

Expanding financial guarantees for labour migrants and their families



International
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Financial guarantees: hope for a better future and binding commitments

The income and remittances from Armenian labour migrants to their families back home remain a significant economic factor in socio-economic development of the country even in times of financial crisis. The volume of remittances has continuously increased over 2010-2011. Families in Armenia use these resources mainly to pay utility bills (the cost of which usually doubles in winter) and cover expenses for education and health services, emergencies and big family events, such as a wedding or a funeral. Occasionally remittances are used to improve living conditions.

Every initiative targeting the improvement of health, education and social services offered to migrants and their families contributes to strengthening the ties between the family and its community and country. The impact of such initiatives is at least dual: first, the influence of unfavourable factors which affect the decision to leave the country because of the low level of social services and living conditions is reduced, and second, mid- and long-term financial commitments make the households, migrants and their families somewhat dependent on the financial system of the country and their homeland.

How interested are Armenian financial institutions in enlarging the range of provided services to their clients and among them migrants in particular? How ready or motivated are they to introduce new instruments, including new methods of assessing clients' creditworthiness, to effectively use comprehensive data on their financial flows and seek for new sources of information, and finally, to cooperate with other financial institutions sharing similar interests?

A full stomach and a cosy sit

Various Armenian banks offer Armenian citizens, including migrants and their families a number of practical services to send and receive remittances. However, they are quite passive when it comes to loans and credits: almost no initiatives can be pointed out in this regard. The reasons are complex and interrelated.

First, Armenian banks are essentially self-reliable; competition in this sector is insufficient. For instance, though banks have only 5-10% share of Armenia's economic activity, they operate in distinct 'niches', providing services to specific groups of clients. In these 'niches' each of the banks is indeed out of competition, whereas in conditions of absence of competition and sufficient level of profitability, the sector tends to stagnate and the development slows down.

Second, participation of leading non-resident financial institutions or the ones with foreign capital often largely contributes to the promotion of competition in the banking system, its modernization and innovation, development and dissemination of new knowledge and culture, diversification and quality assurance of the offered services. There are such institutions in Armenia, but their presence has not yielded any tangible change in the above-mentioned directions. It is worth noting that many Armenian banks lack an appropriate level of autonomy: the policies of the banks with Russian



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capital are developed in Moscow. The Armenian branches are of secondary importance, and headquarters do not pay due attention to their development.

Third, scoring a client's creditworthiness is particularly important in order to make a possibly quick decision on loan provision and to reduce expenses for getting and analysing the client's credit history. It seems that Armenian banks should be interested in using the data of creditworthiness scoring systems. However, Armenian banks only rarely use the scoring results provided by the Armenian Credit Reporting Agency (ACRA), a credit bureau carrying out creditworthiness scoring. For instance, banks tend to refer to ACRA to get a credit history of a potential client only in case when they are already prone to providing a loan. Thus, banks consume mainly 'negative' data, i.e. information about payment failures, whereas 'positive' data, i.e. information about one's creditworthiness remains an unused resource and is not demanded. The history of remittances is also not viewed as a 'positive' story, aimed at pro-active loan policies.

Moreover, banks have considerable information for analysing the creditworthiness of their clients, including migrants and their families, for identifying credit-worthy clients and offering adequate services. However, Armenian banks fail to effectively use even their own data, as they lack initiative and seem unmotivated in 'hunting' for credit-worthy clients. In countries with developed financial markets and banking services banks take an initiative and do everything possible to attract most credit-worthy people as potential clients (e.g. the student of a high ranking university, or one with a regular and high income are regularly being offered certain services, and banks compete in suggesting more attractive conditions). In contrast, in Armenia creditworthiness data, regardless of the source, is almost exclusively used for assessing the risks of crediting and decision making on crediting. In the result, an Armenian citizen daily discarding 5-7 banking service offers in the US, upon their return to Armenia has to run from one bank to another with their loan application and this in the case when they have more income in their own country.

Forth, Armenian banks lack modern knowledge, and the evidence for such a claim is high spreads. Resources allocated for the training of bank employees are minimal – AMD 50 million, whereas there are thousands of them in the banking system.

Another problem is the insufficient level of awareness about banking services among Armenians, in particular among migrants and their families.

Next, banks often complain that according to the assessment of the Central Bank (CB) standards, loans to migrants are considered to be rather risky. In consequence, they look for reasons of the current tactics of risk avoidance in the CB policy to reduce potential risks. Still, in many other cases banks take serious risks, which might mean that the issue is not so much in the public policy of the sector and the current regulation system, but in the insufficient motivation of the banks themselves. Indeed, were there significant motivation present, the banks would be able to transform any regulatory obstacle by a common effort.

Finally, in addition to the passive, consumption-oriented policy Armenian banks seem not to consider labour migrants as an important, distinct and valuable target group in terms of crediting marketing and business interests. They do not regard labour migrants and their families as business partners and shun including migrants in already the small portfolio of available loans. A tangible obstacle hindering the development of such motivation is the issue of validity of the information regarding the migrants' jobs and incomes. This is happening on the background of perhaps justified low trust towards documentation provided by employees in Armenia.

There are many unutilized financial resources in Armenia: according to expert assessments, the segment that is not involved in the banking system is too much, actually more than EUR 1.5 billion, which is equal to the current portfolio of the Armenian banks and the present volume of remittances. The portfolio of Armenian banks is five times more that their assets, whereas in

developed financial markets the difference is 15 times more. At the same time reduction of the profitability of the banks will push the banks towards greater risks, though in the conditions of the growing global financial crisis, Armenian banks may become even more conservative, which probably will negatively influence their motivation in enlarging retail banking.

Differential equation with three variables

In order to shift irregular labour migration into a circular one it is crucial to develop new financial instruments for the development of labour migrants and their families. Considering the above-mentioned issues, in order to develop such guarantees and services, it is necessary to undertake a few steps, taking into account the opportunities and challenges of the transformation of the financial-economic environment. Among the latter one can mention the gradual saturation of the highly profitable corporate clients and increasing attraction of retail banking in the near future. The evidence for such claims is the current tendency of declining profitability of the banks. The dynamic process of the newly launched mobility partnership between the EU and Armenia may allow for shaping new financial guarantees for Armenians involved in circular migration and new business interests and motivation for the banking system.

In terms of systemic changes it is crucial to focus on providing quality and state-of-art knowledge to bank employees through investing more resources in education and training, increasing cost efficiency of these investments and developing a knowledge-based worldview which needs to be constantly modernized. Entry of new banks with foreign capital to the Armenian market may improve the quality of the financial services provided, as well as may promote healthy competition. In addition, the Central Bank should be consistent in encouraging the banks to gradually enlarge their crediting portfolios, to promote policies that do not shun new initiatives in loan provision and to develop and introduce contemporary mechanisms for expanding the volume of crediting services and improving the quality of these services, with a special focus on migrants and their families.

In case of shifting to a more pro-active policy in the banking system, in terms of increasing the creditworthiness of migrants and their families, it is important to make financial information regarding the migrants available to the Armenian banks and solve the issue of reliability of this information. The latter can be addressed specifically through reliable and reputable intermediary institutions. The latter will provide the Armenian banks with intermediary services of validating the information about the creditworthiness of the Armenian citizens working abroad and their families, and providing reliability checks. In addition, addressing their own business interests, these institutions will attempt to promote a pro-active process of loan provision by increasing the demand for services in creditworthiness checks and contributing to the expansion of the crediting portfolios of the financial institutions. For instance, such services can be provided by an agency adjacent to the ACRA credit bureau and operating with similar principles, including the principle of performing creditworthiness checks only upon the request of the beneficiary and their direct permission. Such an agency will be able to contact the employer of the potential customer abroad or the financial institutions providing services to them and will assess the creditworthiness of the migrant and their families based on the data from such inquiries. Creditworthiness checks can be performed more effectively by the intermediary institution itself. A final assessment from such an institution may become a reliable source, which will assist the banks in the assessment of potential risks in loan provision and subsequently, decision making regarding crediting.

In the regions of the country and especially in rural areas microfinance institutions (MFI) are more pro-active in providing loans. However, MFIs do not have a right to provide money transfer services, therefore they do not have the same information about the financial flows and money of the clients, as the banks which provide retail banking services. In the result, the banks have the

necessary information in order to initiate pro-active policies in loan provision, but they fail to use it, whereas the MIs which seem to be more motivated to do so, simply lack the reliable information of which the banks are in possession. Moreover, though profitability of loan initiatives meant for migrants and their families does not seem to satisfy the Armenian banks, it can be attractive for universal MIs. Therefore, in such a situation it is essential to discuss the issue of assessment of migrants' creditworthiness first of all with MIs.

Private employment agencies might take some responsibility for raising awareness about the accessible crediting opportunities among labour migrants and their families.

In summary, though the above-mentioned issues are complex and multifaceted, and the solutions are conditioned not only by the public policy, but also by a number of strategic uncertainties of the overall environment and the system, the further expansion of the financial guarantees for labour migrants and their families requires a proper sequence of actions, a consistent dialogue among the interested stakeholders and eventually, involvement of more stakeholders.

This paper has been developed based on the opinions passed by the participants of a round table organized within the framework of the project " Strengthening Evidence-Based Management of Labour Migration in Armenia". The event took place on December 15, 2011. The roundtable was attended by independent analysts, government officials, and representatives of the international organizations. The project is financed by the European Union.

