Financial Inclusion, Focus on Romanian Migrants and their Families

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Abstract

This paper aims to analyze financial inclusion of a particular segment that struggles most: the unbanked migrants, focusing on Romanian migrants and their families.

It's a common understanding that financial inclusion plays an important role in poverty reduction, economic development and growth, job creation, innovation and infrastructure.

Banks have shown themselves unable or unwilling to provide relevant services to this particular segment of people and are acting to push this segment away from financial inclusion, indirectly condemn them to long-term poverty through financial exclusion.

Keywords: *financial inclusion, unbanked people, Romanian migrants, migrants 'families, banks, poverty, rural areas*

Introduction

Financial exclusion was defined as "*a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong*".[1]

This article is part of a wider research on migrants and their needs with a focus on Romanian migrants and their families. First part of the article presents studies about unbanked people at global level, financial services available for them and solutions to financial exclusion. The second part of the article concentrates on Romania, the country with the highest degree of unbanked people from Europe.

1. L. Anderloni, E. Carluccio, "Access to Bank Accounts and Payment Services", in Anderloni L., Carluccio E. e Braga M., *New Frontiers in Banking Services: Emerging Needs and Tailored Products for Untapped Markets*, Berlino, Springer Verlag, 2006.

Financial inclusion – global approach

According to World Bank the unbanked population in 2014 was 2 billion people – nearly one in three. The 2014 Global Findex database of the World Bank shows that, globally, 38% of adults remain unbanked for a range of psychological, cultural and educational reasons – but also due to the lack of interest in this segment from traditional financial institutions (banks).

An absence of financial education, lack of awareness about financial services, unaffordable products, high transaction costs, paper work involved, travel distances, post-2009 distrust in the banking system – all these factors contribute to financial exclusion. As a result, 20% of the unbanked adults (over 400 million people) receive wages in cash and another 23% (440 million people) receive payments for agricultural products in cash.

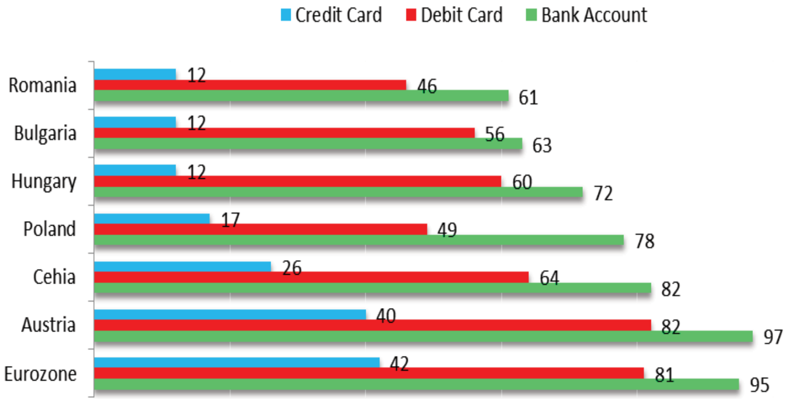
In Europe, according to European Commission, 30 million Europeans above 18 do not have a bank account - roughly 7% of all EU consumers. Among these unbanked adults, 6.4 millions are actually restricted or afraid to ask for a bank account. The situation varies greatly across the EU, with many Western and Northern EU countries showcasing over 90% account holding among the adult population, while at the other extreme Romania has the highest percentage of unbanked population.

Romania stands out with the highest percentage (39%[1]) of unbanked population. In Romania, banks have approximately 5 million customers, representing 61% of the country's active population. According to the National Bank of Romania, Romanians "own" 14.5 million bank cards, but just 11 million are actively used. The number of cards increased when people started to receive their wages in current accounts, not in cash. According to Global Findex Database, only 61% of Romanians aged over 15 years have a bank account, of which 46% have a debit card and 12% a credit card, again Romania ranks last (Figure1)

1. World Bank, Global Findex *(http://www.bancherul.ro/romania-este-codasa-europei-si-la-gradul-de-bancarizare-avem-cele-mai-putine-conturi-bancare-si-carduri-de-debit;-poate-pentru-ca-sunt-prea-scumpe--14972)*

Percentage of Romania population over 15 years

Figure 1



(Source: World Data Bank (http://databank.worldbank.org/data/home.aspx)

In developed countries from Eurozone almost all adults have a bank account (95% of respondents aged over 15 years), while 81% have a debit card and 42% a credit card.

Migrants also prefer cash, for several reasons:

- **status**, they need to proof their identity identify in order to open a bank account, and because they migrate apparently just for a few years, need just to send money to their families for financial support and some of them are not legally registered in the foreign country, the demand for banking account is low.
- **language**, represents a barrier for migrants in adapting abroad and request financial services (bank documents that should be filled in foreign countries, talking with tellers in bank branches) and also the lack of experience in using financial services in origin countries, which makes migrants to be reluctant on banks' services.
- **remittances**, cash transfers from migrants to their families in origin countries.

According to the study "Finacial inclusion and new means of payment" conducted by European foundation for Financial Inclusion in May 2013, migrants could use modern payment instruments but because of poverty, low income and unstable employment they are forced to mange with cash. Migrants have problems to store money securely and that's why they usually carry cash.

The key industry drivers of financial inclusion growth are technology and mobile money. Technology is playing a pivotal role in the process of increasing financial inclusion by reducing the cost of delivery and increasing bank's efficiency and productivity.

Options to improve financial inclusion

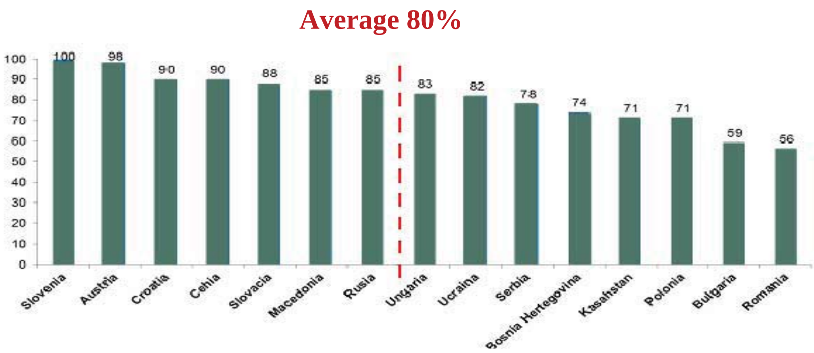
- ✓Innovative technologies and attractive financial services to meet unbanked people needs;
- ✓Increase financial literacy;
- ✓Extension and better affordability of traditional financial services, including greater access to bank branches and lending;
- ✓Mobile money: facilitating remittances or payments;
- ✓Remittances contribute to economic and human development, remittances increase household income and demand on financial services, by making recipients more inclined to join the formal financial sector.

Romania - case study on unbanked people

In a 2012 report[1], Romania was identified as the country with the lowest degree of unbanked population (Figure 2). At that time, 56% of the Romanian population was banked, well below the Central and Eastern Europe average, which was 80%.

Bank population in Central and Eastern Europe

Figure2



A special case is represented by the population from rural areas (according to Romanian National Institute of Statistics, 46% of Romanian population live in rural areas), where banks have fewer banking outlets (branches, ATMs) and people consequently don't have access to the financial services offered by banks. The financial crisis in 2009 worsened the situation,

1 GFK Survey 2012, *http://www.nocash.info.ro/desi-56-dintre-romani-au-relatie-cu-cel-putin-o-banca-romania-este-cea-mai-slab-bancarizata-tara-din-centrul-si-estul-europei/*

as more bank branches closed. Where banks have kept branches open in rural areas, the costs of banking services are perceived by many in the unbanked population as being too high.

In Romania, large differences in wealth, opportunity, education, skills, health are seen in many areas, and in the last decade they have intensified, particularly in rural ones. Nearly 40.2% of Romanian population in 2014 was exposed to the risk of poverty and social exclusion, given that, Romania occupied last place in EU, even if at EU level 122 million people, 24.4% of the European population were in this situation, according to data released by Eurostat, Oct 2015.[1]

In rural areas, incomes are relatively low compared to urban areas (for the year 20 11-503 euro / rural household compared to 621 euro / urban household). Revenue ratio represents 42% of total gross income/household in rural areas, while salaries are around 26%, according to 2011 Romanian Census, National Institute of Statistics.

Rural areas are affected by the lack or deficiency of infrastructure, which has a negative impact on economic development and quality of life. County and communal roads have a length of 67,298 km (10.6% of national infrastructure modernized) of which 48% are paved and 29% of land (often impassable in the rainy periods).[2] Although the length of water distribution networks and sewerage increased, the access to them remains low, only 13.6% of rural settlements were connected to the water supply in the year 2012.[3]

With its large unbanked population, Romania presents the most effective case study. The country ranks last in Europe regarding the usage rate of mobile banking, less than a fifth of Romanians using mobile devices to make payments, while the European average is close to 40%. The trend is toward more banked people – but slowly. On the other hand, Romania is the origination point of one of the largest migration flow in the EU – the "inbound" (from abroad to Romania) remittance market accounts for over 92% of the total remittance market; the outbound market, from Romania top other countries is comparatively insignificant at 8%.

2015 statistics indicate that an estimated **5 million Romanian migrants[4]** work abroad. Of these, 68%[5] remit money to their families in

1. http://www.realitatea.net/40prc-dintre-romani-expu-i-riscului-de-saracie-i-excludere-sociala_1811392.html

2. Transport routes, National Institute of Statistics 2011

3. Utilities activities of local interest, National Institute of Statistics 2011

4. The Profit Foundation, 2015, http://www.masapresei.ro/cinci-milioane-de-romani-sunt-ple-cati-in-strainatate-unde-traiesc-si-muncesc-acestia/

5. According to 2015 TR Ltd surveys in main countries of remittance to Romania: Italy, Germany and Spain

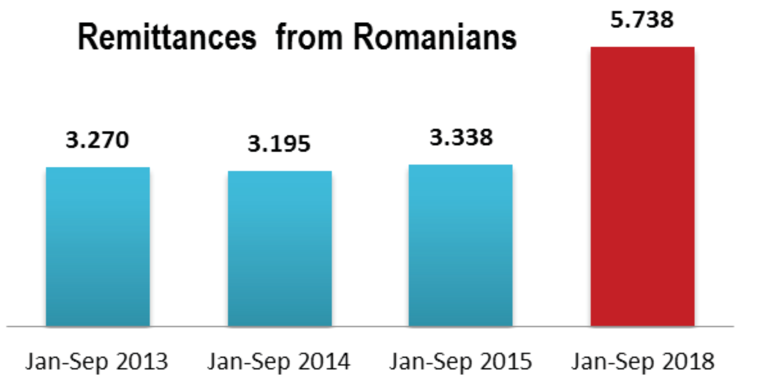
Romania – leading to an estimated 3.4 million Romanians sending money to their families in Romania. According to National Bank of Romania 2013 statistics, Romanians in Italy have sent to their families in the home country a total amount of €925 million, followed by Romanians in Germany with €595 million, USA €460 million and Spain €393 million. According to Transfer Rapid research, each sender remits money to roughly 1.525 beneficiaries, meaning that 5.2 million people in Romania receive money from remittances. Based on recent World Bank Global Findex Database, 39% of the 5.2 million people receiving remittances are unbanked

Per World Bank statistics, Romania has been among the top inbound remittance markets in the EU, with an average €6 billion annual remittances sent over the past 10 years. [1] In 2013, Romania was on the third position in the top of ECA countries at receiving remittances with \$3.6 billion, after Ukraine with \$9.3 billion and Tajikistan with \$4.1 billion. [2]

According to the National Bank of Romania, remittances from Romanians working abroad in the first nine months of 2015 reached 3.3 billion EUR, slight increase of 148 million EUR over the same period in 2014 and with 68 million more than in January- September of 2013.[3] (Figure3)

Remittances from Romanian working abroad (Source: National Bank of Romania and)

Figure 3



1. World Bank, Migration and Remittance Flows: Recent Trends and Outlook, 2013-2016
2. World Bank, Migration and Remittance Flows: Recent Trends and Outlook, 2013-2016
3. *http://www.bancherul.ro/romanii-care-muncesc-in-strainatate-au-trimis-acasa-3,3-miliar-de-euro-in-primele-noua-luni-din-2015,-mai-multi-decat-anul-trecut--15191*

The identified problem on the market is that banks are not able to offer appropriate services to a large segment of the population, leading to significant number of unbanked individuals.

While banks have shown themselves unable or unwilling to provide relevant services to this particular segment of people (usually poorer and primarily in rural areas), at the same time banks are not pleased with lots of unbanked people coming into their branches just to make cash withdrawals over the counter – and are acting to push this segment away from financial inclusion, indirectly condemning them to long-term poverty through financial exclusion.

However, according to National Bank of Romania, **Romanians prefer cash**, not saving money and all their cash goes into consumption. Romanian Banks' concern is in finding a way to address all the 19 million Romanians to enter into a commercial relationship with a bank.

"Banks are trying to rebuild trust in the customer relationship, which has been hit hard in recent years due to financial crisis" declared Radu Gratian Ghetea, President of the Romanian Association of Banks.

Even if mobile money was another solution for increasing financial inclusion, due to the presented data, Romania is not the case, being the last country in Europe, by the financial inclusion degree and usage rate of mobile banking.

Banks perceive the unbanked individuals receiving remittances at their teller windows as bottlenecks to effective banking activity as these individuals generally receive small amounts of money while occupying teller's time (an estimated 9 to 10 minutes of teller time for each unbanked remittance service).

In Romania, the company Transfer Rapid is known for developing innovative technological services and products for Romanian migrants and their families, now launching an innovative solution for unbanked migrant's families in the home country. This service, entitled TR3A ("Anyone, Anywhere, Anytime"), seeks to provide access of unbanked individuals to financial infrastructure, acting towards financial inclusion and a higher quality of life for a vulnerable segment of society.

This solution symbolizes the connection bridge of these two apparently irreconcilable market segments: banks and the unbanked population, by offering an innovative cash withdrawal service from ATMs, without the need of a credit card or a bank account.

Once adopted, the solution will offer a unique way for unbanked people to access the bank networks, providing a valuable service while rebuilding trust and touch-points between banks and the unbanked population – the solution seeks to meet an increasing need of both the unbanked population in

Romania receiving remittances from abroad, as well as the need of banks to reduce servicing costs at the teller window in the case of unbanked individuals with perceived low Life Time Value (LTV) to the bank.

Conclusions

Financial inclusion of unbanked individuals into the financial system via alternative, more cost-effective channels than those traditionally offered by banks represents a long-term interest of all countries.

This article showed a proportion of the vulnerable unbanked segment, represented by migrant families, but of course solutions have to be extended to migrants working abroad and to all unbanked people.

Migrants and remittances should be favored in order to increase development impact and financial inclusion. And for this to be possible a series of actions should be held: financial education for migrants and their families in origin countries, financial services and products customized on their needs, innovative technologies in term of access to financial services, consumer protection and cost reduction. In the same time, banks should be open to new technologies provided to attract this particular segment of population: unbanked people; improve tellers' attitude towards unbanked individuals when introduce services different from the basics ones.

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