of cash-to-cash but can suffer from distribution problems in the paying out market
   - Online remittances have a lot to offer but many of them either require the sender to have a card based payment method (which someone who is financially excluded will not have) or for the individual to go to a bank to deposit money which is inconvenient
   - Card-to-card remittances currently have complex charging structures and the time to be issued with a card is quite lengthy
   - Mobile remittances are very much in their infancy. They are currently being trialled in a few corridors and it is a little early to try and draw any firm conclusions. One of the key issues to be addressed with this model is how the 'first mile' and 'last mile' challenges are addressed.
3. There are a number of initiatives which use remittances as a tool to attract other products and services that are relevant to financial inclusion. Some of the main observations are:
   - With a few notable card based exceptions remittance companies do not seem to be offering, or have a desire to offer, additional products that may help migrants into the financial mainstream

- Most of the initiatives are being driven by the high street banks. A number of them have developed packages aimed at specific communities. The most common target communities are the Non-Resident Indian and the Polish groups. This is because these groups are sufficiently large, well established in the UK and have a reasonable level of financial literacy
- HSBC are the only UK high street bank that has developed a package that is targeted at all migrants – the Passport account
- The other parts of the service are normally based around a card based, basic bank account equivalent
- Spanish banks have set a strong example of taking a long-term relationship approach to migrant banking
- Credit Unions and CDFIs do not appear to be interested in remittances in themselves or as a tool to attract new customers.

4. Distribution of services to the communities is variable:
   - Most banks are relying on their own branch network and do not want to operate with agents. That way they can protect their brand
   - Some banks are working with housing agencies and similar equivalent groups to make it easier for people to obtain a basic bank account
   - Remittance companies generally use agent networks. This ensures that their services are available in a venue that is comfortable for the community and in the appropriate language
   - Prepaid card services also use the agent model and are available online. This makes communicating with customers easier and more user friendly.
5. Identification of clients is still necessary to access most financial services. KYC requirements mean that all forms of service have some ID requirements which does exclude some people:
   - RSPs often do not require ID below £600 (this limit will change under PSD)
   - Banks and card offerings all require ID. A more flexible approach is being taken by most organisations in respect of secondary ID. Overseas proof of address, housing association supporting documents, etc. are quite acceptable
6. Customer research showed some interesting and varied results:
   - Each community showed markedly different responses except that all respondents had some form of banking relationship
   - The Indians were more likely to use a wider variety of products
   - The vast majority of Bangladeshis and Tanzanians remit money home although the method used varies between each group. Tanzanians use Western Union predominantly whereas Bangladeshis use corridor specialists or Bangladeshi banks
   - Nearly all of the respondents had a mobile phone
   - 29% would consider using one for their UK banking needs whilst 44% would consider using it for transferring money. These figures varied by community with the Tanzanians and Bangladeshis being more enthusiastic
   - 42% of people had heard of prepaid cards and of those 40% would consider using them for UK banking needs and 63% as a mechanism to send money
7. There is significant activity in prepaid cards. Tangible mobile phone based banking options for the un(der)banked are limited:
   - There is a preponderance of prepaid card programmes.
   - Some have a dual cards associated to the account that are used for money transfers
   - Many are marketed as a solution for those who can't get or don't have a bank account
   - Some can be used to make payments but not for direct debits
   - The financial model has many different charging points and this makes it harder for customers to obtain the right deal

- Building volume is relatively hard for the operators
- There are some useful examples of payroll card operations that can help the financially excluded
- Examples of mobile banking trials for the unbanked are from countries like Kenya and South Africa . These show a high level of penetration and success.

10.2 Recommendations

There are a number of recommendations from this report. They have been divided into sections to reflect whose 'responsibility' they may be:

Government

1. DFID to continue to develop education programmes to assist with awareness raising in the country of origin.
2. Government should continue with its UK based financial inclusion education programmes and should ensure that they engage with intermediary organisations that are in regular contact with migrant communities. Support could also be considered for some of the specialist migrant financial service companies in helping them to run seminars etc. These organisations often struggle to find the appropriate level of funding to raise awareness for the services that are available.
3. Government and other interested parties should monitor developments in mobile banking and transfers that are taking place in other countries and disseminate the information. This area is quite embryonic but the results are encouraging. Mechanisms to share the learning points from those trials should be set up. Examples could include working with the UK Remittances Task Force to provide publications and seminars that are relevant to the industry.
4. Identification documentation continues to be seen as a barrier to being able to access financial services although organisations are being more flexible. This area needs further explanation to the communities involved and some form of communication piece that says 'what ID is required to open an account or to send money' would be helpful to consumers. Government should also monitor adherence by banks to the Banking code in this area.
5. Involving RSPs in the government's financial inclusion programmes and schemes would be beneficial. Currently they are not involved, it is mainly the banks, credit unions and CDFIs. It would be helpful to have a representative from the UKRTF or UKMTA on some of these bodies. RSPs have regular access to migrant communities and could be used as communication conduits.

Banks/RSPs

6. Banks and prepaid card companies should examine how remittance businesses communicate with their customer bases. There are some key lessons to be learned in the language that is used, the intermediaries that work on behalf of the remittance companies and the places that they advertise.
7. Banks could use their own global networks to raise awareness of the services they offer in the UK. They could also use their global networks to undertake account opening formalities.
8. All stakeholders need to keep their product design and charging mechanisms simple. Card schemes in particular need to ensure that they keep the number of different charging opportunities for the core products to a minimum. Fee levels must also be kept at a reasonable level.
9. Stakeholders should look at establishing partnerships with other stakeholders to offer a more holistic solution. For example, RSPs have strong distribution networks in migrant

areas which are also the types of places that migrants feel comfortable in although they are generally not offering broader solutions to the financially excluded. By working with banks and card companies RSPs could provide their agent networks with a broader range of services. The banks would benefit from increased accounts or volumes of business without having to build the same high level of infrastructure.

10. Banks could give consideration to the type of approach that is being taken in Spain for all migrant groups and determine whether that approach is relevant for their business model. In particular, viewing the provision of remittances as the beginning of a 'customer journey' and not a one off transaction.

Trade bodies

11. Creating mass is critical to the success of the new technology approaches. This is often difficult for the smaller RSPs, Credit Unions, CDFIs, etc. Some consideration could be given by organisations like the ABCUL and UKMTA to see whether they can assist by perhaps negotiating an umbrella commercial agreement with banks or card companies. Members could then access these deals and provide additional services.
12. To help raise awareness and motivate the stakeholders some form of recognition scheme, perhaps an award at an industry event, should be considered for the 'best innovation in financial inclusion' etc.

Based on the research for this project it would appear that card based schemes currently represent a reasonable option as a first step towards financial inclusion. There are some challenges as well particularly in terms of the costs associated with them and how much of a real gateway to financial inclusion they are really able to provide. They offer an entry point to financial inclusion, particularly where people have a lack of documentation but ways need to be found for them to offer a broader range of financial services.

Mobile banking is changing rapidly and steps must be taken to keep up to date with all developments as logically this could represent a good medium term solution.

Contrary to previous opinion much of the innovation in this area is coming from the banks and card specialists rather than the RSPs. Mechanisms that enable these stakeholders to work together will benefit the financially excluded consumers the most.

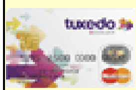
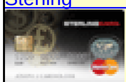
Appendix 1 Organisations that provided assistance

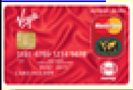
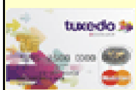
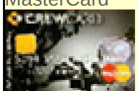
ABCUL
Advanced Payment Solutions
Altair Financial
Balaltro
Barclays
BERR
CDFA
Citibank
Coinstar
Dahabshiil
Fair Finance
Financial Inclusion Task Force
GSMA
HM Treasury
HSBC
Inter-American Dialogue
La Caixa
London Citizens
Mobile Union
MoneyGram
NatWest
Oakham Financial Services
Post Office
Pre-paid International Forum
RBS
Sonali Bank
Southwark Credit Union
Toynbee Hall
UKMTA
Vodafone
Wells Fargo
Western Union

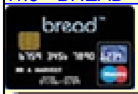
Special thanks go to Toynbee Hall for their invaluable assistance with this project in all aspects and especially with the sections on financial inclusion.

Appendix 2 Debit Card Fees

There are a variety of fees that can generate a revenue stream for prepaid card issuers, and each card scheme has different levels and different combinations of these to cater to its target populations. Common fees include issue, reload, monthly maintenance, ATM and foreign exchange. The following is an extract from a price comparison site www.which-prepaid-card.co.uk.

Prepaid Card Issuer	Card Type	Card Issue Fee (inc. Postage)	Reload Fees	Monthly Fees	Max Balance Allowed in Account	Other Fees	Key Benefits	Approximate monthly fees, based on one £250 reload per month and 3 purchase's each week
CashPlus Gold MasterCard  VISIT WEBSITE	Chip and Pin	£9.95	Free	£4.95	£5,000	ATM Fee = £2.00 (uk) Foreign Transaction Fee = 2.75%	-Accepted on gambling sites -Purchase Protection Included -Can add Creditbuilder and improve your credit score -Top-up at the Post Office and epay	£4.95
The Tuxedo MasterCard  VISIT WEBSITE	Chip and Pin	£9.95	- Cash reloads at bank branch = Free using Paying-in Book - Cash loads at PayPoint = 3% - Top-up at PostOffice = 99p - Bank transfer = Free - BACS / Wages online = Free	£4.99	£3,000	UK ATM Fee = 50p Foreign Exchange rate Fee = 0%	-Accepted at 24.6 Million Locations -Lowest ATM cash withdrawal fee, compared to all other prepaid MasterCard branded cards -Fixed monthly fee with no hidden usage Fees	£4.99 (If loaded via bank branch)
B&F Prepaid MasterCard  VISIT WEBSITE	Chip and Pin	£9.99	£1.50	£3.99	£3,000	UK ATM Fee = Free Foreign Transaction Fee = 3%	-Accepted at 24.6 Million Locations -Free UK Cash Advances	£5.49
Sterling Card  VISIT WEBSITE	Chip and Pin	£8.95	Free	£5.95	£5,000	UK ATM Fee = £2.50 Foreign Transaction Fee = 2.75%	-Accepted at 24.6 Million Locations -Purchase Protection Included -Low cost for Medium /	£5.95

							frequent users -Top-up at the Post Office and epay	
Virgin Prepaid MasterCard  VISIT WEBSITE	Chip and Pin	£9.95	Post Office = Free Debit Card = Free BACS Payment = Free PayPoint = 2.75%	Free	£3,500	Per Use Retail Fee = 2.95% (uk) / 3.5% (int) ATM Fee = 2.95% (uk) / 3.5% (Int)	-Accepted at 24.6 Million Locations -Top-up at the Post Office, PayPoint and by Debit/credit card - Access to the Virgin Discount Network	£7.35 (2.95% fee on purchase transactions)
The Sun Prepaid MasterCard Pay as you go  VISIT WEBSITE	Chip and Pin	£6.49	- Cash reloads at bank branch = Free using Paying-in Book - Cash loads at PayPoint = Free until 1 May 2008 - Top-up via Credit/Debit card = 1.95% (min 50p) - Bank transfer = Free - BACS / Wages online = Free	Free	£3,000	UK ATM Fee = 1.5% (99pmin/£1.50max) Foreign Exchange rate Fee = 0% Per Use Fee (Uk/Intnl purchases) = 2.95% of transaction value (min 50p max £1.50)	-Accepted at 24.6 Million Locations -No Monthly Fees -Pay as you go	£7.37 (2.95% purchase per use fee)
The Tuxedo MasterCard Pay as you go  VISIT WEBSITE	Chip and Pin	£9.95	- Cash reloads at bank branch = Free using Paying-in Book - Cash loads at PayPoint = Free until 1 May 2008 - Top-up via Credit/Debit card = 1.95% (min 50p) - Bank transfer = Free - BACS / Wages online = Free	Free	£3,000	UK ATM Fee = 1.5% (99pmin/£1.50max) Foreign Exchange rate Fee = 0% Per Use Fee (Uk/Intnl purchases) = 2.95% of transaction value (min 50p max £1.50)	-Accepted at 24.6 Million Locations -No Monthly Fees -Pay as you go	£7.37 (2.95% purchase per use fee)
CrewCard MasterCard  VISIT WEBSITE	Chip and Pin	£10.00 pack inc. 2 cards	- Cash reloads at bank branch Free - Cash loads at Payzone = 3% - Top-up via Debit card = £0.70 - BACS / Wages online = £0.70	£0.50	£3,000	ATM Fee = £1.25 (uk/int) Foreign Exchange rate Fee = 3%	-low UK ATM fees -low monthly Fee -Money Share via SMS	£0.50 (if loaded at bank branch
CashPlus MasterCard Gold Pay-As-You-Go		£9.95	Free	Free	£5,000	UK ATM Fee = £2.00	-Accepted at 24.6 Million Locations	£12 (£1 per transaction)

 VISIT WEBSITE	Chip and Pin					Foreign Transaction Fee = 2.75% Per Use Fee (purchases) = £1.00	-Purchase Protection Included -Low cost for occasional users	
Cred Maestro Card  VISIT WEBSITE	Chip and Pin	£8.95	PostOffice = £0.70 Up to 3% of reload at PayPoint/internet Debit card needed to apply	Free	£1000	UK ATM Fee = £1.00 Foreign Transaction Fee = 2.00%	-Great for under 18's -Chip and Pin Protected -Accepted at 7 Million Locations	£0.70 (if reloaded at PostOffice)
The BREAD Card  VISIT WEBSITE	Chip and Pin	£10.00	PayPoint = 3% (max reload £500) Standing Order/Payroll BACS = £0.25 (max reload £3,500) Debit card or SMS needed to apply	Free	£3,500	UK Purchase per use fee = 2% UK ATM Fee = £1.50 Foreign Transaction Fee = 2.75%	-Very low reload fees -Low cost ATM Withdrawal fees -Accepted at over 7 Million Locations	£5.25 (if reloaded via BACS)
Splash Plastic  VISIT WEBSITE	Chip and Pin	£5	Bank Transfers/Wage Payments = Free Post Office/Paypoint = £0.30 per £10 loaded Credit/Debit Card = 2.5% - min. £1.50	Free	£3500	Per Use Fee (purchases) = £2.5% Annual Fee = £4.95 (payable on first reload) UK ATM Fee = £1.50 (+ 2% for withdrawals above £50) Foreign Transaction Fee = Additional 1.00% Gambling or betting transactions = Additional 1.00%	-Pay By Text Message -Great for under 18's, and available to persons aged 10 and over. -Accepted at 7 Million Locations -Choice of plastic design	£6.25 (if reloaded by bank trfr/wages)
3V Voucher  VISIT WEBSITE		Free	Vouchers purchased at payzone participating retailers £20 voucher = Free £30 - £100 voucher = £2 £110 - £200 voucher = £3.50	Free	£200 per Voucher purchased. £1625 total value per annum	Foreign Transaction Fee = 1.75% £1.75 to redeem unspent money on voucher	-Available to people aged 16 and over -Accepted on the internet, over the phone and mail order	N/A – £20 voucher = Free
Post Office Travel Card (£)  VISIT WEBSITE		£10.00	1.5% of re-load -min £3 max £20 (fee does not apply to €/$ card)	Free	£5000	UK ATM Fee = £1.50 Foreign Transaction Fee = 2.75%	-Low cost Travel Card for occasional user -Also available in EUR and $	£3.75

							(no 2.75% foreign mark-up fee applies if used in country matching same currency as card.)	

Appendix 3 Western Union pre-paid MasterCard Fees

The Cards are subject to certain fees as follows:

Card Application Fee	£9.95 (includes first Annual Account Maintenance Fee)
Annual Account Maintenance Fee	£4.95
Internet Registration	FREE
Call Centre Registration	£4.95
Monthly Management Fee	FREE
Merchant Transaction Fee	99p plus additional 2% for transactions over £50
ATM Cash withdrawal	99p plus additional 2% for withdrawals over £50
Online gambling and betting transactions	5% surcharge on regular transaction fees
Top up - 360money cash top up network	PayPoint: 30p per £10 Fees at other 360money cash top up network locations may vary. Please visit www.360money.com for latest rates.
Top up – Credit / Debit cardstd>	2.5% (subject to min £1.50 fee. Maximum top up £500 per day)
Wage & Bank Account Transfers	FREE
Phone balance enquiry	FREE
Internet balance enquiry	FREE
Paper Statement	£2.00
Online Statement	FREE
Foreign Exchange Fee for ATM withdrawals	2% in addition to regular ATM withdrawal Fee
Foreign Exchange Fee for Merchant Transactions	2% in addition to regular Merchant Transaction Fee
Forgotten PIN	£1.00
Replacement Card	£5.00
Card Cancellation and Redemption Fee	£5.00 + 1% of Card balance
Processing Fee for postal identity check	£5.00
General customer service calls	£1 per minute

Appendix 4 Chequepoint Worldcash card fees

Top-up fees	
Bank branch – Cash deposits only	Instant Issue & Pay as you use 3 % Advantage Plan 2.5 per cent
Bank transfer	Instant Issue & Pay as you use 3 % Advantage Plan 2.5 per cent
Wage / Salary Payment	FREE if funds have arrived from a business account
PayPoint or Post Office – Cash deposits only	Instant Issue & Pay as you use 3 % Advantage Plan 2.5 per cent
Top-up via Credit/Debit Card	Not Available
Fees	
Card purchase fee	£19.98 valid for two-years (£9.99 per year)
Monthly management fee	Advantage Plan £3.95 per Month
POS/Merchant transaction fee	• Instant Issue - 2.95 % minimum 99p - maximum £1.50 per purchase transaction (UK) • Pay as you Use - 2.95 % minimum 99p - maximum £1.50 per purchase transaction (UK) • Advantage Plan - 2.95 % minimum 50p - maximum £1.50 per purchase transaction (UK) • All Plans - 3.5 % of the transaction value per purchase transaction outside the UK
Annual renewal	£9.99 per year after the 2nd year
Phone balance enquiry	FREE
Internet balance enquiry	FREE
Online statement	FREE
Paper statement	£5
UK ATM Cash withdrawals*	• Instant Issue 1.80p per ATM withdrawal in the UK • Pay as you Use 1.80p per ATM withdrawal in the UK • Advantage Plan 1.50p per ATM withdrawal in the UK • All Plans - 3.5 % of the transaction value for ATM withdrawals outside the UK • All Plans - 2.5 % of the transaction value for over-the-counter cash advances
International ATM Cash	3.5 % of amount withdrawn

withdrawals*	
Cashback	Pay as you use 50p or 40p on the Advantage Plan
PIN change	£5
Replacement Card	£5
Customer services	Local Rate in UK (5pence a minute from BT landlines, mobile charges may vary)
Cancellation	£5.00
Load Limits	
Cash	£1,500 per day. Per Transaction, £1500 at a Chequepoint Branch. £249 at a PayPoint agent & £500 at the Post Office
Electronic Transfer	£5000
Online via Credit/Debit Card	Not Available
Daily ATM Withdrawal Limit	
UK	Up to £500
International	Up to £500 or max country limit

*Some ATMs may charge an additional fee and should advise you before you confirm the transaction.

All fees and charges are reviewed from time to time and our Terms and Conditions updated. Please ensure that you check our website regularly for any changes and updates. Chequepoint Card Services reserves the right to update its fees and charges for promotional and commercial reasons. Telephone calls to Chequepoint Card Services may be recorded. National call rates apply from BT landlines. Other operator's charges may apply.

These Terms and Conditions were published on December 6th, 2007 and may be updated from time to time. Please check the website frequently.

Appendix 5 Card Market Overview

Prepaid cards serve as a more convenient and safer alternative to cash or cheques. They offer all the benefits, portability and security of credit cards, such as chip-and-pin security, limited liability to fraudulent spending and, with MasterCard or Visa co-branding, acceptance at tens of millions of outlets around the world.

The Debit Card Guide lays out the seven reasons people choose to use prepaid debit cards:

1. A prepaid debit card helps an individual stay out of debt because the money they spend is their own.
2. Prepaid debit cards help someone control their spending habits, because in most cases you cannot spend over the amount you have in your account.
3. Prepaid debit cards are easier to apply for than credit cards. Often, they require no bank account, no employment verification, no credit checks and no security deposit.
4. For small businesses a prepaid card can be an ideal way of paying employees. Cards can be issued to all employees and funds loaded onto the card on payday.
5. A prepaid debit card can be used to send money to family abroad or to children who are away studying. Some debit cards allow for two cards to access the same account. Once the other person has received their card funds can be loaded onto the account. The other person can access funds from the nearest ATM or POS merchant. Their money is instantly available worldwide.
6. Prepaid debit cards are a safer way for employees to receive their salaries.
7. A debit card is a convenient and affordable solution for the un [der] banked.

Types of Prepaid Debit Cards

Examples of the use of prepaid cards include:

- Payment cards for the adult un-banked market, including the ability for this group of people to participate in e-commerce for the first time
- Payroll cards, allowing employers to pay un-banked employees in the same way as those with bank accounts
- Youth cards, allowing young people (usually from age 13) to have payment cards for retail and e-commerce purchasing, thereby avoiding the need to use parents' card details. Parents can also see where the money is being spent.
- Money Transfer cards, enabling migrant workers to make cash available to overseas relatives through ATMs, without using the traditional money transfer methods
- Travel Money, simply a more convenient form of travellers cheques that can be used to make purchases or withdraw money from ATMs whilst abroad
- Multi-retailer gift cards such as shopping mall and town centre gift cards'

(ID Data products web page, 2006)

Debit Card Features

Being similar to credit cards and regular debit cards, prepaid debit cards offer many of their features, plus some additional ones, for example some advertise as follows:

- Convenience
    - Prepaid cards can be used wherever regular cards are accepted
    - Anyone can get one - no need for credit checks or a credit history

- o No bank account required
  - 24/7 balance enquiry phone line and online account management
  - Top up at any Post Office® branch or PayPoint outlet, over 34,000 locations across the UK
  - Top up online with a credit or debit card
  - Have wages paid directly to the card
  - Transfer money from any bank account to the card
- Money management
  - Can help with budgeting
  - No interest charges on the card
  - There's no danger of going overdrawn on the card. Once the money loaded onto the card has been spent, it is impossible to spend any more
- Security
  - Carrying a prepaid card is safer than carrying cash. The card can be blocked if it's lost or stolen
  - Shop securely with Chip and PIN

(MasterCard benefits, 2006, Splash Plastic benefits, 2006)

Prepaid Debit Card Mechanics

Though they are physically identical to debit and credit cards and use the same processing infrastructure, prepaid debit cards are neither linked to any external personal account nor do they offer any credit facilities, above and beyond incidental credit of a few pounds to prevent rejections as a result of a few pence of overzealous spending. Before they can be used, prepaid cards must be loaded with credit, either by the user or an employer.

There are several links in the chain that make up a working debit card infrastructure.

Programme Manager

The programme manager is the face of any prepaid card scheme; this is the entity whose name is on the card and with which the customer will identify the card. The programme manager creates the recognised brand of the card.

Programme managers are responsible for all the shop keeping aspects the front end of the prepaid card accounts under its care – marketing, advertising, customer relations, signing up new accounts, creating relationships. Their focus is the customer base, not the mechanics of transaction processing – that is left to the remaining links of the chain.

Agent

The agent is the next level of the process, where the nuts and bolts, technical part of the process begins. The agent is responsible for registering accounts on the system, setting up their bank accounts and approving transactions and setting up of the programme with its constituent parts. This may include 'SIA application sponsorship and submission to MasterCard, FSA approval, AML/KYC training, full compliance workshops involving distribution/point-of-sale procedures, finance workshop regarding funding/reconciliation/settlement process, MI development, internal approvals, T&Cs, marketing materials, card designs, promotions, project management, due diligence and site visit [at the] company' (Newcastle Building Society Pricing Standard, 2007). The agent controls the relationship between the debit card itself, the bank, debit card processing systems and the MasterCard or Visa payment networks.

The agent will work with a software vendor to get the programme manager's scheme on the network. This software package maintains and transfers data about the account holders, their account information and balance, and transactions they perform, to maintain and monitor the relationship between the programme, its members and the institutions where it is present.

Bank/EMI

A bank or Electronic Money Institution (EMI) must hold all funds that are held in trust for the account holders. Banks will hold the funds in an account much in the same way they hold any individual savers' money; the interest earned on this is often split between the bank and the programme manager of a scheme. An EMI is a non-financial institution that has received a license to transmit money electronically on a par basis (i.e., they cannot charge). This option allows non-financial institutions more direct access to customers, but restricts their role to only transactional activities – they cannot provide loans or charge or pay interest, for example.

Payment Network

Payment networks connect retail outlets, internet kiosks, ATMs and any other services on the Visa or MasterCard networks, providing the platform and functionality for the primary customer applications authorisation, clearing and settlement (MasterCard Processing Platform Key Facts, 2006). In prepaid debit schemes, it is the bank or EMI that has an established relationship with the payment network and which will establish relations on behalf of the programme manager, as well as ensure adherence to all legal and regulatory requirements inherent with operating with the payment network.

Payment networks manage the settlement process between POSs, the POS owner's bank account and the customer's card or bank account, depending on the card type (i.e., credit, prepaid or debit).

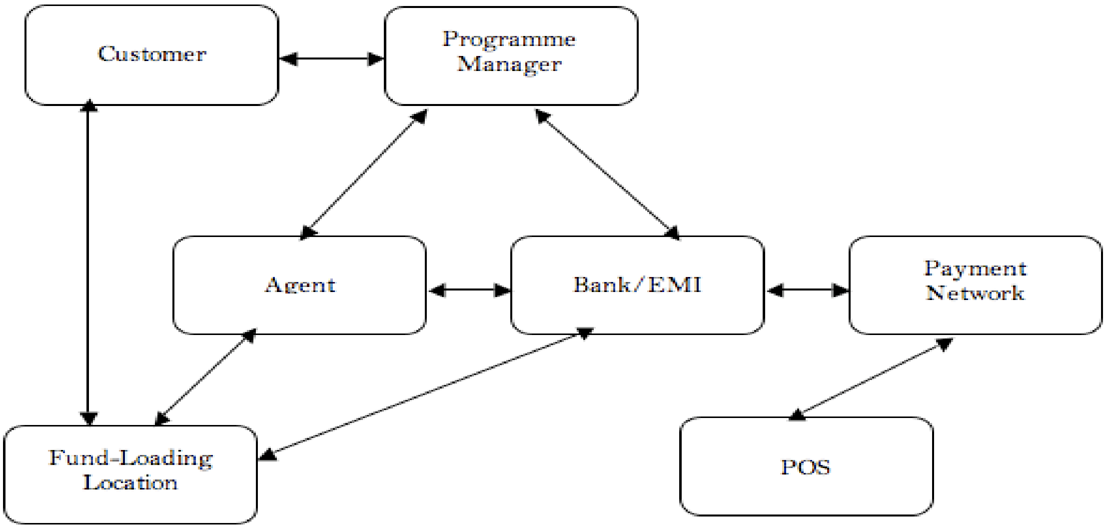
Point of Service Locations

No prepaid debit card scheme would be any use without the ability to use the card anywhere – this is where point of service locations (POSs) come in. These are all the thousands of terminals, handheld devices and automated teller machines (ATMs) that accept the issued card, and with Visas or MasterCards, this is millions of locations throughout the world. These POSs use the payment networks to have the transactions settled with the constituent banks and accounts, which, in the prepaid debit card schemes, will result in a decline in the account holder's balance.

Fund-Loading Locations

Conversely, but logically, account holders must be able to add funds to their cards: this can be done in two ways, through a third-party top-up, such as an employer or government benefits, or via personal top-ups. This is often done in ways such as at any post office, any PayPoint location (akin to topping up your mobile phone at various off-license stores and other spots), online with a voucher, online with a credit or debit card or transferring money from a bank account to the card (Splash Plastic web site).

Figure - Prepaid Debit Card Mechanics Interaction



The Prepaid Debit Card Industry in the UK

'The European prepaid market spend will be as large as €78 billion (3.1 billion transactions) by 2010. Prepaid cards are forecasted to grow to 7.9 % of total credit card volumes by 2010.'
MasterCard, 2006

The prepaid debit card industry started in the United States but has started taking off in other areas of the world including the United Kingdom. Regular debit card spending soared 427 % in the decade to 2006, from £36bn to £195bn.

UK Players

At the present time, there are a host of prepaid card schemes on the market; one has only to look at a web site such as www.which-prepaid-card.co.uk to get a comparison of a variety of programmes available, with myriad combinations of fee and income structures to appeal to a wider variety of client niches.

Backing these store-front programme managers are the agents, such as Prepay Technologies, Advanced Payment Solutions (APS) and The Community Card. Behind these organisations are banks or other financial institutions such as Newcastle Building Society, Broadcastle Bank and Raphaels Bank. The third party in the set-up is a payment network, usually MasterCard or Visa, but this could change.

The great benefit of established organisations such as these is that they have already satisfied the considerable legal and regulatory requirements that create a minefield for any entity wishing to collect and manage other people's money. They will also ensure that any organisation establishing a relationship with them meets the same regulations, a great benefit to smaller organisations that may otherwise have to spend considerable amounts to consultants to acquire this expertise.

Regulations

There are regulations that even the least hands-on programme managers must adhere to. One of these is that eMoney, defined as having 'monetary value, as represented by a claim on the issuer, which is (a) stored on an electronic device; (b) issued on receipt of funds; (c) accepted as a means of payment by persons other the issuer'. It cannot be issued at a discount. This means that £1 in cash is equivalent to £1 of eMoney – the issuer can neither discount its value at loading or redemption, nor can they issue credit, other than incidental credit.

The most relevant regulation to programme managers is the Know Your Customers, or KYC, regulation. However, this regulation can be 'outsourced' to the bank/EMI that is involved with the programme.

For larger organisations, such as banks and building societies, KYC can require a lot of customer monitoring and analysis, such as comparing card activity with historical norms to detect and prevent fraud (Shifrin, 2005). However, with smaller organisations and those with a less entwined role, the KYC regulations can be less arduous; in the case or programme managers, this amounts to being able to verify the identity and address of the customers it is signing up with the programme agent. This can consist of passports, utility bills, visas, etc., documents that are difficult to forge and emulate that can prove who someone is and where they reside, both essential to FSA regulations and therefore prepaid debit cards as well.

Shaun H. Coley
Cass Business School courtesy of London Citizens

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Appendix 7 List of Abbreviations

ABCUL	Association of British Credit Unions
BERR	UK Government's Department for Business Enterprise and Regulatory Reform
CDFI	Community Development Financial Institution
DFID	UK Government's Department for International Development
DMA	Developing Markets Associates
EMI	Electronic Money Institution
FSA	Financial Services Authority
GSMA	GSM Association (Global System for Mobile)
HMRC	Her Majesty's Revenue and Customs
IATA	International Air Transport Association
KYC	Know your customer
MSB	Money Services Business
NFT	Near Field Technology
NRI	Non-resident Indian
PSD	Payments Service Directive
RSP	Remittances Service Provider
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UKMTA	UK Money Transmitters Association
UKRTF	UK Remittances Task Force
WOCCU	World Council of Credit Unions