Financial Services Roundtable
Rapporteur's Report 12th March, 2014

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Introduction

The GFMD Business Roundtable on Financial Services in Geneva on March 12, 2014, gathered approximately 30 senior level migration and development government policy makers from five global regions and a selection of private sector representatives for a discussion on: *Aligning identification requirements and migration policies to ensure access to financial services for migrants*, with the aim of identifying possible measures to improve financial literacy for mobile consumers.

As set out in the background note for the meeting, financial inclusion is broadly defined as facilitating access to a diverse range of financial products and services (including banking, savings, remittances, insurance, and credit), provided in a secure, convenient and affordable manner. The discussion in the roundtable touched on the importance of a range of these, including remittance services, savings and credit schemes as well as insurance services. Some participants highlighted the demand for remittance services or savings schemes where the sender can have greater control of the use of the funds (e.g. for education, housing etc). In view of the keen interest of most participants to find ways of reducing the costs of remittances, a great deal of the debate came to focus on the remittance-aspect of financial services.

Challenges

A number of challenges were raised during the discussions.

Discrepancies for Identification Document Availability

The roundtable started off by establishing that there are many challenges for migrants to access financial services. Noting that the ability to certify identification is crucial for the financial service industry, one key challenge is the discrepancy in requirements on identification documents between a) countries of origin / countries of destination; b) Ministries of Interior / Justice / Finance (i.e. those required for migration and those required for accessing financial services); c) different financial institutions such as banks and remittance institutions.[1] ID discrepancies also affect access to other services in society. Thus, addressing this could improve inclusion more broadly.

Regulations in the financial service sector vary more broadly, and the burden on service providers is high. For example the document storage requirements can vary greatly between different countries.

[1] Studies by CGAP indicate that roughly half of the world's adult population does not have access to formal financial services, varying in degree from an average of 17% exclusion in wealthier nations to 64% in developing nations. According to the Global Findex, 18% of those who do not access such financial services claim lack of proper identification as the key barrier.

These requirements drive costs. Governments and stakeholders wanting to reduce the costs of remittances therefore need to consider the effects of regulation.

Risks vs. Costs

There is a need to find a balance between addressing legitimate risks of money laundering and financing of terrorism on the one hand, and costs on the other hand. These costs fall on the banks providing banking services for remittance providers, on the remittance providers themselves and ultimately on the migrants as consumers of these services. Banks also find themselves in difficult situations as they are required by law to provide certain services, but sometimes find that the regulations drive up costs to the extent where they would rather not provide such services. There are examples of banks withdrawing banking services to remittance providers due to risks of incurring penalties or other costs.

Irregular and Temporary Migrants not Eligible for National IDs

When looking at IDs the general feeling is that national passports were widely accepted as legitimate forms of Identification. But a challenge remains for those migrants in an irregular or undocumented situation. This challenge can be exacerbated if countries of destination have additional requirements in terms of e.g. legitimate proof of residence. This raises the question: how to ensure IDs for this group, but also for other temporary (one to three months) migrants not eligible for IDs in countries of destination?

The issue of exclusion of irregular migrants relates to the much broader issue of access to legal channels of migration. This issue was raised by a number of participants, but was not dealt with in detail as it is a structural issue beyond the focus on financial services.

Low-skilled Workers

The last challenge identified during the meeting was how to move remittances from informal flows to formal flows. Such a move to a great extent relies upon financial literacy and trust in these institutions by the intended users. It was suggested that the level of trust and financial literacy tends to be lower among low-skilled workers. Thus specific initiatives may be needed to reach this stakeholder group. It was also suggested to clarify the reason why workers need to send remittances through formal channels, as a means towards engaging this target group.

Solutions

To address some of the challenges, a number of solutions or policy options were proposed.

First, as an underlying factor, the issue of coherence and standardisation of regulations was raised.

Second, regulation affects the level of competition. In countries with a high degree of competition, the costs of remittances were as low as 2 %. In Africa where 80 % of the countries only allow remittances via banks, competition is low and costs of remittances are high. Clearly, regulation matters.

Third, the digitalisation of the economy – moving away from cash economy – can reduce costs and improve access to financial services. It was suggested that many African countries were ahead in this regard. One third of countries where one major money transfer organization operates are in Africa.

Fourth, we need interoperability and common standards. Here, there is a clear role for governments to establish platforms for interoperability e.g. through common regulatory environments.

Practical solutions suggested included targeted initiatives for encouraging low-skilled migrant workers to utilize formal channels; provision of interim identity documents for temporary migrants; exchange of best practice in the realm of e.g. identification; states to take a lead in finding a platform for global standards on financial services and interoperability.

How do we achieve this?

As suggested, a common, underlying theme of the discussions was the need for coherence between Ministry of Interior (MOI) and Ministry of Finance (MOF), between countries of origin (COO) and countries of destination (COD), between objectives of control and cost reduction. A clear route to address this was through dialogue.

1. A dialogue between business and governments is important. This could be through traditional lobbying or through more structured forms of dialogue, e.g. through establishing business advisory groups at regional or national levels.
2. Diaspora mobilisation and dialogue is important, as is access to legal recourse.
3. Since financial service providers and their customers (migrants/diaspora) share an interest in reducing cost-driving regulation, this could provide scope for alliances of interest groups, with business joining hands with migrants/diaspora organisations, but also for public private partnerships, where governments engage these stakeholders.
4. Another important form of dialogue is at the regional level. For example a dialogue between destination countries and countries of origin along a migration corridor which may generate coherence and recognition of documentation and interoperability between financial services.
5. Partnerships between governments and the private sector can also take more practical forms. A development cooperation agency gave examples of how they, through development aid, facilitated business development by enhancing access to financial services, or other specific needs, of diaspora, in partnership with the private sector.
6. The GFMD was highlighted as a positive forum for different stakeholders to meet at a global level to share experiences and highlight possible points of action.

Unanswered questions

The discussions have resulted in a number of follow up questions.

- How can irregular migrants get access to identification?
- How can short term migrants (1 to 3 months), not eligible to identification, get access to financial services, or get interim ID documents?

Concept Note in preparation for the GFMD roundtable on Financial services:

Aligning identification requirements and migration policies to ensure access to financial services for migrants

March 12, 2014
Salle VI, R3 Level

It is widely recognized by states and the private sector that mobility is fundamental for fostering entrepreneurship, innovation, and economic growth. Yet migration policies are often ineffectively integrated with economic strategies to the detriment of both. Border controls may inhibit rather than promote economic growth and development; business start-ups may be frustrated by visa restrictions on foreign-born workers; too many migrants are employed at a level that is not commensurate with their skills; and poorly managed migration may incentivize employers to hire irregular migrants and facilitate rights abuses particularly in low wage sectors.

Even where mobility is well-managed, however, economic growth strategies cannot be fully realized without access for migrants to formal financial systems. Financial inclusion is broadly defined as facilitating access to a diverse range of financial products and services (including banking, savings, remittances, insurance, and credit), provided in a secure, convenient and affordable manner. Studies by CGAP indicate that roughly half of the world's adult population does not have access to formal financial services, varying in degree from an average of 17% exclusion in wealthier nations to 64% in developing nations. According to the Global Findex, 18% of those who do not access such financial services claim lack of proper identification as the key barrier.

A combination of factors are attributable, but at the crossroads of this gap are the varying patchwork of national ID documents available to migrants from countries of origin, AML-CFT recommendations at the global and regional level through FATF, emerging regulation such as the EU 4th AML Directive which specifies ID thresholds but not which ID documents are acceptable, differing implementation of Know-Your-Customer (KYC) requirements at a national and institutional level, and the impact of migration policies on how migrants access services from the private sector and how businesses can provide those services.

In the context of financial services where migrants are customers, what can be done to comply with the national security concerns of the state, while still offering all migrants an opportunity to more effectively contribute to economic growth, their own development and that of their families and communities?

We ask:
- **What is the impact of current migration policies on specific business sectors?**
- **What practical recommendations would you like to make to governments on how ID compliance can best be achieved?**

• How can policy-makers and the private sector cooperate to improve access to services for migrants?
• What consultation process would you like to see states establish with businesses to develop that cooperation and what format would you prefer to use?

This roundtable is intended to stimulate discussion between states and the private sector on what works, why some things don't work, and how it could be done better.
Mobility is a defining framework for the 21st century, closely linked to employment opportunities and engagement in the financial framework. States and businesses that can establish partnerships based on a mutual interest in sustainable growth will have a competitive advantage.