Toward financial independence:
Financial literacy for remittance senders and recipients©

A project of the Remittances and Development Program of the Inter-American Dialogue[1]

Introduction

This briefing reports the experience of providing financial education to migrants and the effects on their behavior. We find that migrants are receptive to financial education, particularly through a methodology that meets their needs in a format that is personal, and that they demonstrate a willingness to modify their behavior. Moreover, there are opportunities to expand and strengthen the impact of financial literacy to this segment through cooperation among relevant actors.

Low levels of financial literacy are found throughout all socio-economic groups worldwide, reflected in many people's struggle to strike the right balance between income and expenditure, a necessary first step to build assets and attain financial independence. The results are limited decision making capabilities, such as the preference to use savings to purchase a property rather than seek financing while continuing to capitalize on one's savings,[2] a common practice to keep savings at home rather than depositing it in a financial institution, or to borrow above existing payable means. Financial education is a way to form and inform people about concepts whose use has been limited, and has proven to be an efficient tool to systematically and effectively help people build assets in a society.[3] Financial education programs generally promoted by industrialized countries have led to good results in improving financial access and helping people realize their economic independence,[4] but few have focused on the education of migrants and remittance recipients to expand their knowledge of financial instruments.

Objectives

The main objective of the Inter-American Dialogue's (IAD) financial literacy project is to use financial literacy as a tool to enable financial access among remittance senders and recipients. With regard to migrants, remittance senders have savings but financial institutions are not fully capturing these funds.[5] Moreover, migrants may have an interest in investing, but their demand for financing is limited, partly due to the lack of experience in the management of their finances. The importance of formalizing a demand for financial instruments, such as savings and credits, increases with education. Moreover, people who receive appropriate tools that introduce principles and concepts on budgeting and savings, and who are also advised on how to formalize their savings at trusted financial institutions, improve

[1] For more information, contact Manuel Orozco, Director of the Remittances and Development Program: morozco@thedialogue.org. This brief was prepared by Nancy Castillo, Landen Romei and Manuel Orozco of the Inter-American Dialogue on June 14, 2010.

[2] Orozco, Manuel. "Asegurando futuros: el interés de inversión y estrategias de comercialización para los salvadoreños en el exterior" May 7, 2009.

[3] OECD (2005), Improving Financial Literacy: Analysis of Issues and Policies; OECD (2008), Financial Education and Awareness on Insurance and Private Pensions

[4] See the experience in Ireland, the United State or Canada, among others, and the experience reported by IADI, International Association of Deposit Insurers.

[5] Orozco, Manuel. Survey of Latino migrant remitters, 2007, 2009. Washington, DC: IAD.

their condition. This is especially important for remittance-sending communities in order to enable their access to the financial system through helping them select remittance sending and receiving methods that provide the most value, improve their usability and openness of financial products, and prompt them to seize opportunities to leverage their income for asset-building. The economic crisis that currently affects the global economy has affected migrants and their ability to remit and save. Giving this group the tools to manage their money, motivating them to protect their savings to extend their durability and identifying the ways to deal with their debt are critical strategies of business and development.

Three specific objectives of this financial literacy project include:

1. Better inform remitters about basic financial issues,
2. Increase financial inclusion and expand access to financial services for remittance senders,
3. Disseminate a financial literacy toolkit and accompanying pamphlets.

Strategy and Experience

The project strategy consisted in using an educational method in partnership with migrant or financial services institutions that migrants frequently visit and test migrants' interest and willingness to learn and acquire knowledge on personal finances. With the support of the Annie E. Casey Foundation, IAD developed a financial education methodology and materials: a financial literacy toolkit and pamphlet for end-users. The IAD tested the educational method and materials with migrant remitters in diverse institutions across the United States to evaluate their transferability. These institutions were selected based on their strong engagement with the Latino immigrant community and interest in incorporating financial literacy into their existing activities.

Between July and September 2009, over 100 migrants participated in financial literacy training sessions provided by the IAD. The venue of the trainings included three non-profit community centers (CARECEN, El Rescate, and NICE) one remittance service provider (Alante Financial) and one church (St. Stephen's Episcopal Church). These institutions are located in Los Angeles, New York City, Washington D.C., and Hyattsville, Maryland.

Through these partnerships, IAD utilized two methodologies to teach the material: one-on-one and classroom. During the testing period, the IAD conducted six classroom sessions of 10-15 people for 1.5 hours each, and 21 one-on-one sessions. While both methods are valid and each method has its advantages and disadvantages, person-to-person interactions using an intercept method at collaborating financial institutions and migrant services organizations has seen the most success.

The IAD has also implemented this methodology with the accompanying materials with over 40,000 remittance recipients abroad through partnerships with financial institutions in the Dominican Republic, Guatemala, Paraguay, the Republic of Georgia, and Azerbaijan. The IAD adjusts the content of the materials to match the needs and reality of remittance recipients in these countries and trains staff members at these institutions to work as financial educators with remittances clients.

When working with financial institutions rather than community organizations, RSPs, or churches, IAD adjusts the methodology of the one-on-one session to cover three important sections: financial literacy, presentation of available and relevant financial products and services, and providing a point of contact at the financial institution. This adjustment allows the financial education to achieve one more objective: to measure the effectiveness of cross-selling financial products to remittance clients, thereby increasing their inclusion in the formal financial system. Using this method, the provision of financial education has been successful at cross-selling to at least 20% of those who receive financial education, thereby converting solely remittance clients into clients of the financial institution who acquire additional products (most notable, savings accounts).

In addition, the methodology includes tools to create profiles of people who receive education, which can be utilized to measure the effectiveness of financial literacy through various metrics, improve marketing strategies and build long-lasting relationships with financial education beneficiaries.

Lessons Learned

The lessons learned from this project show that institutions that provide support to capable financial educators, and have environments conducive to at least semi-private conversations where migrants visit frequently have most success in providing financial educations services. Institutional support for financial education initiatives and the ability to offer this service and related services is also essential. The project has also confirmed that migrants' access to the financial system is still weak and financial advice and assistance is necessary to help them mitigate their vulnerable circumstances. Both migrants and remittance recipients have shown receptivity to IADs method and materials, particularly through one-on-one sessions, and have shown improvements in their knowledge, attitudes and behaviors related to financial activities. These lessons are discussed in more detail below.

Institutional considerations

Differences among partner organizations leant themselves to different levels of success in IAD's financial education projects. The following set of factors influenced the experience of financial education:

1. Financial educator qualification
2. Working environment
3. Support system for the project and educators
4. Clientele
5. Product diversity & appropriateness

Key qualifications that determine a successful financial educator are his/her experience with remitters/beneficiaries of remittances, knowledge of the financial system, ability to approach clients, and discipline in the workplace. A balance of formality of the educator is essential to allowing a migrant to both divulge personal information and retain respect for the subject matter and the educator. Working environments are most conducive when they are void of distractions and semi-private to encourage sharing of personal information, with a balance of continuous but not overwhelming flow of constituents. The staff at the partner organization should encourage and reinforce project objectives and standards with financial educators, as well as stay well-informed about the educators' progress and provide them with support. The level of staff involvement in the coordination of classroom sessions and the invitations of participants affect the degree of participation. Moreover, in order to ensure continuity and reach, it is essential that project staff continually motivate and stay involved in the work of individual educators to ensure quality as well as quantity of financial education sessions. While it is difficult to control for the flow and type of clientele, educators should aim for remittance clients and be sure to adjust the conversation to the clients' needs and prior knowledge. Financial education should also be relevant to the institution in order to be seen as a value added service, and when working with financial institutions, it is important to determine the product diversity and appropriateness in order to verify that clients will be inclined to purchase them through cross-sales.

Profile of remittance senders in the United States and recipients abroad

Remittance senders and recipients share common financial characteristics: high level of informal savings and low access to the formal financial system. Particularly, while more migrants have opened checking accounts and are saving, these savings are held informally and in lower amounts as migrants dipped into their savings during the recession. Therefore, this population's access to the financial system is still weak and financial advice and assistance is necessary to help them mitigate their vulnerable circumstances.

The 100 participants in the pilot IAD conducted in 2009 in the United States shared similar demographic characteristics and showed important financial behavior trends compared to migrants interviewed in a 2010 survey by the IAD. Participants in the pilot were in their mid-forties on average and 70 percent of the participants were men. Only 9 percent were American citizens. Nearly 90 percent send remittances, the majority of which have been doing so for less than five years.

On average, participants earn $17,155 annually and send $312 per transfer to their home countries on an average of 12 times per year. While remittances represent 25 percent of their income, two-thirds save or invest. However, despite high levels of savings, remitters had a low use of formal financial institutions to save: only 45 percent have a savings account and 60 percent have a checking account. In the 2010 survey conducted by IAD, while income levels are mostly the same, with nearly 60 percent of remitters making between $10,000 and $25,000 a year, migrants send an average of $200 per transfer 12 times per year, signaling a decrease in the amounts sent through with the same frequency. Additionally, while 85 percent of those surveyed have savings, 70 percent have a bank account. This leaves 15 percent of those interviewed who do not save at all and another 15 percent who save informally. Additionally, while 62 percent have a checking account, only 50 percent have a savings account where their money earns interest.

Migrants tend not to have formal bank accounts because they do not understand the benefits of saving in a financial institution versus saving informally, and they are not fully aware of the opportunities to obtain an account. The figures above show that in relationship to previous years, migrants have been receptive to incentives to open bank accounts, and that over time they have opened accounts. However, the increase is mostly seen in checking accounts rather than savings account, indicating that efforts to mobilize savings are still in need. This is important so that accounts do not just become a place to keep money, but also a place to build assets. Deepening financial access through financial literacy is central and the trend in increased account ownership proves the IADs experience correct: people are prepared to move their savings if motivated and educated.

Another notable trend observed is that savings amounts have dropped. During the economic crisis, migrants dipped into their savings to keep up their remittance transfers and current average savings rates (just under $3,000) are lower than they were in 2009 and much lower than in 2007 as a result, signaling the vulnerability of this population to deal with fluctuations in the economy. Encouraging migrants to save in order to create a larger safety net and still build assets is essential.

Receptivity to the materials and methodology

The pilot testing and subsequent experience of the IAD with the materials and methodology has shown that educators and end-users are receptive to the financial literacy model. Educators are able to take the content of the toolkit and successful transfer that knowledge during a financial education session using the pamphlet for the end-user as a guide. The purpose of the financial literacy toolkit is to inform trainers of the basic information about financial instruments relevant and useful to a migrant. The toolkit contains the five essential instruments that inform balanced and educated decision making about finances: budgeting, saving, credit, insurance, and remittances. The content provided for each instrument gives the trainer the tools necessary to expand on that information in an instructional setting.

Additionally, the accompanying handheld pamphlet for migrants to take home and its use during a financial literacy session allows the educator to put the financial instruments (budget, saving, credit, insurance, and remittances) into the client's context, which the educator learns during the course of the session. The pamphlet contains knowledge base, learning skills, and practical skills for the end-user. The practical exercises on how to calculate a cash flow, set savings goals, and create a reasonable budget in particular provide personal reference points for the client. IAD learned from its partners that the pamphlet is too complicated to be a stand-alone handout and that it must be accompanied by an educator who can walk through the information with a client, preferably though not exclusively in a one-on-one setting. When used as a guide for a financial education, it successfully provides information, advice, and practical application of the concepts.

In order to test the completeness of the content of both the toolkit and pamphlet, the IAD asked participants what additional information they wanted to learn, compared with the existing content. Overall, in one-on-one sessions, 36 percent of participants desired additional information and five out of six classroom sessions presented questions about additional information. However, most of the questions asked go beyond the scope of the toolkit, such as questions about a recommendation on local institutions, which was a frequently asked question. The toolkit is meant to provide the trainer with the basic knowledge to show an end-user how to effectively evaluate the financial products and institutions available him/her, not to recommend particular institutions or products over others. One of the values in IAD's strategy is the concept that once an individual receives training on financial instruments in context and application, the individual is able to take on the responsibility to make the most appropriate choices for him/her.

Measures of success

The one-on-one methodology has been deemed successful based on the level of engagement of participants and their willingness to divulge information in comparison to classroom sessions. Overall we find that participants in one-on-one sessions are more engaged than those in classroom sessions. Engagement is classified by the level of active participation from the clients exemplified by asking/answering questions, active listening skills, and visual and verbal acceptance of the information during a financial literacy session. Based on these parameters, half of all participants in the one-on-one sessions were very engaged, while an additional 25 percent were engaged, but already knew the content. Five percent where slightly engaged but struggled since they did not know how to read or write, citing the importance of the organic conversation. Conversely, participants in the classroom sessions were less engaged than those in one-on-one sessions. Half of the six sessions had slightly engaged but mostly distracted participants and one-third had engaged participants who often made side conversation.

Since the methodology relies on the ability to have an organic conversation about finances in the context of the person receiving education, divulgence of personal information is an important measure of success. Participants proved willing to share personal information, particularly during one-on-one sessions. Eighty-six percent of participants in one-on-one sessions were semi to very open to divulging personal information and all five out of six classroom sessions were very open. In the one-on-one sessions, 41 percent of participants were noted to be very open and an additional 45 percent were semi-open. Five classroom sessions had very open discussions and one was relatively open, while not one class had participants unwilling to divulge information. Additionally, 61 percent of participants wanted follow-up in the future.

Experiences with financial literacy among recipient countries

From the experience in remittance recipient countries, another method of measuring success in addition to those previously mentioned is to evaluate the changes in knowledge, budgeting and savings practices, and relations with formal financial institutions that come as a result of financial education. In recipient countries, more than 90 percent of those educated said they planned to do something as follow-up. The "next steps" they identified varied from knowledge-building steps—such as gathering more information, talking with friends and family about what they learned, or reviewing the pamphlet educators used to explain budgeting and other practices—to concrete financial practices such as using a budget, setting aside savings, or opening a bank account or loan. These activities are a result of their financial education with IAD's materials and methodology.

In recipient countries, knowledge changing activities were the most prevalent. Nearly 70 percent of those educated said they would pass on the information to friends and family, indicating an application of their acquired knowledge. An additional 63 percent said they would investigate their options and 31 percent said they would look over the pamphlet further, with the objective of deepening of the knowledge gained.

New savings and budgeting behaviors were the next most common responses. Nearly 60 percent of those educated will implement the savings methods discussed during their financial education session. Also, 55 percent of those educated will start to budget, including a line for savings as a result of financial education. When savings is incorporated into a budget, it is much easier to move those regular savings into a formal financial institution.

Additionally, a large portion of those educated said they would conduct concrete financial activities with a formal financial institution. Over 42 percent said they would open a bank account of some kind and 11 percent said they would take out a loan. Finally, 15.3 percent immediately acquired new financial products with the partner financial institutions and a large portion increased deposits in existing accounts.

Toward Expansion and Strengthening

Financial education has proven a successful method to advance financial literacy and expand financial access to migrants and remittance recipients. In the United States, there exist opportunities to reach migrants at a larger scale through wider implementation, and to create policy that will encourage and place value upon financial education for this segment in the near future. This requires the dedicated involvement and collaboration of actors from various sectors. The right actors, tools, and components depend on investment into these resources. This can be achieved through partnerships between financial institutions, migrant grassroots organizations, state and federal government, as well as universities. With collaboration, these institutions can ensure greater financial access.

University partnerships

One cost-effective and long term strategy that the IAD has developed to implement its methodology in the United States relies on partnerships with universities across the country. Interested and able students can be recruited, trained, and set out into their communities as volunteers to continue teaching these materials at various types of institutions. These students could teach past and new participants and adjust accordingly.

Large trainings of trainers can ensure that many people are aware of the content, framework, and methodology of the project. College students are ideal for this project because they have the time during the day to spend on training and the propensity to work in unpaid or low stipend internships in order to gain experience. Employing them as volunteers or as interns, one can increase reach without increasing costs, other than the printing of additional pamphlets.

Related financial and policy activities

Low levels of financial inclusion are caused not only by a lack of knowledge or certain attitudes about financial tools, but also by deficiencies in the supply of these instruments and the importance placed on the dissemination of this knowledge at a policy level. Additional methods to deepen the impact of financial education and expand financial access for remittance senders include:

1. Share lessons learned on financial education and access with financial and non-financial institutions
2. Internalize financial education within financial institutions
3. Partnerships with money transfer operators (MTOs)
4. A national campaign for financial inclusion and access
5. Promote transnational financial education
6. Design financial and related products and services that meet the demands of this population as a strategy to retain clients
7. Expand and deepen financial services for migrants through credit unions
8. Promote remittance transfers that include an account component
9. Encourage technology usage for remittances and financial access

As shown in this brief, the IAD has lessons learned about financial education for migrants, but other entities have also successfully found ways to expand financial access for migrants through other models. Across the country, community organizations and financial institutions have developed their own materials and methods, such as Wells Fargo, which has been successful in competing in the remittance market as well as providing financial products to migrants, achieving both simultaneously. It is important to share learned lessons and find characteristics that should be avoided or replicated in order to expand financial literacy and access.

Entities that offer financial education realize the value in internalizing financial education within the institutional structures of the organization or financial institution to make the practice endemic and sustainable and provide a value added service to the client. Specific recommendations include training credit officers and customer service representatives in financial education so as to continue gaining the trust and confidence of the client. Another option is to hire full time financial educators as opposed to part-time short term educators.

Partnering with money transfer operators to provide financial education could create the combined effect of deepening and expanding financial literacy. MTOs and their agent locations have a wide reach in the market and could provide this service as a value added component to the remittance transfer. Any MTO's participation could deepen the extent of financial education by increasing its client base and expanding the content of the education. Many MTOs have a wide range of contacts and could reach a variety of countries at once, contributing to the expansion of financial literacy.

A national campaign for financial inclusion and access would bring the topic to a level national consciousness and promote action. This would improve understanding of the subject and potentially increase the number of financial education projects across the country. The Federal Deposit Insurance Corporation (FDIC) Advisory Committee on Economic Inclusion is currently examining existing financial education efforts and providing a set of recommendations to improve resources and strategies, signaling an important step in consumer protection and financial inclusion. Setting benchmarks to measure financial education's progress and ensure that it is a national priority could come from a partnership among institutions and government.

Transnational financial education that reaches both the recipient and the remitter would further expand financial access. By addressing both sides of the remittance transaction, transnational financial education would promote smart savings, credit, and budgeting practices among the entire family. Also, when the remitter and the recipient coordinate to choose a remittance service that best fits the needs and conveniences in both countries, their satisfaction with the service will increase drastically.

Products and services that are relevant to remittance senders could help institutions retain their loyalty in the future. Creative product design within US financial institutions could target this population and keep them engaged through building long term relationships. Financial institutions can get involved by offering money transfers in order to cross-sale financial products and attract deposits. These transfers can be cash-to-cash or have an account component that people can switch to. This is important in order to provide options to remitters and ensure that they see the value in sending money through a financial institution, since migrants have a higher likelihood of continuing the use transfer services of banks rather than those of agents. The 2010 survey shows that the disposition to change a sending method is high when money is sent through the agent-based model but low among those who use bank transfers: one-half compared to only one in four, respectively, would change their method.

Credit unions can expand and deepen their financial services to migrants by offering remittance transfer services and other financial products beyond and above of what they are currently doing. Credit unions are trusted as local organizations and tend to have a community-based mission that appeals to new arrivals in remittance-sending countries. Encouraging these institutions to offer financial services to this community would allow migrants to send through familiar institutions and would initiate them into understanding credit options, a commonly misunderstood financial service.

Promoting remittances transfers that include an account component would increase accessibility and usage of financial products among remittance recipients and link remittances to financial institutions. It would be a natural shift for migrants to start saving in bank accounts if their remittances flow through accounts.

Encouraging new technologies in the remittance industry like mobile banking can increase financial access to additional sectors. As previously stated, migrants have more access to cell phones than internet, though both industries are growing in that sector. Additionally, recipient countries are increasing access to technology. With expanded reach, these services and products can make banking a mobile service and remittances as easy as clicking a button on a personal cell phone. Moreover, financial literacy efforts can be expanded to operate in this environment. Further research and development in the industry could bring wide-ranging benefits to remitters and recipients here and abroad.