# Financial Inclusion for Cross-Border Remittances and Bill Pay

Bulletin

## Introduction

The U.S. Faster Payments Council (FPC) established the Financial Inclusion Work Group (FIWG) in early 2021 with the mission to provide a blueprint for leveraging faster payments to accelerate access to the financial system for unbanked and underserved Americans. Between 50-78% of Americans live paycheck to paycheck[1] with up to 5.9m U.S. households unbanked.[2] In July 2022, the U.S. Faster Payments Council published a report prepared by the FIWG on how faster payment solution providers can increase financial inclusion through design and practices to improve trust, transparency, cost, speed, and ease of access.[3]

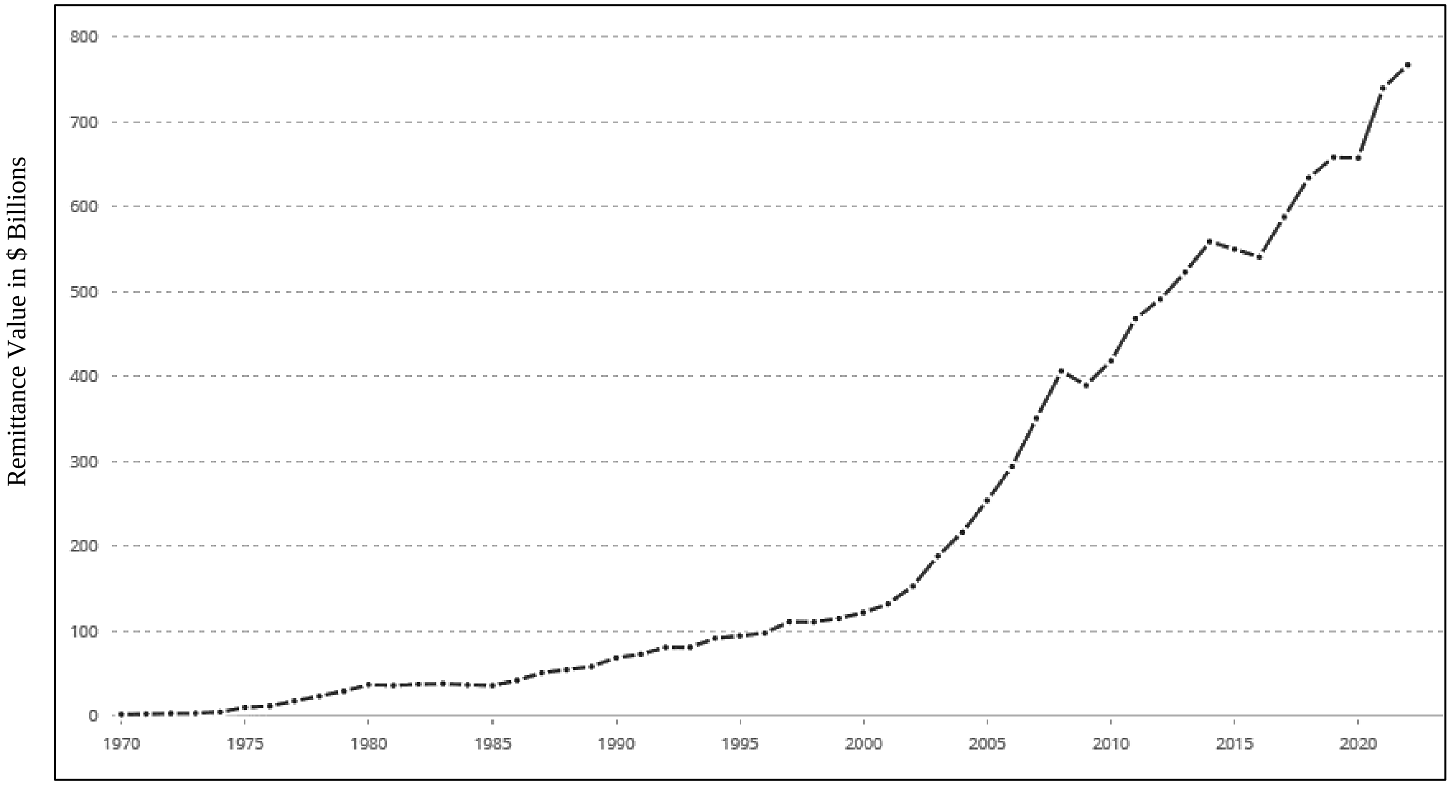
This bulletin aims to analyze how faster cross-border payments can help to address issues with financial inclusion. The bulletin focuses on payments originating in the United States through individuals sending funds overseas to other individuals, such as those in their family financial network where the sender and/or beneficiary of the funds does not have access to a bank account. These funds can be used for anything on the receiving side; so, this bulletin also covers paying bills across borders as a specific use of the funds on the receiving side where the bill is paid on behalf of a member of their family financial network or for bills they still have back home.

This bulletin does not cover sending funds from U.S. bank accounts to foreign bank accounts outside of the United States.

## State of Global Financial Inclusion

Across the globe payments trends are experiencing a major shift, with the adoption of new technologies over the last 10 years transforming payments and providing end users with increased speed, and other benefits as well as expanding financial inclusion.

These technologies can help to address problems faced by the financially underserved which include late fees, speed of response to short-term liquidity problems such as obtaining needed funds from family members, and the high costs of traditional cross-border payment and alternative credit services. According to the World Bank, 76% of adults around the world have a financial account today, up from 51% a decade ago.[4] In the same time period, global cross-border remittance volume has increased by 55%.[5]

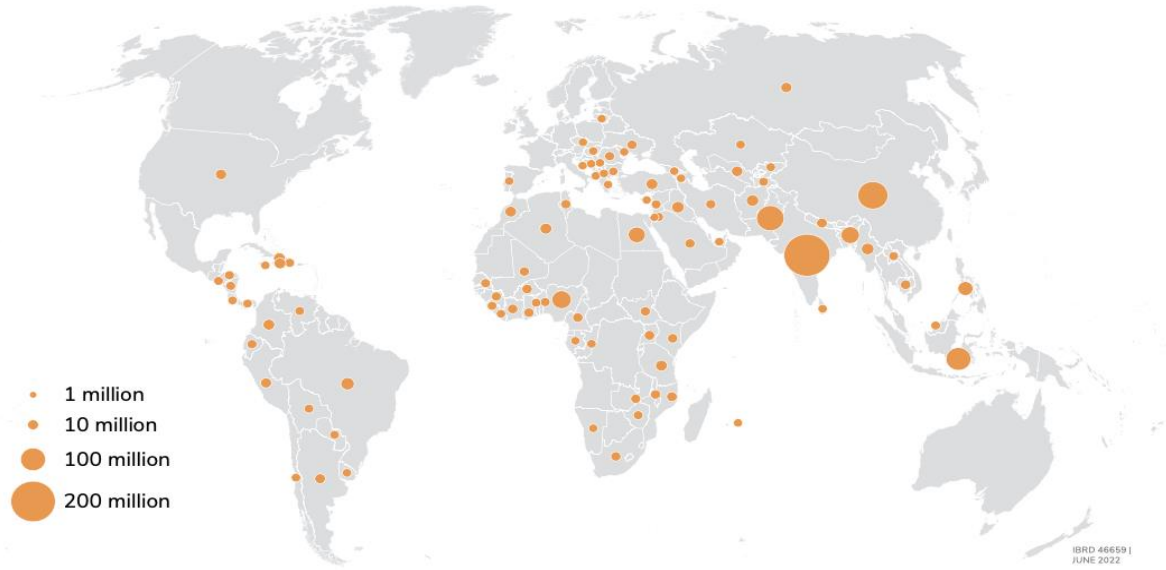



Today, about three quarters of people worldwide have an account at a financial institution or through a mobile money provider. That is a 50 percent increase in the past ten years.[6] This means financial services like remittances, interest bearing checking and savings accounts, and fairly priced credit and loans are newly relevant in the daily lives of hundreds of millions more people who used to be unbanked/underserved.

Despite the progress of the last decade, financial inclusion remains a major hurdle. Globally, there are 1.4 billion people in the world who are unbanked, with two billion in total classed as underbanked.[7] These people are at risk of being left behind by the improvements of the last 10 years. As Federal Reserve Governor Lael Brainard said in a 2018 speech, "For these households, the difference between waiting for a payment to clear and receiving a payment in real time is not merely an inconvenience; it could tip the balance toward overdraft fees, bounced checks, or collections fees…faster payments could help reduce the strain."[8]

Globally, 1.4 billion adults are unbanked

Adults with no account, 2021




*Source:* Global Findex Database 2021.

*Note:* Data are not displayed for economies in which the share of adults without an account is 5 percent or less or for economies for which no data were available.

## Pain Points

There are a number of pain points associated with banking that influence underserved households. These can be summarized into the following interrelated factors:

- Trust - Trust in financial services may already be low amongst the underserved. This can be further eroded when combined with hidden costs, a lack of transparency in tracking the payment, and high friction in sending the payment. Trust may be undermined in the absence of strong customer service and language access. Many language and cultural differences between those providing the service and those needing the service can be an issue in translation causing mistakes and/or frustrations that affect trust.

- Cost – Linked to the issue of transparency, few solutions offer visibility into total all-in costs associated with a cross-border transaction, making it hard for senders to understand how much their family members will receive, as well as being unclear how costs are applied. For example, zero fees may be offset by a markup on foreign exchange rates.

- **Speed -** Any delays in the payment can adversely affect the recipient, especially considering the heightened liquidity constraints of someone in a financially vulnerable situation. In many cases, it is difficult to track the progress of cross-border transactions, especially for those outside of the banking system. Receivers may also be limited by operating hours of receiving services and/or their locations.

- **Transparency -** Linked to cost, trust, speed, and notifications of when and how much was sent and received; a lack of transparency impacts those that are financially underserved and can be a barrier for the unbanked.

- **Ease of Access** - This can be particularly difficult for the underbanked, with lengthy Know Your Customer (KYC) processes varying across different countries and the agents operating in these countries. Where the recipient is unbanked, the ability to claim the payments also adds complexity and time to the process. The length and complexity of the transaction documentation requirements can also be a challenge. KYC documentation requirements may vary depending on amount; i.e., the more money you send or receive, additional documents may be required and more intrusive the questions about the transaction may be asked (i.e., origin of funds). Financial institutions' product designs do not usually address the needs of the financially underserved. Financial services such as Western Union, MoneyGram, and several others that specifically provide cross-border remittance and bill payment for the underserved in the U.S. and have products that are designed for this purpose.

- **Liquidity constraints** - Tight budgets, timing of funds received, refunds, and other budget constraints mean that a delay, interruption, or loss of funds can lead to a cascade of adverse financial consequences. This is where the need for faster receipt of funds, access to funds from others in a network of family and friends, and the reliability and security of the service is key. These factors vary significantly between cross-border and domestic remittances or bill payments.

- **Cash in/cash out** - People without a bank or credit union account can face additional costs to use cash to send or receive faster payments. This also adds time to the process on either or both ends of a cross-border transaction.

- **Mistake and fraud prevention –** The underserved are extra sensitive to the difficulty of absorbing the loss of funds due to a mistake or fraud. Transactions may not be revocable after a very short period or at all, so the prevention and identification of mistakes is critical. Additional factors of different regulations, methods of identity, and other differences in the countries that the payments are being sent to can create even more concern about the lack of remedy when fraud comes into play in cross-border transactions.

- **Security** - Concerns about the security of funds and the impact of security procedures on inclusion include the lack of standards and safeguards over funds, data usage practices that vary among countries and the various services originating and routing the transactions to their destinations. This causes extra concerns about the funds reaching the intended party in time or at all.

- **Interoperability** - Most cross-border transactions require the use of different and sometimes multiple intermediary systems that add time, cost, complexity, and associated concerns over the speed, accuracy, safety, traceability, and security of the funds reaching the intended party on a timely and cost-effective basis.

## Financial Inclusion/Cross-Border Terminology:

The FPC Financial Inclusion Work Group in collaboration with the FPC Cross-Border Work Group have defined the following terms:

- **Financial Inclusion** – Is a set of products, services, policies and practices by financial services providers and other entities that induce and support persons who are not using mainstream financial services. In payments, financial inclusion enables payments and other financial services to people and businesses that are underserved and are effectively excluded from the types and levels of service, costs, features, and safety that many others take for granted.

- **Underserved** - For its financial inclusion work, the FPC defines the underserved as those who are unbanked plus any that live paycheck to paycheck. It also includes small businesses with cash flow and/or liquidity constraints.

- **Unbanked** - The unbanked, a segment of the underserved, are households in which no one has a checking or savings account with a financial institution. These families or individuals either do not have access to or do not want to use bank or credit union accounts.

- **Family Financial Network** - These are family and friends that one either depends on or supports regularly or during emergencies.

- **Cross-Border Faster Payments** – A payment in which the financial institutions or payment service of the payer and the payee are located in different countries and where the payment occurs in real, or near real-time.

- **Cross-Border Bill Payment** – A cross-border payment designated for a specific bill to pay-vs-a money transfer that can be used for anything.

- **Origination Point** – The sending financial institution or service that uses a collection method that includes transferring funds from the sender's account, digital wallet, or cash. Traditionally money transfer operators have been the primary providers of this type of service.

- **MTOs** - Money Transfer Operators serve the unbanked and underserved as alternative financial services. These businesses require money transfer licenses in all U.S. states in which they operate. In many states, bill payments require money transfer licenses as well. Some states have separate bill payment specific licenses. When transferring funds abroad, there are additional compliance requirements for international cross-border money transfers as well as for cross-border bill payments.

  Another typical service provided by MTOs includes collecting funds and loading value into prepaid cards, digital wallet accounts, or the like. These may include accounts that the beneficiary is someone outside the United States that can immediately access and use these funds locally. This is effectively a faster cross-border remittance.

- **Distribution Channel** – A third-party receiving financial institution or service that uses a distribution method that includes transferring the funds to the designated party's account, digital wallet, biller, or cash disbursement.

- **On-Us Transactions** - A closed loop system for send/receive through the same organization or payment network. An example is Walmart2Walmart: This is Walmart's money transfer service powered by Ria Money Transfer to send money from any Walmart store in the United States to another Walmart store across the United States, including Puerto Rico, and Mexico.

## The Current Landscape

Today, the underserved are at the margins of the financial system and as a result can face a limited choice of how to send money overseas. Traditionally, the Money Transfer Operators (MTOs) offer an accessible, straightforward, and convenient option for sending money overseas. MTOs with large global networks such as MoneyGram, Western Union, and Ria offer both in-person/counter services and digital options for consumers to send money. In addition, these MTOs have entered into agreements with big retailers such as Walmart, CVS, Walgreens, and other distribution channels to enable a greater network to originate payments and distribute remittances.

Some MTOs offer an electronic pre-staging option which works well for financial inclusion, enabling underserved senders to set up the transfer digitally then walk into the agent location to complete the money transfer distribution with cash.

In the last decade or so, digital remittance players such as Xoom, Remitly, WorldRemit, and Wise have emerged to offer convenient and easy ways of sending money overseas. The digital experience of initial sign-up registration on mobile apps or online is seamless. Once KYC is approved, consumers can start sending money from the app or web, with options to pay by bank account, debit card, or credit card. While digital remittance may not work for the unbanked portion of the underserved here in the USA, it can reach the unbanked/underbanked in the destination country. These digital options present an opportunity to motivate unbanked consumers towards financial inclusive digital remittances. During the pandemic when many MTO locations shut in-store operations and consumers feared going to those that may have stayed open. This forced them to consider these digital options.[9]

The latest trend is pushing the remitted funds to a virtual or physical card account where the card/account can be used locally for various payment and withdrawal capabilities.

Major financial institutions (FIs) are generally not focused on low value consumer remittance business. Many FIs have either withdrawn or reduced their focus on personal international remittance and would only offer international money transfer services to their customers. One example is Wells Fargo ExpressSend®– Global Remittance Services.[10] A number of banks offer international remittances in partnership with major MTOs. The question that many FIs may be considering is if the compliance requirements, AML risk, and fraudulent transaction exposure warrant the transactional income.

Cross-Border Bill Payments (XBBP) are an attractive alternative in supporting families overseas or to pay for bills due in other countries with funds originated in the U.S. This is a good use case for immigrants who have bills in their home countries of origin or to pay bills on behalf of their family or friends. They can pay from the U.S. without relying on in-country family members or friends to pay on their behalf or to use cross-border remitted funds for the payment of these bills. For the immigrants in U.S., XBBP is an easy option to support their families overseas by paying for their utility bills to ensure power continuity, internet/cable connection in their homes, access to water, etc. Companies like Xoom offer consumers the ability to pay bills cross-border to seven countries in LATAM (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua). Telmex, a major Mexican telecommunication company, uses Telmex USA to enable consumers in the United States to pay for Mexico's Telmex bills.[11]

Cross-Border bill payment can become an industry disruptor to international remittance. While money sent home is used primarily for day-to-day living expenses, a lot of it is used to pay regular bills such as utilities, school fees, insurance, and rent. One emerging fintech innovation is where migrant workers can now directly pay cross-border bills from their host country, for themselves or on behalf of family members, bypassing the multi-step traditional path of 'remit cash to family, pay bill locally.' This method can significantly lower fees for the consumers, is traceable, and gives peace of mind and ensures timely payment of essential family expenses.

There are B2B fintechs pursuing this opportunity, however, partnering with major remittance companies presents a challenge to secure product prioritization and investment. Remittances are the “bread & butter” of remittance companies with ROI that is higher than cross-border bill payment. In general, bill payment transaction amounts (especially for utilities) are low in average value relative to remittances, delivering lower revenue to the remittance companies. There may be limited marketing investment which results in the lack of product awareness.

Other factors may also affect adoption. While cross-border bill payment is easy and convenient (especially for the senders), the recipients may not welcome the idea of their bills being paid. There may be sensitivity between senders and recipients of a family or relationship unit that the recipients only want to receive money and have the control to spend the money or pay bills at their discretion. Fintech providers must operate within the U.S. regulatory framework including state money transfers licenses. In addition, a significant amount of marketing investment is required to generate new product awareness and to change consumer behavior.

## How are/can faster payments improved upon the pain points?

The Financial Inclusion Work Group noted the how the following faster payments use cases can support financial inclusion:

- Bill Payment - A faster payment could streamline the process of sending money for utility bills, subscriptions, insurance premiums, credit cards, loans, and other recurring expenses. Faster payments may be particularly impactful for just-in-time payments, to help avoid late payment fees or other penalties. They may also help senders to avoid overdrafts. The nature of faster payments also allows recipients to receive and redeploy funds even if those funds are received at the last moment, offering them greater ability to meet their needs.

- Person-to-Person -The underserved may be likely to participate in family financial networks, providing support to others and/or receiving financial support from friends and family. Up to one in five U.S. adults receive financial support from family or friends.[12] Leveraging faster payments for this type of person-to-person payment provides a cash-like experience with opportunities to improve security over handling cash.

The continued investment into faster payment products and services leveraging the latest technologies is helping address several of the pain points that were not previously possible before. These advancements can help reduce costs, fraud, and mistakes. They also increase speed, ease of use and access, effectively enabling increased interoperability and improving end-to-end user experiences. The combination of all of these factors is leading to increased trust and the adoption of faster payments by the underserved and unbanked through the introduction of new and improved payment products and services.

# Conclusion

Today, about three quarters of people worldwide have an account at a financial institution or through a mobile money provider. That surge in uptake represents a 50 percent increase in the past ten years.[13] This change means financial services like remittances, interest bearing checking and savings accounts, and fairly priced credit and loans are newly relevant in the daily lives of hundreds of millions more people. Faster cross-border remittances and cross-border bill pay offer opportunities for these consumers.

One of the key ways to address financial inclusion is to make it easier to access financial services and use of the latest available faster payments for cross-border remittance and cross-border bill payments. The pain points these address- include:

- Delayed, slow payments can cause huge issues for the underserved. Access to immediate/faster payments solutions can address the needs of the underserved by being able to send payments faster whether they are using cash or digital methods as well as receiving payments in cash or digital forms that they can immediately use. Instant payments reduce the need for the correspondent pre-funding model for providers, which can cause high costs in current, widely adopted cross-border payment models, especially in developing markets.

- Cross-border bill payments provide a lower cost and specific use of funds versus traditional cross-border remittances where the cash received can be used for unintended purposes.

Over the past decade, technological advances have improved this. There is still a long way to go.

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### About the Financial Inclusion Work Group

The U.S. Faster Payments Council established the Financial Inclusion Work Group in early 2021 with the mission to provide a blueprint for leveraging faster payments to accelerate access to the financial system for unbanked and underserved Americans.

### About the Cross-Border Payments Work Group

The FPC Cross-Border Payments Work Group covers global industry intiatives, gathering information on various models and use cases for real-time payments across borders with the long-term goal of cross-border interoperability.

### About the U.S. Faster Payments Council

The U.S. Faster Payments Council (FPC) is an industry-led membership organization whose vision is a world-class payment system where Americans can safely and securely pay anyone, anywhere, at any time and with near-immediate funds availability. By design, the FPC encourages a diverse range of perspectives and is open to all stakeholders in the U.S. payment system. Guided by principles of fairness, inclusiveness, flexibility, and transparency, the FPC uses collaborative, problem-solving approaches to resolve the issues that are inhibiting broad faster payments adoption in this country.

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