

# Remittances, Microfinance and Technology

C P Abeywickrema,  
Deputy General Manager  
Hatton National Bank, Sri Lanka

*This paper discusses migrant remittances in the Sri Lankan context, specifically in relation to Hatton National Bank's (HNB) microfinance program and the use of technology. First, a brief overview is provided on Sri Lanka's socio-economic status, microfinance history and the HNB and its involvement in microfinance. Currently outreach in microfinance is expanding as a result of migrant remittances, improved technologies and cheaper services. HNB's innovative remittance e-product, Money2Home, is one such product outlined and other future development areas are considered. The Gami Pubuduwa (HNB's Microfinance) scheme specifically addresses the new program being pursued. The scheme's achievements can be attributed to the nature of its operations and an understanding of the customer's requirements.*

## Background

### ***Socio-Economic Overview of Sri Lanka***

Sri Lanka has an estimated population of 19.4 million. The estimated average annual population growth rate is approximately one percent, which is well below most countries in the South Asia region. Sri Lanka has been in the process of liberalizing its economy for a quarter of a century and at present the economy has grown at a rate of five percent over the last decade. This growth is largely due to reasonable macroeconomic management and progress in trade liberalization, privatisation, and financial sector reform.

Sri Lanka is generally recognized as more advanced in terms of human development in comparison to other states with similar levels of economic development. Its literacy levels, access to basic health care and access to education are all above South Asian averages.

However, Sri Lanka's development continues to remain below its potential capacity. Ethnic conflict has exacted a heavy price on the country's overall performance as is evident with persistent poverty in the Northern and Eastern regions, in the tea plantation areas, pockets in dry zone areas and in urban slums. On average twenty five percent of the population lives in conditions of poverty, predominantly in rural areas and often without access to basic utilities.

### ***Microfinance in Sri Lanka - Historical Overview***

The establishment of the Co-operative Rural Banks in 1964 was the most significant contribution of the government to microfinance since independence. New initiatives implemented by the government since 1964 have included the establishment of the Regional Development Banks in 1986, the Jansaviya Trust in 1990 and the Small Farmers and Landless Credit Project in 1991.

This period can also be considered as the start of major NGO involvement in microfinance, which commenced with the establishment of SEEDS in 1986. The next most significant step was the establishment of Samurdhi Authority and its microfinance program in 1997.

Today microfinance in Sri Lanka is, by and large, an unregulated sector. Despite the massive growth of micro finance in Sri Lanka, over the last fifteen years there has been no attempt to regulate the institutions providing this service. The key reason why regulations are required is due to the vast amount of savings that the poor entrust to these organizations.

### ***Hatton National Bank Profile***

Hatton National Bank (HNB) was established in 1888 to cater for the flourishing tea industry in Sri Lanka. Subsequently the Bank amalgamated with National & Grindlays Bank in 1970 and incorporated into HNB.

In the past, through internal growth and acquisition of the Colombo Branches of the Mercantile Bank, Emirates Bank, Bank Indosuez, Habib Bank and A G Zurich, HNB has risen to become the largest private sector commercial bank in Sri Lanka in terms of advances, deposits and total assets.

Currently, the Bank has a network of 142 customer centres, 152 Microfinance units, 152 Student saving units and two representative offices in India and Pakistan. Today the bank has an asset base of Rs 120Bn and commands a significant market share in many core areas of operations. Importantly, the Bank also has the second largest foreign currency remittance deposit base amongst all of the domestic banks.

HNB provides a broad range of financial services including Corporate and Retail Banking, Trade Finance, International Banking, Corporate Finance, Leasing, Project Financing and Micro financing. Other ancillary financial services provided by the Bank include Insurance, Investment Banking, Stock Broking, and sale of Gold and Margin Trading facility in shares.

### ***HNB's Involvement in Microfinance***

A key achievement of HNB is located in the rural areas of Sri Lanka in HNB's Gami Pubuduwa (Village Awakening) microfinance programme. In keeping with its name the programme has provided a new lease of life to over 50,000 rural families. During the process, it has redefined the concept of micro financing and emerged as a model of sustainable development.

Gami Pubuduwa (HNB's Microfinance) was launched in 1989 in the backdrop of an insurgency led by unemployed youth. The bank developed this program to

provide an avenue for the rural population to gain access into the formal economy. It was believed that it could assist with social progress, and a focus on customer care has managed to turn things around.

Gami Pubuduwa (HNB's Microfinance) has emerged as a profitable banking model and the bank is now poised to expand it to new levels of growth. HNB has now been fully integrated the program into its regular commercial banking operations.

HNB has always been driven with a sense of social responsibility. The ascent on taking banking to the poor may result in bigger operational costs and lower returns but HNB knows that to move forward, the country's predominantly rural people must be brought into the formal economy.

## **Project Description**

### ***Expanding Outreach of Microfinance***

For an island so naturally blessed, over two million of its people (ten percent of the population) have either migrated elsewhere or remain as migrant workers. Migrant worker remittance is today the country's highest foreign exchange earner. Nearly sixty percent of migrant worker remittance comes from rural Sri Lankan women who have been working abroad and have assumed as the dominant breadwinner of the family.

As the second largest receiver of foreign remittance, HNB's vision is driven by a passion to bring people from rural areas into the formal economy. The bank has established strong ties with rural communities and its branches continue to serve as centres of growth in under-developed areas.

HNB staffs are trained to reach out to the poor and to extend to them, the very tools of progress that Gami Pubuduwa (HNB's Microfinance) has extended to countless Sri Lankans. HNB's microfinance program is an investment in each individual, beyond traditional money transfers.

### ***Improving Access to Remittances through Technologies***

Technology solutions are the current frontier in remittances. Enabling remittance transfers and payments using technologies such as the internet and mobile phone holds considerable promise for increasing access to improved and less costly services for remittance senders and receivers, including those in remote or under serviced areas.

The linking of services and technologies in new ways has emerged across the globe, enlisting new names and increasing competition in a market originally dominated by a few service providers.

### ***Greater Outreach and Cheaper Services***

A significant structural impediment to the growth of remittance services is the lack of an integrated operational and technical infrastructure. This infrastructure must include fund collection mechanisms, bank accounting system integration, regulatory compliance, foreign exchange currency conversion, distribution, and settlement.

The remittance industry is composed of money transfer companies, financial institutions, and web portals that operate within closed networks where money transfers are confined to their sending and receiving agents or partners

Banks that have invested in the required infrastructure to launch remittance services suffer from weak distribution, mostly as a result of offering only remittance delivery to banks within their existing correspondent network. Smaller banks have few alternatives for delivery products and use traditional money transfer company partners that lack banking integration and distribution systems beyond their partner agents.

### ***Remittances via Internet***

A more recent and rapidly expanding money transfer service uses the internet to offer mostly online-to-offline

transactions. The sender processes a transaction over the internet using either a credit card or bank account number or through an appointed agent, and the recipient collects the payout through traditional mechanisms which include: cash payouts, bank accounts, or debit card accounts. The reach from this type of transfer service will continue to expand but remains limited by accessibility to the internet and by the financial services infrastructure, such as bank branches and ATMs.

To provide effective remittance services the following factors need to be considered:

- Easy access to money agents
- Reliability of the provider
- Speedy service
- Reasonable cost
- Convenient access to payment services (bank branches, ATMs)

### ***Remittance Service Provided by HNB***

HNB has developed an innovative e-product, the **Money2Home** remittance service. The **Money2Home** system transfers funds from any country to any designated account at any branch of HNB in real time. The striking feature of **Money2Home** is that the transfer can be done through the internet. The transfer can take place if one is a member of HNB's internet banking service, or by visiting an appointed money agent where clients can obtain the same service for a nominal competitive rate.

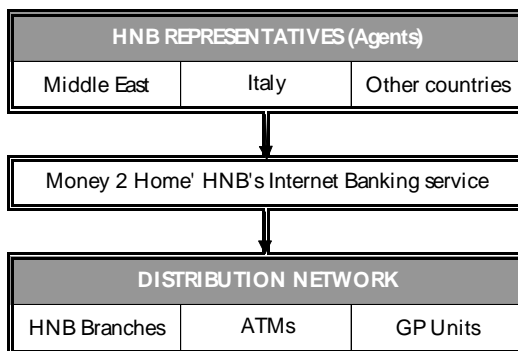
The IT Research & Development Division of HNB developed the Money2Home e-remittance system. This division has been successful in keeping the initial development costs to an extremely low level. This has enabled the Bank to offer a competitive pricing structure, which is one of the major concerns of an average migrant worker.

### ***Basic Features & Operating Procedure***

Features of the service include:

- Maintaining money agent's accounts in different currencies by the bank.

- Maintaining customer accounts for regular clients by the agent.
- A magnetic card will be issued to the customer for easy identification & speedy service.
- Regular beneficiaries are identified and linked to the agents account in the system.
- Money agent will maintain daily currency rates.
- Non-account holders also can carry out transactions where the beneficiary is requested to provide a form of identification.
- System provides beneficiary details, currency conversion rate & commission amount when the customer account number is entered by the money agent. These features are expected to reduce the processing time at the money agent's end.
- Customer receipt and agent daily transaction details can be obtained through the system.
- Money agent could view the status of the transaction at the receiving end (confirmation that money has been received by the beneficiary).



### ***Future Developments***

Future developments for the service are outlined below:

- When the money is received to the account the beneficiary can be informed through mobile SMS
- Customer could transfer funds online using Credit or Debit card through HNB Internet banking.
- Senders could make an online payment using a credit card, and the recipients will be issued with a debit or credit card. This card is reloadable or funds could be received in real time. Recipients can use the card to withdraw cash at an ATM or to purchase items at any card merchant.

### **Results**

Clearly, it is difficult to convert migrant workers with no prior business experience into dynamic entrepreneurs all at once. Thus it is more realistic to introduce other banking products that attract migrant remittances such as deposits and to channel them to existing small and micro-businesses.

Gami Pubuduwa (HNB's Microfinance) scheme plans to develop a new program that will give new orientation to the migrant remittance. The scheme will also encourage participation in self-employment activities by identifying the strengths, weaknesses and resources available and offer banking products as appropriate. This illustrates the far-reaching benefits of Gami Pubuduwa (HNB's Microfinance) and extending it to all segments of the community.

Gami Pubuduwa (HNB's Microfinance) scheme was formulated not only with a view of providing credit facilities but to also provide a comprehensive banking services package. The main elements of the scheme are rural savings mobilization and social development through provision of credit. During its fifteen years of operation, the Gami Pubuduwa (HNB's Microfinance) scheme has assisted over 50,000 projects, amounting to Rs 3Bn, with Rs 1.1Bn presently outstanding and covering over 110, 000 projects.

Our island-wide network consists of 109 dedicated Microfinance units and 116 Microfinance field officers. As the network is the primary means for delivery of banking services to prospective clients, Field Officers play a critical and effective role. By understanding the entrepreneurial capabilities of the clients, Field Officers could design and develop banking services that properly address the client's requirements. These requirements continue to include structuring loans to fit the customer's needs and capabilities and providing financial advice and close monitoring.

Having been ushered into the formal economy the bank then could take on the continuing role of introducing Gami Pubuduwa (HNB's Microfinance) recipients to the broader vistas of small and medium-scale enterprises and then to larger investments based on the customer's progress and ability.

## **Conclusion**

Overall, migrant remittances in Sri Lanka are substantial and will continue to grow in the future. Harnessing the development impact of these flows with an efficient and effective remittance infrastructure is the challenge of today.