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Imagining an Open
Future for Payments

The economic empowerment of digital remittances

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Insights

- The COVID-19 pandemic has significantly changed the way that people pay for goods and send money. Digital remittances have played an important role by ensuring that families back home can continue to receive money despite obstacles presented by the pandemic.
- Digital remittances provide a reliable and secure way to send money home, bypassing the need to travel to a physical location to initiate a transfer, and digital remittances funded by cards are on a positive cost trajectory.
- Many digital remittances are still picked up by receivers in cash, and this increases costs. Truly digital remittances will be achieved when the families back home can receive money digitally then use it nearly ubiquitously in their everyday lives.

Digital remittances are improving lives, but there is much work to do[1]

Transfers of money by migrant workers to their home countries are a lifeline for millions of families, as well as a boost to the GDP of many places around the world. According to World Bank data[2], as many as 28 countries receive up to 10 percent of their GDP via remittance flows. Historically, the cost of sending and receiving money abroad has

[1] A version of this short article also appears in OMFIF's "Evolution or revolution?" report on cross-border payments.
[2] Data can be found at https://www.knomad.org/data/remittances

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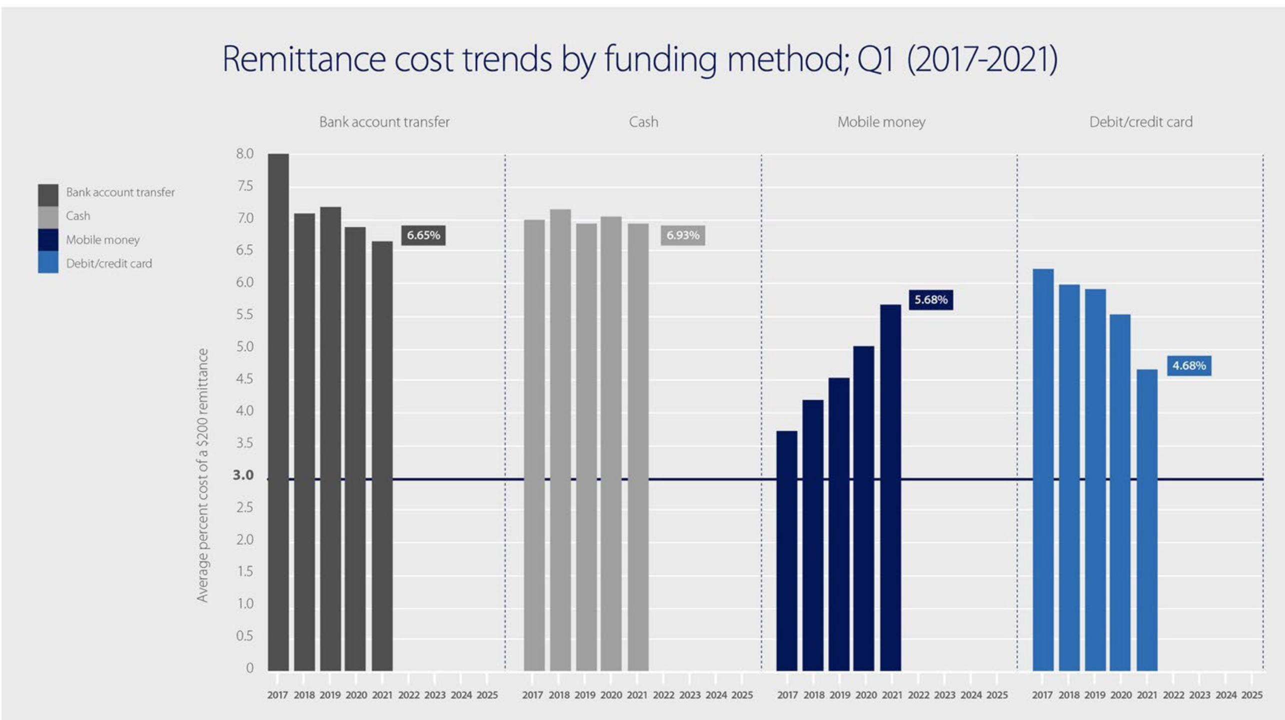
created barriers, and many money transfer organizations are innovating to offer better solutions. Key among the innovations are digital remittances, which have brought the advantages of e-commerce to remittances. These digitally-initiated remittances have proven indispensable throughout the pandemic, because physically visiting an office and using cash become more difficult. Digital remittances frequently take advantage of some newer money-movement networks and capabilities, and in addition to being faster and more transparent than traditional remittances, digital remittances are more affordable and secure. The figure below, derived from World Bank data, shows the average costs of a $200 remittance over the last 5 years (using first quarter data) for the 4 payment initiation methods tracked. The numbers speak for themselves. Of the payment methods tracked, only card-initiated remittances offer an average cost below five percent, and only card costs have declined for the last 5 first quarters[3] and are currently on a path to meet the UN's 3 percent cost target[4] in the next several years.



Source: World Bank Remittance Prices Worldwide Quarterly, March 2021, 2020, and 2019

Image Description: This figure shows remittance cost trends by funding method over five "first quarters" from 2017 to 2021. The funding methods include bank account transfers which in 2021 cost an average of 6.65%, cash at an average rate of 6.93%, mobile money at an average of 5.68%, and debit/credit card at an average of 4.68%. The figure also shows trend-wise that bank account transfer and debit/credit card costs have decreased, mobile money costs have increased, and cash has remained relatively constant.

Digital remittances are also important to the economic empowerment of women. Currently, the term "digital remittance" is really used to describe how a remittance is initiated—through a digital payment method. However, the

[3] Mobile money-initiated remittance costs have risen for five consecutive first quarters, but in other quarters they can be quite low.

[4] United Nations Sustainable Development Goal 10: Reduced Inequalities

vast majority of digital remittances are still picked up from some sort of physical location in cash. While the sender of a digital remittance is moving money across borders from a smart phone or computer, the recipient, often a woman[5], is frequently picking the cash up physically. This is a problem. The act of receiving these funds may involve traveling from remote locations, going to an ATM or going to an agent and walking around with a significant amount of currency. There is some sense of physical security in having funds directly deposited into a debit card or e-wallet, which allows greater access to other digital functions such as e-commerce, P2P transfers, etc. And there is a savings dimension. Enabling women to receive remittances digitally, in addition to providing more physical security and convenience, helps them to keep more of their own money and to manage it. For example, research from Women's World Banking has shown that women save on average 10 to 15 percent of their earnings despite low and often unpredictable incomes[6]. However, low-income women often face barriers to accessing a safe place to save—due to mobility and time constraints, as well as lower levels of financial literacy. The research suggested that women can be forced to save in less reliable ways—at home in a drawer or under a mattress, by buying excess stock for their businesses, or through a neighborhood savings club. Remittances received digitally can help them store the money they receive. This added physical safety and convenience should not be accompanied by digital insecurity, so the digital remittances and methods for receiving them must provide safety, resilience, and reliability as well.

So, what do we need to do to bring the benefits of digital remittances to more people? We need to enable more migrant workers to move money digitally, of course. Money transmitters and fintechs are making great progress here. Other important steps include leveraging networks in innovative ways to reach more people, and digitally enabling the people and communities who receive remittances.

Networks of networks are key to global reach

Next generation money movement capabilities are playing a starring role in the rise of digital remittances. Visa Direct is one of these capabilities—it is a fast and secure push payments platform that enables financial institutions, enablers, and partners to offer person-to-person (P2P), business-to-small business (B2b), business-to- consumer (B2C), and government-to-consumer (G2C) payments and funds disbursements. There are dozens of use cases, but the global reach of Visa Direct is important to remittances. Visa Direct can reach more than 5 billion accounts and cards globally in more than 170 countries, greatly expanding payout and money transfer opportunities beyond what we typically think of as the card network. In fiscal year 2021, Visa Direct achieved over 5 billion transfers globally and leveraged a variety of card, ACH, and Real Time Payment networks to move money. In the future, we hope to deliver money to digital wallets to reach even more people who are not "banked" in the conventional sense.

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[5] While more women than ever are sending remittances, recipients globally do still tend to be women. See Yansura's "Myths and Assumptions about Remittances" at http://www.thedialogue.org/wp-content/uploads/2016/11/Yansura_Myths-and-Assumptions-about-Remittances.pdf

[6] "Digital Savings: The Key to Women's Financial Inclusion?" https://www.womensworldbanking.org/wp-content/uploads/2015/08/Digital-Savings-The-Key-to-Women's-Financial-Inclusion_WomensWorldBanking.pdf

Digital enablement of people and communities is key

At a basic level, digital enablement at receipt would mean that the receiver has an account, card, or wallet which would allow them to receive and hold the funds. But this alone is not true digital enablement. Digital enablement means that there is an ecosystem available for the recipient to spend their money digitally, otherwise we will just continue to see the remittance process end with the recipient making a cash withdrawal, which has societal costs. For a person to be able to spend digitally, there has to be broad digital acceptance among businesses in that person's community, which is no small feat in many countries.

This means that policymakers must think about many things, some of which are quite fundamental. Beyond electricity and broadband availability, things like digital identity can also be thought of as helpful infrastructure. And then there is digital payments acceptance by sellers. Policymakers must think of consumers and merchants together. Promoting access to digital infrastructure is just as important as encouraging digital payment usage. We believe that countries that have driven digital ubiquity most successfully over the last decade have worked to drive adoption on both sides, through a variety of tools and incentives.

In the end, truly digital remittances will be achieved when the families back home can receive money digitally then use it nearly ubiquitously in their everyday lives. This is where we want to be and getting there will require the public and private sectors to work together.

About the Visa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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