

Integrating Remittance Recipients into the Financial Sector

Guatemalan Credit Unions take a savings-led approach to increase financial opportunities for remittance recipients

This FIELD Brief is the fifth in a series produced by the Financial Integration, Economic Leveraging and Broad-Based Dissemination (FIELD) Leader with Associates (LWA). This brief focuses on a recent FIELD pilot that linked remittance recipients to credit union financial services in Guatemala. Managed by AED, FIELD represents a consortium of leading microfinance and microenterprise development organizations committed to advancing practice through innovation. FIELD Briefs share what we have learned in order to foster dialogue on key issues. This brief was written by Stephanie Grell Azar of World Council of Credit Unions. To access all FIELD learning materials, visit www.microlinks.org/field.

The importance of remittances to the people, communities and economies of developing countries—a \$280 billion industry—has been long recognized, fueling an intense interest in how to best harness these money transfers to promote local economic development and reduce poverty. One solution seeks to integrate remittance recipients into the formal financial system by providing them with access to affordable financial products to manage and grow their money, reducing their vulnerability to unpredictable changes in remittance income and increasing overall economic security. The approach is particularly attractive for financial institutions as it simultaneously enables them to serve an increased number of clients and to grow their own asset base and access to capital.

In recent years, the number of formal financial institutions distributing remittances has increased significantly. Yet, the vast majority of remittance flows and recipients remain outside of the financial sector as recipients use remittance windows in financial institutions but do not open formal accounts. Realizing that simply getting remittance recipients into the doors of financial institutions is not enough, donors, development practitioners, and financial institutions are taking a second look at what it takes to integrate unbanked recipients into the formal financial sector and to capture this significant potential market segment.

Voice from Guatemala

“Remittance recipients usually withdraw all of the money when they pick up their remittances... We constantly remind them to save, and eventually they do. But, it takes time to create a culture of savings.”

- Erin Gonzalez, Customer Service Representative, ECOSABA Credit Union

World Council of Credit Unions (WOCCU) and the Guatemalan National Credit Union Federation (FENACOAC) have been working together to develop solutions to this challenge. The purpose of this FIELD Brief is to share lessons learned from a pilot that ran from 2006 to 2008 with support from USAID through an AED FIELD



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Innovation Pilot.¹ The activity aimed to link remittance recipients to formal savings accounts and, from there, to other financial services.

Guatemala: Building on a Solid Foundation

Credit unions in Guatemala—many of which are located in rural areas where emigration to the United States is high—provide safe, accessible remittance distribution services to poor and low-income recipients. The 27 FENACOAC-affiliated credit unions with 167 branches began using WOCCU's International Remittance Network (IRnet)² in 2001 and their remittance volumes have grown steadily. In 2007, IRnet facilitated US\$246 million in transfers through the Guatemalan credit unions. (Refer to Figure 1 for a description of how IRnet works.)

In 2004, WOCCU implemented an in-depth survey of member and non-member remittance recipients at the five Guatemalan credit unions with the highest remittance market share to learn more about recipient financial behavior and characteristics.³ Among the many findings, WOCCU determined that, although credit unions had been successful in integrating some unbanked remittance recipients into the financial sector,⁴ 70 percent of recipients were not members and there remained substantial levels of unmet demand for credit and savings products among them.

In response, WOCCU and FENACOAC set out to design savings and loan products that would encourage remittance recipients to join the credit unions and make use of other financial services. Working in partnership with the five credit unions that participated in the 2004 study, the new FIELD Innovation Pilot addressed three areas of credit union operations – product development, back-end systems development, and marketing and communications – to develop a platform that encourages unbanked remittance recipients to become credit union members.

Box 1: Results Snapshot

Outputs:

- Developed a remittance-linked savings product that enables recipients to have their remittance transfer deposited directly into an account;
- Upgraded the remittance MIS web-based remittances platform to capture more information about recipients and senders; and
- Designed a multi-national publicity campaign, *iCuéntales qué...!* (“Tell them...”) to 1) convince senders to select credit unions as the distributors of their money transfers and 2) cross-sell membership and other financial services to recipients.

Achievements:

- Of the total 65,535 credit union remittance recipients in Guatemala, more than 3,350 have signed up for the remittance-linked savings with direct deposit savings product.
- 1,378 remittance recipients have joined the credit union where they receive their transfers for the first time.
- 12.5% of new members have established direct deposit accounts.

¹ The FIELD LWA is a 5-year cooperative agreement that was issued by the USAID Microenterprise Development office to a consortium of leading microfinance and enterprise development organizations. FIELD is led and managed by AED. The consortium both designs and implements projects for USAID around the world and pursues action learning initiatives such as the pilot documented here. Learn more at www.microlinks.org/field.

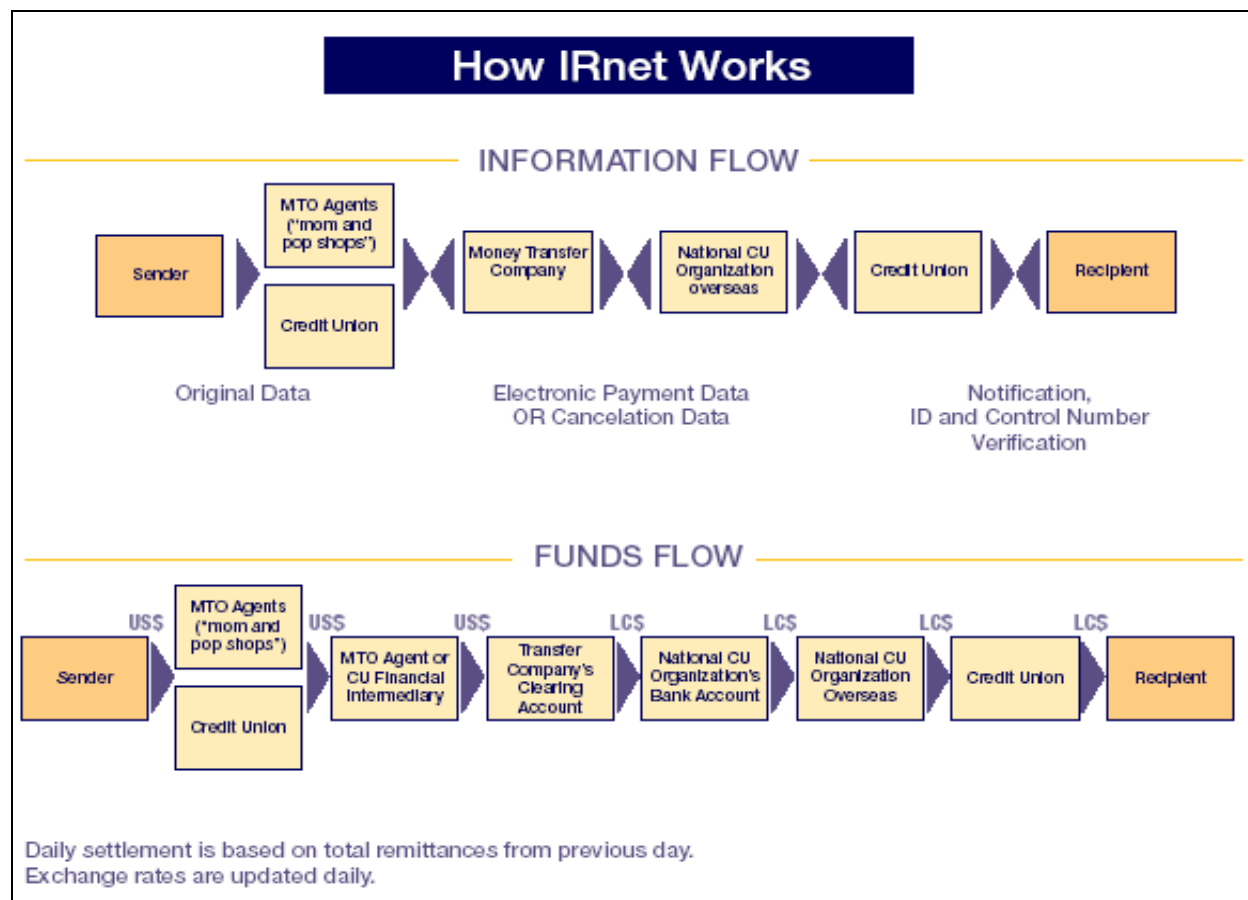
² Credit unions in seven countries distribute remittances through IRnet.

³ A copy of the AMAP study can be downloaded at the following link: www.microlinks.org/ev_en.php?ID=8392_201&ID2=DO_TOPIC.

⁴ 30 percent of respondents were members, 74 percent of which had joined since remittance distribution began

The pilot program began with the intention of pursuing this on a limited scale, developing and marketing remittance-linked products in five pilot credit unions. However, WOCCU and FENACOAC quickly realized that credit unions already had a variety of the products to meet the needs of remittance recipients. Thus, what started as a plan to develop and market specific remittance-linked products in five pilot credit unions, developed into a fully scaled product development initiative, including a multi-national communications strategy that would benefit remittance recipients nationwide.

Figure 1: How IRnet Works



Product Development: Assessing Demand, Testing the Market, Defining the Product

WOCCU, FENCOAC and the credit unions began by identifying options and strategies that would be applicable to credit unions serving remittance recipients in diverse regions, living in urban, rural and semi-urban areas. With the support of a consultant, the partners pursued a market research initiative to gather information on member and non-member remittance recipients, identifying the needs and expectations of the remittance recipients in the process.

Based on recipient socio-economic profiles and patterns of usage of financial institutions, the partners developed preliminary remittance-linked product concepts. They then met with key credit union personnel to discuss current products and previous experience cross-selling

services to remittance recipients. This led to the design of four potential products: 1) savings with direct deposit, 2) housing loans, 3) micro and small business loans, and 4) vacation and travel loans.⁵

To test the products in the market, WOCCU hired a private marketing firm to conduct focus groups of member and non-member remittance recipients. Interestingly, during this process, the firm had trouble organizing focus groups due to a fear of mugging and/or robbery among remittance recipients in a deteriorating security environment. While complicating the market testing stage, this challenge also illustrated the likelihood of success for a solid effort to offer recipients a means of leaving a portion of their money in a secure credit union account.

Box 2: Six Steps to Product Development

1. Identify the needs and expectations of the customers;
2. Assess the products currently being offered by the financial institution as well as other institutions;
3. Determine product concepts to be tested by potential users;
4. Carry out market testing of the products to refine the concepts being considered and determine if the concepts are attractive and easily understood;
5. Evaluate the results of the market testing and make necessary adjustments to the product hypotheses; and
6. Pilot test the products.

Key Findings of the Product Development Process

Appropriate credit products already existed. There was not a great difference between the credit products already offered by the credit unions and the proposed remittance-linked products. In some cases, credit unions had already marketed specific remittance-linked products for housing and paying off higher interest loans from moneylenders or other institutions.

Client demand for credit products varied by institution. Remittance recipient preferences for remittance-linked credit products varied by credit union based on local needs, making it difficult to standardize one remittance-linked credit product for all institutions. For instance, in areas with lower levels of economic activity, recipients were not interested in loans for microenterprise. In areas with higher immigration rates, the travel products were viewed more favorably.

Risk tolerance varied by institution. Some credit unions included remittance flows as a source of income when determining capacity to pay, while others were more hesitant to do so because of the uncertainty of the continuity of this income stream.

Savings can be a hard sell. Reactions from focus group participants to the remittance-linked savings product were mixed. Those who responded positively saw the benefit of promoting savings behavior. Others argued that the main use of remittances was for maintaining the household and repaying mortgage debts, leaving recipients no opportunity to save.

Information for targeted marketing was limited. The existing web-based remittances software at project launch only enabled credit unions to track whether remittance recipients

⁵ Vacation and travel loans would have been targeted at remittance beneficiaries who were paying down loans from informal moneylenders. The product could also be used to finance vacation plans or other travel related needs for Guatemalans traveling legally to the U.S.

were members or non-members. No additional demographic or contact information that could be used for targeted marketing campaigns was being tracked.

Remittance senders are key decision makers in the remittance chain. The sender generally makes the decision on how their funds will be transferred, calling the beneficiary to tell him/her where to pick up the remittance. Marketing directly to migrants or indirectly through recipients is therefore vital to increasing the flow of remittances to credit unions and/or the uptake of new financial products offered to remittance recipients.

Membership decisions were based on a variety of factors. Remittance recipients expressed a number of reasons for joining the credit union, including: the assistance provided to obtain a loan and make payments, better interest and foreign exchange rates, and financial soundness. They also pointed to the credit union's personalized attention, customer service, and activities that encourage savings. The main reason non-members stated for not joining was that they did not have excess income to deposit into a savings account.

Membership promotions and the personal touch had been effective. Some credit unions had been proactive in stimulating membership among remittance recipients by offering promotional items or assuming the amount of the share deposit.⁶ These efforts were effective; however, affiliation through promotions did not always translate into a direct benefit of recipients using more savings and loan products. In addition, credit unions had some success when reaching out to remittance recipients directly in their communities, using the personal touch.

Defining the Plan

Based on the initial findings, WOCCU, FENACOAC and the credit unions shifted the program to one focused on removing the barriers that prevented remittance recipients from accessing existing products. Within this strategy, a heavy emphasis was placed on savings because regular savings habits help demonstrate a member's repayment capacity and ability to manage their finances.

The project proceeded with four major activities:

- WOCCU completed the design of the savings with direct deposit product, with an emphasis on promoting the advantages of this product for remittance recipients. This also included the development of a product manual that emphasizes marketing tools and techniques to improve product sales. (Box 3 describes the new remittance-linked savings product.)
- WOCCU and FENACOAC enhanced the information technology platform to allow credit unions to capture information about recipients and senders that is useful in marketing and cross-selling products and evaluating loans for remittance recipients that do not have other sources of income.
- Instead of creating new credit products, FENACOAC trained the credit unions to use the upgraded technology platform to improve both the marketing and cross selling of existing products to recipients. Additionally, the credit unions that were not already doing so were

⁶ New credit union members must make a share deposit to become a member. This is their ownership stake in the credit union. Required amount varies by credit union.

encouraged to consider using remittances receipts as an indicator of repayment capacity when evaluating loan applications from recipients without other sources income.

- Finally, WOCCU and FENACOAC created a marketing campaign that would compliment the promotional efforts of the individual credit unions. The campaign was geared to address two key issues: 1) convincing senders to select credit unions as the distributors of their money transfers and 2) cross-selling membership and other financial services to recipients.

Back-End Systems Development: Learning More about the Target Market

Remittances sent through IRnet to credit unions in Guatemala pass through FENACOAC before reaching the credit unions. FENACOAC sends the remittances to the credit unions via a web-based information technology system. In turn, credit unions use the same system to pay out the money transfers to remittance recipients.

Box 3: Savings with a Direct Deposit Remittance-Linked Product

How it Works:

The savings with direct deposit product enables recipients to have their remittances deposited directly into an interest bearing account. Funds are available immediately without restriction.

Key Advantages:

Targeting the product to the needs of remittance recipients, tellers emphasize the following the product advantages:

1. Convenience of not having to pick-up the remittance right away
2. Security of not carrying a lot of cash
3. Option of withdrawing funds from their account at another credit union
4. Opportunity to earn interest on money that is not needed immediately
5. Possibility of using savings as collateral for loan
6. Access to other services in the credit union

Sales Techniques:

In addition to laying out operating guidelines and policy requirements, the product manual includes sales techniques to help the tellers respond to common objections including:

1. *“I don’t have enough money to save.”*
Response: If you start saving just a little bit, over time you will accumulate an important amount and earn interest on the savings. Considering you will be saving just a small portion of the money, you will not miss the additional funds. In any case, you can take what you need now.
2. *“I already know how I am going to spend the money.”*
Response: Try to leave a small amount of this remittance. Take what you need now and you can still access to the rest later. It is much riskier to carry all of the money with you if you are not going to use it immediately. (Note: It is important to try to get a sense of how they plan to use the money. In the case of home repairs, remodeling, or a business investment, it would be a good opportunity to cross-sell other credit products.)
3. *“How am I going to be sure that the money is deposited into my account?”*
Response: You will be able to check the balance of your account at any time.
4. *“I’m going to have to wait a while to withdraw funds.”*
Response: The remittance will be available immediately and can be withdrawn at any time without restrictions.

When the pilot program was designed, the original intention of the back-end systems development component was to upgrade the system to be able to track and sort the financial behavior of new credit union members that have joined through remittances. However, based on information gathered during the product development stage, WOCCU and FENACOAC realized that learning more about the target market for promoting the new product and evaluating loans for recipients with no other source of income would be a critical first step in attracting the unbanked remittance recipients and cross-selling other financial products.

Working closely with the credit unions, the following adjustments were made to the system:

Data fields were added to capture information about the senders and recipients.

Address, gender and occupation fields were added to provide credit unions with more information about recipients. Aggregate data could be used to design marketing campaigns, while information about the specific client would enable tellers to cross sell other products and services. In addition, data fields for the relationship to sender, amount of time sender has resided in the United States and the frequency and amount of remittances received were added to help credit unions assess the likelihood the recipient would continue to receive remittances in the long run. This information is useful for loan officers when evaluating loans for remittance recipients with no steady source of income apart from the remittances.

Technical upgrades were made to facilitate the direct deposit of remittances into a credit union account. When a recipient elects to have his/her remittance deposited directly into a savings account, the teller simply clicks a box indicating this preference.

Report templates were created to analyze additional data captured by the branch, credit union and the national system as a whole. Reports can track the rate at which non-members are joining and opening accounts, as well as the usage of the remittance-linked savings with direct deposit product. Information can also be sorted and cross referenced to customize promotional campaigns. For example, a marketing manager can identify by community the most common occupations of the remittance recipients and whether or not they are already credit union members. If they are members, he/she can design a promotional campaign to cross-sell products. If not, a promotional campaign can be designed to encourage them to join. Using the same report, the credit union can track success after the promotional campaign has ended. At the national level, FENACOAC can analyze the same information to design nationwide campaigns to compliment the local campaigns and track progress and performance of individual credit unions.

Prompts to remind tellers to cross-sell products were also incorporated. Every third time a recipient claims a remittance, the new system reminds tellers to ask if the person is interested in other credit union products or services.

**Marketing and Communications:
Developing a Brand, Building Awareness**

Effectively executing the new strategy required extensive marketing including a multi-national communications strategy that would benefit remittance recipients in all 27 FENECOAC-affiliated credit unions, representing 167 branches nationwide. The strategy was designed to build awareness of the benefits of receiving

Voice from Guatemala

“I leave my money in the credit union because I can trust the credit union. I picked up my remittances in a bank for 18 years, but never opened an account. The service in the credit union is quick and easy and I feel at home.”

- Irma de León, credit union member

remittances through credit unions and the products and services available to members including the new direct deposit option. It complemented the work being done by individual credit unions to improve their own targeted marketing and cross-selling efforts and included the following elements:

Developing a brand. While the majority of remittance distributors have nationwide recognition, credit unions are often associated with their local community and market locally.

Box 4: Cuéntales Qué

The new remittances brand created by FENACOAC, *¡Cuéntales qué...!*, recognizes that remittance senders usually decide where transfers are received and encourages recipients to tell senders about the benefits of credit union membership.

To build awareness of the benefits of receiving remittances through credit unions, FENACOAC created a remittances brand for all credit unions that could be both advertised and recognized nationwide and in the U.S. The brand, *¡Cuéntales qué...!* (“Tell them...”), recognizes that remittance senders usually decide where transfers are received and encourages recipients to tell senders about the benefits of sending their remittances to the credit union. (See Box 4 for an illustration of the print materials used in this campaign.)

Getting the message to recipients and senders. FENACOAC launched the publicity campaign in September 2008 on a popular morning television program. To build awareness of the credit unions at the community level, FENACOAC advertised on the same morning program during segments featuring different Guatemalan pueblos. During each segment, the commentator mentioned, “Do you know that there are credit unions in your sector, and do you know that they offer remittances and other products and services?” At the credit union level, FENACOAC designed flyers and banners for all credit union branches. To reach remittance senders, FENACOAC is advertising on websites popular with Guatemalans living in the U.S. These websites are linked to a webpage for *¡Cuéntales qué...!* that includes an interactive map of Guatemala to help senders locate a credit union near their hometown.⁷

Promoting an integrated approach to personalized cross-selling. Taking a closer look at what it takes to cross sell financial products, FENACOAC and the credit unions have determined that while tellers play a key role in encouraging recipients to join the credit union, save and access other products, they do not have the time or, in some cases, the skills to cross-sell or educate recipients on products. FENACOAC is working with the sales departments to use information gathered in the new system to target individual remittance recipients with a personalized approach.

Results

For years, credit unions have focused primarily on using short-term promotions—including lottery tickets, raffles and free calling cards—as their main strategy for encouraging membership. While these promotions are important and have been effective in increasing the number of members quickly, they do not always result in long-term use of financial products and services.

⁷ At the time of publishing, FENACOAC was redesigning its website. Once complete, there will be a link to their remittances services from the homepage, www.micoope.com.

In contrast, this pilot has taken a more comprehensive approach, getting systems and strategies in place as a first step in going beyond simply “banking” remittances to truly building relationships with them. By doing so, credit unions are working to help recipients save, establish a credit history and make use of other products and services to build and protect their future. Under this strategy, pilot program accomplishments have included:

- Increased awareness among remittance recipients and senders of the credit union products and services through a multi-national publicity campaign, *iCuéntales qué...!*;
- Availability of a new savings with direct deposit remittance-linked product;
- Improved capacity of credit unions to access credit worthiness of remittance recipients; and
- An increase in outreach to remittance recipients through targeted, more personal campaigns in the communities to promote the benefits of various products and services.

The value of these qualitative achievements is demonstrated by quantitative increases in membership and funds flowing from remittance recipients into credit union accounts. Specifically, since the launch of the web-based tracking system at the end of 2007, of the total 65,535 credit union remittance recipients in Guatemala, more than 3,350 have signed up for the remittance-linked savings with the direct deposit product. Additionally, remittance recipients represented 1,378 of the new credit union members, bringing the total percentage of remittance recipients who receive their remittance at a credit union and are also members up to 40 percent. Nearly 13 percent of new credit union members opted to establish direct deposit accounts over this period.

Voice from Guatemala

“The new system has given us information to do targeted promotional campaigns. We now know more about where the remittance recipients live. Every day we send credit union officers to different communities and once a week we send a team of credit union officers to promote specific products. This more personal approach is working very well for us.”

- Otto Joel Batres Maldonado, Marketing Manager, COOSADECO Credit Union

Impressive as they stand, these figures are expected to rise rapidly in the coming months as, at the time of writing, FENACOAC’s national publicity campaign was only a month old. A steady and growing stream of inquiries in credit unions themselves and through email from migrants in the US indicates that there is high demand for this new opportunity. FENACOAC and the credit unions will continue to monitor results and the effectiveness of the approach.

Lessons Learned & Recommendations for Replication

There are a number of general factors that affect the success of a remittance-linked product. Credit unions, financial institutions and/or development programs looking to enter this market should consider the following questions:⁸

1. Have remittance beneficiaries expressed an unsatisfied demand for savings and loan products?

⁸ For additional considerations see: *A Technical Guide to Remittances: The Credit Union Experience*. This WOCCU publication focuses on key success factors for distributing remittances in general, a pre-requisite for linking remittances to additional products. <http://www.woccu.org/publications/techguides>

2. Does your financial institution already offer the products in demand or do you need to create new products to meet the need?
3. Is the remittance base likely to continue producing robust volumes, which provide the necessary platform for launching products?
4. Has your financial institution demonstrated a willingness to spend aggressively on marketing?

Some specific lessons learned from this activity include:

- ***Establish a relationship and sense of trust, reliability and efficiency with recipients.*** Remittance recipients expressed their preference for credit unions as remittance distributors citing the friendly and high quality customer service. Other factors included the speed with which transactions were carried out, the perceived soundness of the institution, and cost. Other institutions seeking to transform remittance recipients into clients of other financial services should focus on building a relationship with the recipient, increasingly their willingness to try additional services.
- ***Build client profiles slowly to avoid alienating or frustrating clients.*** Remittance recipients do not want to spend a lot of time answering questions and/or they may be hesitant to answer personal questions. With this in mind, the web-based remittances system was upgraded to capture additional information about recipients and senders in stages. The first time a person comes in to pick up a remittance, the system prompts the teller to ask basic questions, including address and phone number. The system prompts the teller to ask additional, more personal questions, during subsequent visits. This gives the credit union time to build confidence a rapport with the recipient and is a strategy that should be considered by other institutions as they enter this market.

Looking Forward

At the close of the pilot, the *iCuéntales qué...!* publicity campaign was institutionalized at FENACOAC and is now being rolled into a larger credit union system branding campaign, “MICOOPE,” which got underway in November 2008. As they move forward, FENACOAC and the credit unions realize that this is just the beginning of a long road to truly integrating the unbanked into the formal financial sector. The pilot has laid the groundwork for expansion and improved service offerings but there is more work to be done. Specific priorities and recommendations include:

- Finding new ways to promote savings and provide financial education. This could be done through workshops and/or the creation of “Remittances Clubs.”
- Incorporating and promoting additional products and services, including debit cards, payment of utilities and repatriation insurance.⁹
- Bringing the unbanked remittance senders into the financial system. Credit unions have seen a demand and a need for opening accounts for senders. A host of legal and logistical issues need to be researched and considered.
- Facilitating account-to-account transfers. FENACOAC is looking to create alliances that will enable senders who open accounts in the U.S. to deposit money directly into a recipient’s account in Guatemala, thus avoiding the fees associated with money transfers while banking both the senders and recipients.

⁹ In the case that a loved one dies, the insurance covers the cost of bringing the remains back to Guatemala, one year of remittances paid to the beneficiary in Guatemala, and life insurance for the beneficiary.

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- Using technology to expand outreach further into rural areas, offering additional points of service and extended hours.
- Creating alliances with non-financial partners to meet the needs of recipients. A partnership with a healthcare center is currently being piloted and others have been made with building suppliers and contractors.

As the pilot program came to a close, integrating unbanked remittance recipients, as well as senders became even more imperative. A U.S. economic downturn and crackdown on illegal immigration have caused a rising level of uncertainty over the continuity of remittance flows, increasing the vulnerability of families on both sides of the border. Finding new ways to incorporate both recipients and senders into the financial system will help families survive hard times and build new opportunities for the future.

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