



REPORT ON WEBINAR EU-INDIA REMITTANCES AND THE IMPACT OF COVID-19



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EU-India Cooperation and Dialogue on Migration and Mobility

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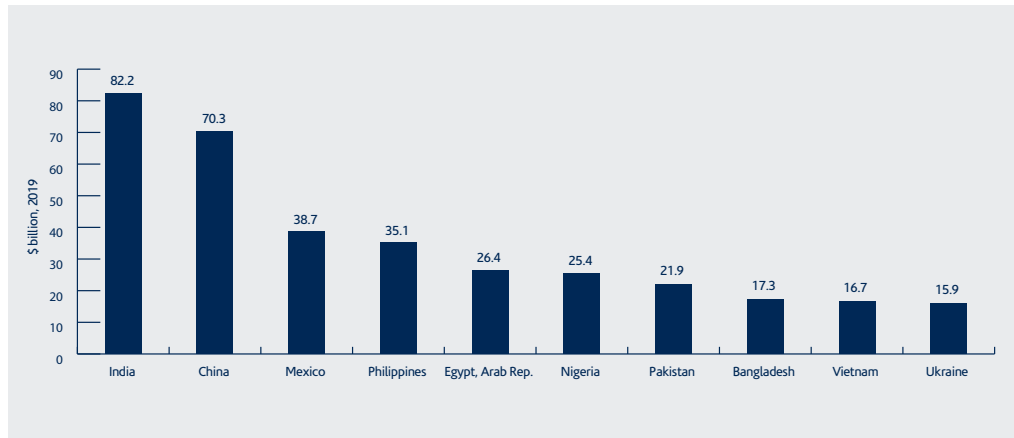
CONTENTS

1. Overall Context	4
2. Background	6
3. Agenda	7
4. Report on Webinar EU-India Remittances and the Impact of COVID-19	8
Opening Remarks	8
Technical Voices	9
Concluding Remarks	11

1. Overall Context

Having peaked in 2019, at USD\$ 706 billion globally, the top five remittance recipient countries were India, China, Mexico, the Philippines, and Egypt (see graph).

Europe, conversely, constitutes almost 10 per cent of the world's population, but is home to 20 per cent of all migrant workers (50 million) and is the source of 25 per cent of global remittance flows (IFAD 2015). Estimates suggest that about one-third of total remittances sent by migrants living in Europe, remains within 19 countries in Europe. Some of the largest remittance-sending countries in Europe – Switzerland, Germany, France, and Italy—were locked down by the COVID-19 pandemic in spring 2020, and service-sector jobs have been hard hit from outset of the health crisis. Even in the best of times, sending and receiving remittances to and from is not without challenge (World Bank): high transfer costs, a lack of bank account ownership or transactional accounts, limited knowledge and unavailability of digital services, and volatility in foreign exchange markets have made remittance transfers unpredictable.



According to early estimates at the onset of the COVID-19 pandemic, remittances to South Asia were expected to decline by up to 22% to \$109 billion in 2020, following the growth of 6.1% in 2019. The expected deceleration in remittances to the South Asian region in 2020 is driven by the global economic slowdown due to the COVID-19 outbreak as well as oil price declines. The economic slowdown is likely to affect remittance outflows from the United States, the United Kingdom, and EU countries to South Asia. However, revised projections (in October 2020) now estimate that the decline would be approximately 3.6% for the region in 2020, and a further 10.9% in 2021.

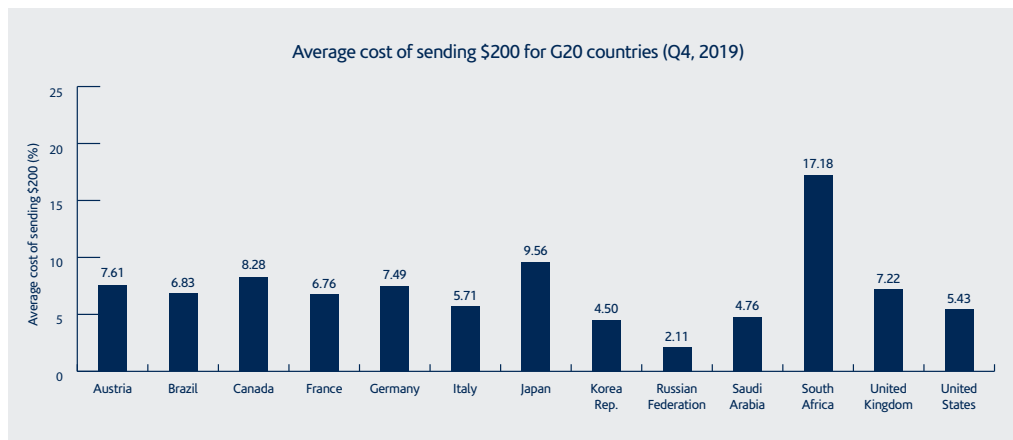
Remittances offer a safety net and a significant risk, as migrant workers from both regions, remain in lock-down and begin to

feel the effects of temporary unemployment, or in the worst case, have taken ill. Some have not been able to return to their countries/states of origin due to travel restrictions. Those who managed to continue working—in health care, for example—struggled to send money amid shutdowns. Families dependent on these incomes will be at risk and governments in Europe and India will be under increased scrutiny to consider actions that reduce the cost of transactions and make it easier to send and receive money. This can immediately improve the lives of migrants and their families. Those who cannot use their traditional cash outlet are often wary of digital means, have difficulty opening bank accounts, and/or require a significant amount of information and trust building exercises to engage in digital transactions.

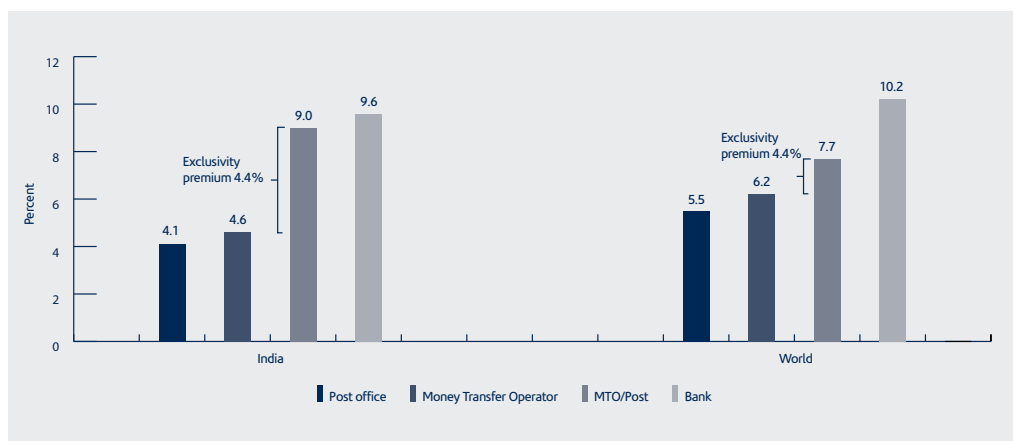
In spite of the adoption of the Payment Services Directive - PSD2 (the European regulation for electronic payment services which increases payment security, boosts innovation and helps banking services adapt new technologies), awareness and access to banking for non-EU nationals remains a challenge within the EU (IFAD, April 2020). Additionally, given the Single Euro Payment Area (SEPA) discrepancies remain between Member States: Indian diaspora sending money from the EU - back to India - face transfer costs ranging from 3%-9% depending on the country in question¹. Globally, the average cost to send remittances (World Bank, March 2020) sits at 6.79%.

1. To send money to India from the EU: Indians in Germany face transfer costs of 8% whilst Indians in Italy pay 3.3%; in the UK the cost of remittances to India is closer to 3.6% whilst in France it is 7.4%. This is based on ICMPD's sample assessment of Remittance Prices listed by the World Bank from EU MS with large diaspora communities to India to send 140 Euros. Data used is available here: <https://remittanceprices.worldbank.org/en>

De-risking by international correspondent banks—that is, the closing of bank accounts of money transfer operators (MTOs) to avoid rather than manage the risk in their efforts to comply with anti-money laundering and countering financing of terrorism (AML/CFT) norms—has affected remittance services and may have prevented further reduction in costs.



Access to bank accounts is essential if digitalisation and innovative e-money solutions in Europe are to be inclusive and part of the solution in times of crisis: domestically and regionally, remitters who use account-based transfers send on average 30% more than those using more informal channels (World Bank, 2019) and is worth exploring within the EU-India corridor. Digital and mobile payment services are on the rise with the financial-technology industry (FinTech) raising USD\$2.74 billion last year.



Reviewing legal and regulatory frameworks to remove any barriers to the use of digital channels for remittances is necessary. Various requirements (identification, signature, forex controls) prevent full digitalization of remittance services. This type of service may be new to migrants and many need reassurance that the service is legitimate and protected against cybercrime. There is, therefore, a strong case for a trusted source of reliable data to be made available to those who need reassurance.

More recently, to combat the COVID-19 pandemic's crippling impact, India's Postal Service has used its vast network to ensure uninterrupted supplies, delivery of pension payments, and using handheld Points of Sale terminals to ensure the receipt of direct transfers. The COVID-19 crisis provides an opportunity to accelerate the transition to digital transfers. India – a major migrant receiving and sending country - has also seen an increase in the volume of outward remittance services with families wanting to ensure that their loved ones located abroad continue to be taken care of and are in a position to sustain themselves during the global lockdown². Examining the available platforms, identifying possible micro-finance and cooperatives as platforms for remittance transfers may further enhance their impact and resiliency (moving away from cash based MTOs).

2. A glance at the monthly outward remittances for studying abroad indicates that March 2018 had remittances worth \$134.1 million, which has increased to \$496.87 million in February 2020, a 270.5 % increase over the past 24 months. Remittances for education abroad as a percentage of total outward remittances have been on the rise also from 12% in March 2018 to 29% in February 2020. Source: RBI Bulletin figures as reported by <https://www.moneycontrol.com/news/trends/expert-columns-2/covid-19-and-costs-you-might-want-to-reconsider-your-childs-education-in-a-foreign-university-5286351.html>

2. Background

The EU-India Cooperation and Dialogue on Migration and Mobility (CDMM) project supports the EU-India High-Level Dialogue on Migration and Mobility (HLDMM) and the implementation of the Common Agenda for Migration and Mobility (CAMM), a policy framework signed by the EU and Indian government in 2016. Co-implemented by the International Centre for Migration Policy Development (ICMPD) and International Labour Organization (ILO) in conjunction with the local partner – India Centre for Migration - the project is to contribute to better governance of migration and mobility between the EU and India, and to prevent and address the challenges related to irregular migration. Achieving the following project outputs will contribute in the realization of the objective of the project:

1. Strengthened dialogue on issues related to migration and mobility between India and the EU
2. Improved knowledge base on migration flows between India and the EU
3. Enhanced institutional capacity on the management of labour migration
4. Increased awareness on best practices and international standards on migration governance

The project is designed on the basis of the four pillars of the CAMM focusing on promoting regular migration, preventing irregular migration, maximizing the development impact of

migration and promoting international protection. Pillar two of the EU-India CAMM calls for actions focused on the “facilitation of cost-effective flow of remittances and their development effect” as well as “making relevant, practical and innovative policy recommendations” with a view towards maximising the developmental impact of migration.

To that end, the virtual consultation - between the European Commission and Government of India - on remittances and the impact of COVID-19 took place on the 18th of June 2020 gathering key decision makers and relevant stakeholders. A total of 35 participants and speakers from the European Commission, World Bank, Reserve Bank of India, EU Member States, Government of India representatives, and industry leaders (Money Transfer Operators or Digital), engaged in a virtual dialogue oriented towards:

1. Taking stock of the impact the COVID-19 pandemic on the EU-India remittances
2. Exchanging and sharing of good practices with a focus towards reducing remittance transaction cost;
3. Channelling remittances and diaspora investment for development – good practices from global and European Union Member State initiatives
4. Taking stock of trends and developments in Private Sector: Money Transfer Operators, Digital Services, and FinTech

3. Agenda

The Webinar took place in the form of a virtual consultation - between the European Commission and Government of India – that attempted to generate new insights and be a source of inspiration for both parties on mutual joint actions.

• 11:30–11:50 INTRODUCTORY REMARKS

- › Ms. Sedef Dearing, Regional Coordinator for South Asia, International Centre for Migration Policy Development (ICMPD)
- › Mr. Pieyush Gupta, Director, Overseas Indian Affairs-1, Ministry of External Affairs, India
- › Mr. Erwan Marteil, Head of Migration Section, DG International Cooperation and Development, European Commission

• 11:50–12:50 – TECHNICAL VOICES

- › Presentation of the EU-India remittance markets transfers and scenario/policy options to reduce the costs (10 mins)
 - Mr. Harish Natarajan – Lead Financial Sector Specialist, Finance, Competitiveness & Innovation, Representative on the Committee on Payment Market Infrastructures (CPMI), World Bank
- › Channeling remittances and diaspora investment for development (10 mins)
 - Mr. Pedro De Vasconcelos, Manager, Financing Facility of Remittances, IFAD
 - Dr. Rupa Chanda, Reserve Bank of India Chair in Economics, Indian Institute of Management - IIM Bangalore
- › Trends and Developments in Money Transfer Operators, Digital Services, and FinTech (10 mins)
 - Mr. Leon Isaacs – Chief Executive Officer, DMA Global
 - Perspectives from select EU Member States (20 mins)
 - Mr. Oliver Kaba, French Development Agency (AFD)
 - Ms. Raffaella Greco Tonegutti, Belgian Development Agency (ENABEL)

• 12:50–13:30 CET/16:20 – 17:00 IST

• 12:50–13:20 REACTIONS & EXCHANGE BETWEEN POLICY MAKERS

- › Representatives of Government of India (10 mins)
 - Mr. Rajeev Jain, Director, Division of International Finance, Department of Economic and Policy Research, Reserve Bank of India
 - Mr. Dharendra Gajbhiye, Director, Division of International Trade, Department of Economic and Policy Research, Reserve Bank of India
- › Representatives of the European Commission (20 mins)
 - Mr. Iacopo Viciani, DG International Cooperation and Development (DEVCO)
 - Mr. Heliodoro Temprano Arroyo, DG Economic and Financial Affairs (ECFIN)

• 13:20–13:30 Q&A FOLLOWED BY CONCLUDING REMARKS

- › Q&A
- › Ms. Surabhi Singh, Chief Administrative Officer, India Centre for Migration (ICM)
- › Mr. Erwan Marteil, Head of Migration Section, DG International Cooperation and Development, European Commission

4. Report on Webinar EU-India Remittances and the Impact of COVID-19

Opening Remarks

The two-hour virtual consultation - moderated by ICMPD - began with a series of opening remarks to help set the stage in highlighting the importance of actions focused on the cost-effective flow of remittances, the significance of transfers within the EU-India corridor during the COVID-19 pandemic, and to take stock of ongoing developments. The following were the key messages shared:

- › **Remittances from EU to India have grown slowly over last 10 years** - India was the leading remittance receiving country in 2018-19: India received USD\$ 83.1 billion (€73.3 billion) globally. At the EU-India level, remittance flows from Member States of EU to India grew at a rate of 3.51 % annually between 2010 and 2018 with an increase from \$1.69 billion (€ 1.49 billion) in 2010 to \$2.32 billion (€ 2.05 billion) in 2018. France, Germany, Italy and Spain account for around 66% of all transfers from the EU to India; Belgium, Netherlands, Austria are next largest and account for around 13%
- › **The India-EU High Level Dialogue on Migration and Mobility is a valuable forum for advancing the overall remittances agenda** and through which joint work could aim at developing actions on the remittances receiver country. Given the strong need for a unified and coordinated global approach to address remittance solutions globally and regionally, making advancements on the EU-India remittances agenda, through such virtual forums, would facilitate progress in multilateral forums, such the G20.
- › **No single country or organization is capable of solving all the challenges presented by the COVID-19 pandemic and the flow of remittances.** Collectively, stakeholders need to tackle challenges related to the financial sector, security regulation, money laundering, financial literacy,

mobile regulations, market competition and technological innovation.

- › **Initiatives related to raising awareness and financial inclusion**, improving transparency on the cost of digital remittances (Revised Cross-Border Payment Regulation), maximizing the development of migrant contributions were brought forward as examples both the EU and India could build momentum on.
- › Recognizing the role of migrant workers and their families as agents of change and key partners in a country's effort towards achieving the Sustainable Development Goals (SDGs) by 2030. Moreover, **remittances are a critical lifeline offering a vital source for primary income to families, in times of crisis, with 75% of flows used to satisfy immediate needs.** Further, instead of triggering an increase in remittance payments, which is typical during times of crisis, the uncertainty surrounding the pandemic has caused migrant payments to households in developing countries to slow dramatically. The unique context surrounding each sides' COVID-19 pandemic response and the unintended impact of abatement measures undertaken: confinement, self-isolation, and economic uncertainty, will result in a precipitous drop in global remittance flows of roughly 20% this year in Europe and Asia.

Technical Voices

Following the opening remarks, technical inputs from experts focused on the four thematic components foreseen in the agenda.

The Impact of COVID-19 on the EU-India Remittance Market

Experts noted a heavy toll on the flow of remittances globally, **expecting a precipitous drop of roughly 20% this year**³. More specifically between the EU and India, operational disruptions (i.e. with lockdowns in place throughout the EU, visiting banks, Money-Transfer-Operators, or post offices have been an impossibility), foreign exchange volatility (thereby increasing the total cost of remittance transactions), and a reduction in income (i.e. temporary and long-term unemployment) were highlighted as immediate and short term impacts. In the longer term, **a sustained drop in economic activity will result in a continued and deeper reduction in income, thereby leading to further drops in remittances**. The impact will magnify given the inevitable likelihood of migrant workers who have lost their jobs returning home to India.

In response, policy alternatives were presented: (1) actively promoting and enabling the adoption of innovative digital means (encouraging the uses of digital channels through FinTech) (2) categorizing remittance services as “essential servic-

es” so that migrants may continue to send and receive funds (3) supporting Remittance Service Providers (RSPs) in managing the financial risks (concessional lines of credit, temporary tax breaks or waivers on operating expenses and fees) (4) promoting financial inclusion, and (5) developing digital responses to overcome the issue of ‘know-your-customer’ (in order to open a digital account such as a mobile wallet, regulations in many countries require physical IDs and customer signatures – in times of social distancing these present a health risk).

A number of countries have taken measures during COVID-19 pandemic, and coordination is vital if we wish to put in place a common response to COVID-19 and ensure the continued positive economic impact, of remittances (e.g. re-launching the international agenda on remittances). Proposals with concrete action plans have been submitted to the G20 and bilateral cooperation between the EU and India would be welcome on their revision.

Reducing Transfer Costs

Indian diaspora sending money from the EU - back to India - face high and varying transfer costs depending on the instrument in use (i.e. cash, bank transfer, debit/credit card, mobile money) with transfer fees constituting the largest component for the EU-India corridor. **Disparities between EU Member States were also noted, with average total costs ranging from 3%-8%, France being the costliest and Italy the lowest**. Additionally, it is noteworthy that a majority of remittance transactions to India occur through cash and bank account transfers, which typically carry a higher transaction cost within the EU (e.g. transfer costs in Germany for cash are at 12.2% vs. 3.8% for debit or credit card transactions).

In an effort to reduce transfer fees, **mobile money alternatives need to be further explored** (and encouraged) with the

EU given that, their use by transferors has been limited to date (dearth of Indian transfer operators within the EU). Moreover, building on efforts such as the EU Revised Cross-Border Payment Regulation, was noted as a policy option to continue to improve transparency on prices and features of different remittance services (of note are the hidden costs related to foreign exchange conversion). The development of price and remittance service comparison tools was also recommended.

Furthermore, **suggestions to improve financial inclusion of Indian migrants, extend the Single European Payment Area (SEPA) vision and experience to EU-India payments (to reduce the discrepancies observed for Indians transferring from the EU), and leverage the FinTech policy framework**

3. Published estimated by the World Bank detail that remittance flows to low and middle-income countries are forecasted to drop by 19.7% to \$445 billion, which will cut to the heart of the economies of developing nations and the households that depend on the transfers.

(and ecosystem) in EU and India were put forward as possible mechanisms to bring down costs.

The remittance market in India is serviced by commercial banks, nonbank Money Transfer Operators (MTOs), foreign exchange bureaus, cooperative banks, and post offices, as well as a wide variety of commercial entities acting as agents (and

subagents). Industry estimates vary, but banks dominate the remittance service market with a 55–60 percent share, money transfer operators account for about 35 percent market share, and Internet RSPs account for the balance. India has also taken several measures to liberalize the remittance scheme to drive competition and thereby reduce costs.

Channeling remittances for development

Remittances - and successfully leveraging them - is the key to enhancing the developmental impact of migration for countries of origin. If not, the migration cycle continues and non-productive expenditures persist. For this to occur, practical recommendations are needed that promote the use of remittances for savings and investment. Since 2006, IFAD's multi-donor Financing Facility for Remittances (FFR) aims to maximize the impact of remittances on development, and to promote migrants' engagement in their countries of origin. Through a US\$ 60 million multi-donor financing of more than 55 innovative projects/9 national strategy plans/9 investment loans in over 50 countries (with 230 partners), the FFR is increasing the impact of remittances on development by: promoting money transfer market interventions and financial inclusion (i.e. developing innovative models and partnerships); improving financial literacy and distribution channels; increasing saving investment options to diaspora abroad and

returning migrants (i.e. funds and bonds); and promoting entrepreneurship by linking financial and non-financial services and remittances.

On the latter, EU Member States' experiences illustrate that **for entrepreneurship programs to be successful, access to information - that mitigates investment risk and builds confidence and trust in the country of origin whilst offering tailor-made economic, financial and administrative support, is a lesson that the EU-India authorities engaged on development may wish to explore further.**

One proposal worth further exploration would be the potential for remittance agreements between EU Member States and India (similar to the SSA agreements signed). Consultative process can help finding solutions and examples such as the Sri Lanka-Italy agreement was put forward as a baseline.

Trends and Developments in MTOs, Digital Services, and FinTech

The COVID-19 crisis has focused more attention on remittances in general and on digital services in particular. **The EU-India remittance market has shown some positive signs of growth but efforts to encourage more India based financial services to establish themselves in the EU remains necessary.** There are a mix of operators – traditional, digital/FinTech and a few specialist players. The market would benefit from enhanced competition, financially inclusive products, and some regulatory tweaks.

Remittance services based on cash transactions remain the primary form of transfer between the EU and India: an esti-

mated 85-90% of transactions were in cash prior to the COVID-19 crisis. Nonetheless, digital services are emerging and offering customers an array of choice and lowering the cost of remittance transfers: European digital money-transfer service Azimo⁴ (and others such as Remitly⁵ and MoneyGram⁶) report more than a 100% increase in monthly enrollments, whilst cash based services are seeing losses of volume (between 20-80%).

There are also challenges to overcome for service providers, in the EU, if we are to achieve the improvements needed: for example, **exclusivity contracts are still in place in many mar-**

4. www.azimo.com

5. www.remitly.com

6. www.moneygram.com/mgo

kets⁷; local interpretations and requirements - around AML and CFT - can increase costs and make it complicated to operate⁸.

EU Member State practices – such as **online comparator tools** (e.g. <http://www.envoirdargent.fr/>) and supporting existing operators to scale up and improve their services would help reduce transfer costs and may be further explored across the EU. Additionally, there is scope to encourage operators to develop

financially linked products (especially for the receivers), e.g. insurance, savings. These products could then subsidise remittance costs.

In spite of the COVID-19 pandemic, **conditions remain strong to leverage the opportunity to improve the market, make payments more efficient, provide more choice, offer more services and harness the power of remittances to their full potential.**

Concluding Remarks

The exchange highlighted several key observations on the EU-India remittance corridor: a lack of competition in market that has contributed to higher remittance transfer costs, the importance of collecting more data, need for transparency, need of financial inclusion of migrants, providing more access to migrants to ways to send money back home, and wave of digitalisation in light of the COVID-19 pandemic. Facilitating the transfer of remittances within the EU-India corridor is crucial, especially in times of a global pandemic; and this situation could be used as an opportunity to further enhance cooperation among countries and the EU-India Dialogue. Discussion needs to continue among all actors and the above points will be brought forward in upcoming meetings planned until the end of the project.

7. Powerful money transfers companies impose exclusivity agreements. Exclusivity agreements limit access to existing distribution network or payment systems. Therefore, a more competitive market condition, including access to domestic payments infrastructures, should be fostered in the remittance industry.

8. Often anti-money laundering and combating the financing of terrorism (AML/CFT) regulations are said to be a major barrier to the market entry of cross-border remittance services providers and promoting remittance flows through formal channels.