

The Migrants Market

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Best practices in retail financial services

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Preface

This report reviews how the specific needs of migrants in Western European countries are addressed by the Retail Banking and financial services institutions.

In light of difficulties that banks have in acquiring new customers, the migrant market could become the next target for European banks, second only to the youth market.

The study will first address the market potential through a demographic analysis along with the volume of outflowing remittances towards countries of origin.

The first findings show that the financial reward from this market is not immediately apparent and requires a significant initial investment. Indeed, these customers require close support during the entire integration period that can often last 10 years.

We will shed light on the Best Practices and innovative models for the acquisition and support of migrant customers upon their arrival in the host country.

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Introduction

Over the last few years, many banks in Europe have developed offers for migrants, with varying degrees of success.

With nearly 32 million individuals in the European Union, migrants represent a considerable potential for banks, reflected in the €86 billion outflowing remittances from Western Europe in 2009.

However, the conquest of this market is not an easy task given the specificity of each situation resulting from the community / host country link. Indeed, some countries such as Germany or Luxemburg, count one or two major communities, while in other countries (Spain, Italy...), four or five significant communities from very different cultures (North Africa, Eastern Europe, sub-Saharan Africa, Latin America, Asia...) might coexist.

The majority of European banks was initially focused on money transfer, and has hence developed wide and competitive offers. Nevertheless, the competition with informal networks and historical operators is not easy, and initiatives in this direction have proved rather disappointing, like "Dinero Express", a BBVA subsidiary that was closed in 2009.

However, other initiatives have been more successful, such as Bankamiz, Deutsche Bank affinity offering for the Turkish community in Germany, which aims to assist migrants with their projects, solely in Germany.

The multiple components related to both migrants' statuses ("resident" and "expatriate") and their evolving needs over the integration path, make this market difficult to comprehend and to address. The predominant feeling is that there is no one-size fits all solution.

Our approach has therefore been to propose clues in order to understand the particularities of these fully-fledged customers and to help answer the question: "Why should we show interest in a relatively low income component of the population?"

Because the market does exist

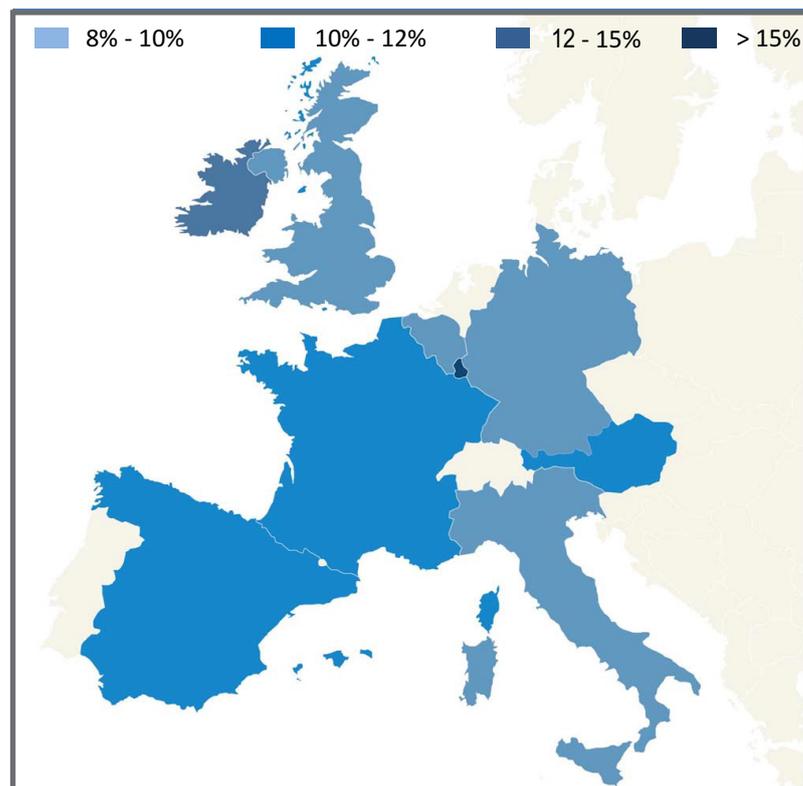
For this study, we define migrants as people born abroad and living in a foreign country, as well as their descendants born in the host country of 2nd, 3rd, and 4th generations which tend to keep a link with their ancestral country. However, the present statistical data reflect only 1st generation migrants, due to the lack of tools allowing to accurately measure other generations.

When looking at the demographics, the migrant market is quite impressive. With 1.4 million newcomers in 2009, Europe is the most attractive part of the planet. In 2009, the European Union counted 31.8 million migrants, representing 6.4% of the population of the Union (Eurostat source), which is equivalent to half of the UK's total population.

Regarding the situation in European host countries, it is interesting to note that the migration landscape is changing fast. Whereas Germany and Austria were the main destinations of East-West migrations in the early 1990s, Italy, Spain, Portugal, Greece, and Ireland, all traditional emigration countries, became major destinations in the beginning of the 21st century. Currently, the majority of the Western European countries are host countries.

It turns out that migrants represent on average 10% of the total labour force for the Western European countries, except Luxemburg where migrants represent 50% of the labor force. Migrant workers thus have a significant weight on the economy of host countries.

EU countries with significant foreign labor force (% of total labor force)



Source: OECD 2009

In 2009, European Union countries hosting the largest population of migrants in their territory included the following:

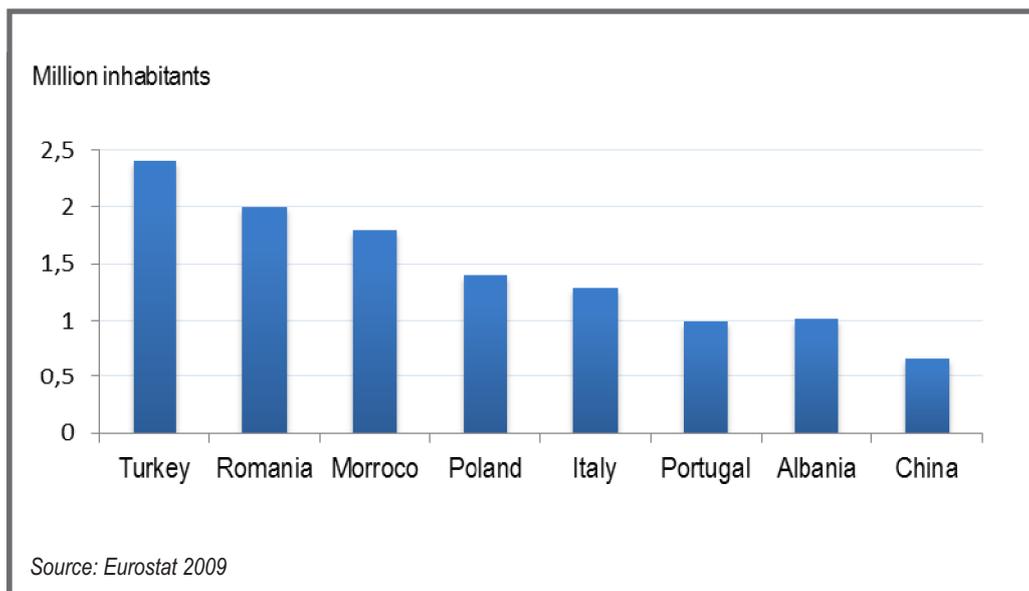
EU country	Migrant Population (Million inhabitants)	Majors communities
Germany	7.2	Turkey , Eastern Europe countries
Spain	5.7	Morocco, South America Countries
United Kingdom	4.2	India, Pakistan, Eastern europe Countries
Italy	3.9	Romania, Albania, Morocco
France	3.7	North Africa, Portugal, Sub-saharian Africa

Source: Eurostat 2009

With 7.2 million migrants, Germany is the major hosting country in the EU, followed by Spain and United Kingdom.

When examining the significant communities within major European host countries, it appears that with 2.4 million people (i.e. 7.5% of the migrants living in the EU), Turks represent the largest migrant community in Europe. This significant population should be pointed out since it is bigger than the combined populations of Munich and Cologne.

Main countries of origin of migrants in European Union (2009)



Migrants already form a considerable market and if we are to believe experts, the migration towards European countries due to economic opportunities will continue to increase over the coming years.

The United Nations forecast an increase in the migrant population in Europe, mainly from Asia and Africa.

To confirm this trend, the 2011 UK ONS projections state that 45% of the 10.2 million projected rise in the UK population over the next 25 years will be due to more people migrating to Great Britain.

Although migrant newcomers are mainly employed as low skill workers, it appears that the gap between the following generations and host population workers' level significantly fades out. In this sense, an analysis of Indian and Turkish communities revealed that their representation within socio-professional categories was about the same as the population of the host country.

It is indeed a delicate operation to accurately estimate the financial potential of Europe migrants, but the flows of money transfers can be used as indicators to get a fair idea. On a global scale, the World Bank estimates that remittances initiated by migrants totaled €297 billion in 2009 (€315 billion in 2010), which is higher than the Official Development Aid received by developing countries. In Europe, the amount of these transfers exceeds €86 billion, which by comparison, is equivalent to the GDP of Hungary (ranked 19th in EU).

Studies show that this population remits a substantial share of their salary under family support. It has been estimated that remittances represent over the long term 15 to 20% of migrant income. These transfers might reach 40% of disposable income, such as for migrants from sub-Saharan Africa.

Aside from the special case of Switzerland with remittances outflows close to €14 billion, Germany and Italy are European countries with the highest amount of remittances.

EU Remittance Outflows	
<i>(million €)</i>	
Germany	11 417
Italy	9 310
Spain	9 067
Luxembourg	7 568
Netherlands	5 837
France	3 745
Belgium	3 067
UK	2 631
Denmark	2 450
Austria	2 394

Source: Worldbank 2009

The distribution of formal and informal outflows among these flows varies considerably from one country to another as well as from one community to another. Indeed, many factors are taken into account: security, speed, exchange rate, distance between origin country and host country, and government's incentives such as tax rebates on transfers for family support...

Given the attractive market of remittances, financial institutions have decided to be well positioned by developing a competitive and broad range of offerings.

It seems that the banks' potential for money transfer market is limited by their inability to release funds in the remotest areas of the planet which are not covered by the banking network. Indeed, it might not be their interest to compete with historical companies such as Western Union and MoneyGram, nor with efficient non-official channels, which already cover these needs.

Moreover, if we are to believe the spread of free transfer offers by French, Spanish and German banking services, it seems the focus is now on the financial potential induced by migrant customers rather than on money transfer itself. Consequently, the money transfer might have turned out a loss-leader to reach migrants, rather than a target as such.

Because most of migrants' needs are already covered by current offerings

Although the money transfer is without doubt one of the specific needs of migrants, it would be simplistic to think that it could be a sufficient loss leader to attract new customers.

Indeed, the majority of funds are transferred for family support, and in many cases the beneficiaries live in rural areas where banking coverage is very low. Hence, migrants continue to rely heavily on informal transfers and historical operators, which are able to channel funds to areas where there are no bank agencies, ATMs, or electronic payment terminal.

Thus, the solutions provided by banks are generally used by migrants for occasional transfers of larger amounts for investment purposes in the country of origin (savings, real estate financing...).

In addition, today many banks offer multiple possibilities to transfer funds at competitive prices, so that money transfer is now rather a "must-have" than a bait. Henceforth, identifying the levers to gain markets requires understanding their "resident" needs (banking needs in the host country) and "expatriate" needs (banking needs in the country of origin) as well as their entire life cycle.

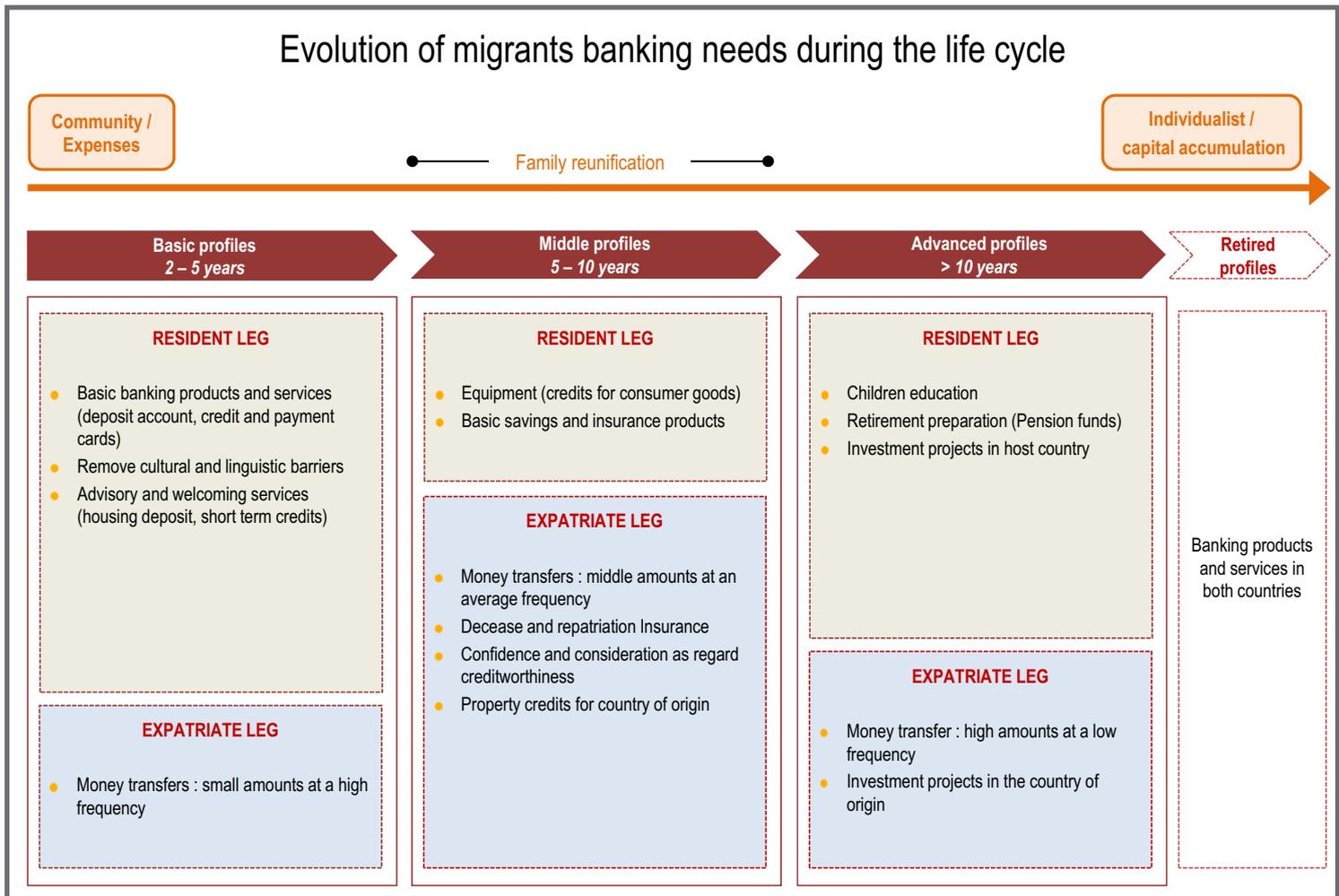
Migrant life cycle and associated needs

While analyzing the migrants' life cycle, four major phases have been identified:

- The first years during which the migrants need to settle, to find an accommodation and a job
- The next period during which the migrants start to equip themselves in the host country and to initiate their projects in the country of origin
- After more than 10 years of residence, the migrants usually launch their long term projects (retirement planning, acquisition of real estate...)
- Retirement, while migrants usually spend more or less time in the country of origin, but rarely completely leave the host country where their children and friends are generally still living.

The level of integration utilization as a key factor enabled us to build a segmentation with three main profiles.

Evolution of migrants banking needs during the life cycle



Basic profiles

Upon migrants' arrival in the host country, opening a bank account is usually part of the integration process. Migrants approach banks in order to start the administrative processes of integration, as well as accommodation and job research. Hence, opening a banking account seems to be a necessary step, and migrants are generally interested in basic accounts, or in the least expensive packages offered by retail banking industries positioned in the mass market. Moreover, migrants are very sensitive to the social role played by some banks that support their arrival.

As an example, BCP Luxemburg Bank is positioning itself as a true "vector of integration", including being partner of an association that helps Portuguese migrants in Luxemburg with their integration, providing guidance to newcomers on their

integration process, and suggesting adapted offerings: simple packages from €4 / month or bank guarantees to facilitate access to accommodation (source: P. Olive BCP Luxemburg, Kurt Salmon interview).

In the early years of residence, the migrants maintain strong links with their country of origin and remit a significant portion of their income for family support. To that end, they mainly favor "cash to cash" transfers through informal networks or specialized companies.

In return, the migrants usually limit to bare minimum their consumption within the host country, and are therefore little inclined to expand their banking services requirements during this phase.

Hence, the settlement is an ideal timing for building a banking relationship with the migrants, even though they are not the most financially attractive target at this stage. Like the youth market, the 'basic profiles' segment can be considered as unprofitable segment, but with potential. Besides, the investment could be quite limited since this is more about developing a marketing position that demonstrate the willingness to welcome migrants, than developing specific offers.

Middle Profiles

Once settled, migrants generally enter a similar phase to those experienced by young working people. A larger share of their salary is dedicated to principal and consumer goods in the host country. Therefore, they turn towards financial establishments to subscribe for consumer credit and develop their banking services requirements with savings products and basic insurances.

Nevertheless, migrants emphasize difficulties in obtaining credit to finance their projects in host countries. As a matter of fact, they deplore experiencing in many European countries more stringent conditions of access to credit than the rest of the population. In France, 20% of migrants and their descendants feel that they have been unequally treated or discriminated because of their origin (source ONZUS – 2011).

In parallel, it is also within this phase that migrants launch their first investment projects in countries of origin and then develop their banking products. In general, migrants are primarily interested in savings products, to take advantage of attractive rates offered by the home country and to build savings for future real estate projects. As such, remittances are made through international wires.

European and country of origin banks are actively involved to assist them with their investment projects in the country of origin. For example, British banks operating in India (like HSBC, Barclays, RBS...) and Indian banks operating in Great Britain (State Bank of India, ICICI Bank, Bank of India...) are encouraging "Non Resident Indians" (NRI) customers to build their retirement in India rather than in Great Britain, in order to take advantage of high interest rates, and offer attractive rates on loans in India while pledging their local deposits.

Migrants' needs within the "middle-profile" segment are substantially related to both "resident" and "expatriate" dimensions but it is mainly in countries of origin that lies the conquest challenge because they have a real interest to acquire banking services. In addition, the challenge is even more important that it is encompassing remittances through wire transfers.

Advanced Profiles

After more than 10 years of residence, the consumption patterns specificities of migrants fade following their integration success. At this stage, banking needs are more focused towards the future (children's education, retirement plan...) and individualistic projects (real estate acquisition, entrepreneurship projects...).

Thereby, migrants' priority is twofold: to acquire a property in their country of origin to be available when they retire, and to prepare in the host country their own future as well as their children's.

Therefore, the migrants are looking for more sophisticated solutions (life insurance, pension funds, mortgage ...) and are naturally putting the banks in competition.

In Germany where the Turkish community has been present for several generations, Deutsche Bank has developed an affinity offer, "Bankamiz" ("our bank" in Turkish), exclusively designed to their "resident" needs. Thus, Deutsche Bank is positioned as a reference partner to assist its customers in their investments in Germany, but not in Turkey. (Source: M. Cinar Bankamiz, Kurt Salmon interview).

In parallel, there are difficulties for countries of origin banks to meet all customers' banking needs in the host country. "Being an affinity bank is not enough at this point, it requires the same services quality as other banks, otherwise customers leave" (source: P. Olive BCP Luxemburg, Kurt Salmon interview).

At this stage, the migrants often hold banking accounts in both country of origin and host country and are particularly concerned about more tailored offerings and a banking relationship.

Retired profiles

Once retired, the migrants usually spend more time in the country of origin, but rarely definitively return because they prefer staying close to their children and friends. Furthermore, even if they usually build retirement capital within the country of origin, they actually receive their retirement pension in host country.

Thus, migrants continue to have bank accounts in both countries, which demonstrates that they are not temporary clients to hosting countries banks but actually sustainable customers.

Migrants' needs naturally evolve throughout their life cycle, and European bank offerings could generally address them. However, Banks willingness to position on this market has been more materialized by products addressing the particularities related to their expatriate status (money transfer, repatriation insurance...) than helping the migrants with their integration or their daily lives.

Because some initiatives are successful

In a context of increasing market saturation in Europe, and after lots of effort in recent years on the youth segment, the migrants market appears to be a growth driver to European banks. However, with few exceptions, they do not seem to have explored all the potential of this market.

Indeed, many European banks have sought to respond to the "expatriate" needs (money transfer, acquisition of real estate in the origin country...). Maybe they often considered that the "resident" needs were already covered by the standard offer and did not therefore deserve any special effort...? However, first migrants' expectations focus on this field. Because they usually open a bank account for the first time in the host country and also because many of them feel that being a migrant does not facilitate the access to traditional banking offers.

Nevertheless, some development models, identified through banks in host countries and origin countries, have caught our attention, with a common denominator: an affinity approach that reflects a deep understanding of the market.

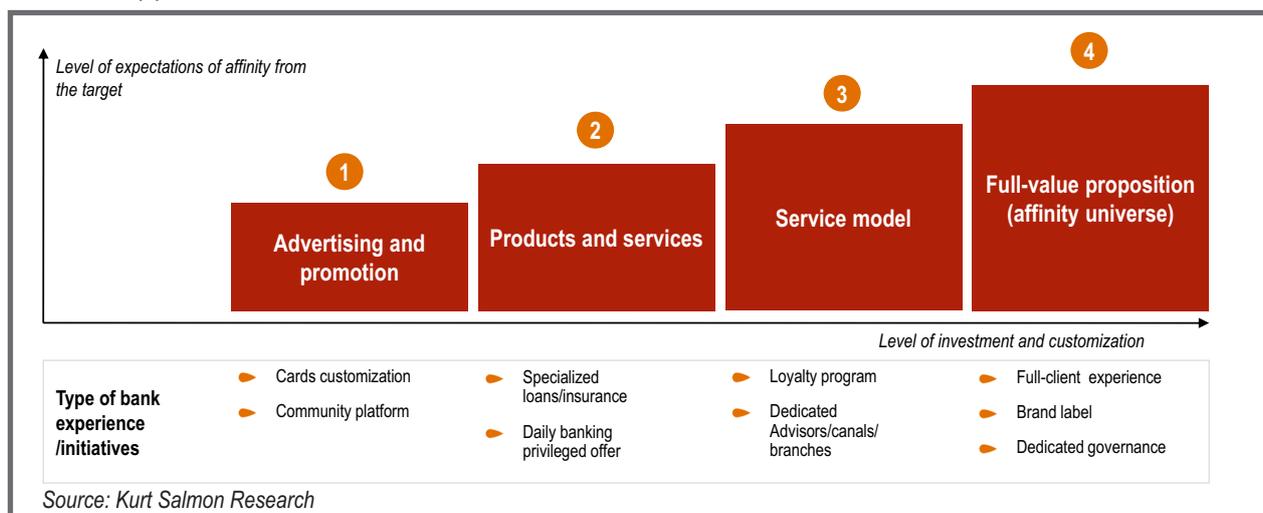
Share insights: What is affinity approach?

Affinity approach aims at addressing a broad range of customer targets with a customized value proposition. It is an in-between solution between mass marketing and one-to-one marketing, and goes beyond pure "community" marketing. It is intended to satisfy a need for recognition.

Thanks to our various affinity experiments on retail banking, we state that the success of this approach relies on four key success factors...

1. Finding the right audience: an affinity group with a common ideology, a shared concern for an issue, or a common activity...
2. Understanding affinity values (moral, social, professional...)
3. Leverage drivers of an affinity approach such as proximity, exclusivity...
4. Using a methodical approach:
 - Identify social groups and set up a well defined description of their behavior, motivations and underlying values
 - Characterize the aim and its economic value
 - Assess the investment requirement and define the appropriate level of resources to maximize ROI
 - Design offers that fit behaviors, values, main interest...
 - Create an appropriate communication environment: use opinion-makers who have a strong influence on their community
 - Choose the right channel to promote and sell the offer
 - Liven up the affinity group and its environment to engage clients and favor loyalty

Therefore, four stages can be targeted depending on customer expectations and approach customization.



Main affinity models identified

The northern Europe countries (Germany, UK, Luxemburg...) and France are hosting two or three major communities which have been thriving for several generations. On the contrary, the southern Europe countries (Spain, Italy, Greece...) are hosting communities of newcomers which are not as well integrated.

Hence, development axes are different depending on the target: one or more communities, or one or more segments.

- A bank that would rather position itself as "Bank of all migrants" will be more focused on newcomers, in order to attract them when they need to acquire banking services. The selected model has been identified on the other side of the planet in Australia: the Westpac Bank. It is the first Australian bank, which emphasizes its 200 years experience in supporting migrants to build a new life in Australia.
- Concerning banks that address a particular community, several of them have attracted our attention
 - On the one hand, banks specifically positioning on the migrants' domestic needs, such as Deutsche Bank and its Bankamiz affinity approach for the Turkish community.
 - On the other hand, banks positioning on the overall "resident" and "expatriate" needs. In this case, banks from countries of origin are usually the most efficient, since they have excellent knowledge of their market, allowing them to offer dedicated solutions in both host country and country of origin. For example, their advisors come from the same targeted community.
- Finally, we should mention the initiatives developed within the Islamic finance frameworks that respond to the Muslim community which seeks to find banking offerings in line with its religious principles.

Our understanding of the positioning of selected models

	Affinity group	Affinity value	Core target levers		
			Basic profiles	Middle profiles	Advanced profiles
Westpac	All new-comers in Australia	Social	"Make this life-changing as smooth as possible"*		
Deutsche Bank Bankamiz	Turkish community in Germany	Cultural			"A bank that speaks your language"*
Attijariwafa bank Europe	Moroccan community in Europe		"Join the bank that suits you the best"*		
BCP Luxemburg	Portuguese community in Luxemburg		"with Portuguese migrants since the early days" **		
Islamic Bank of Britain	Islamic community in the UK	Moral		"Smart banking, it's easy to make the right choice"*	

Source () : corporate websites / (**): interview with P. Olive (BCP Luxemburg)*

Westpac, a welcoming positioning, integration vector to attract newcomers from all over the world

Among actors positioned as "the Bank of migrants", the Australian bank Westpac seems to be a reference on a wide range of aspects, in particular for its accomplished marketing positioning.

With 200 years experience in welcoming migrants, Westpac appears as a welcoming host able to provide a personalized customer relationship. Considering the fact that more than 750,000 immigrants arrive each year, the bank has developed services to "help make this life-changing as smooth as possible".

Westpac offers a website dedicated to migrants (movingtoaustralia.westpac.com.au) with many non-banking services (checklist of actions to be taken before and upon arrival, education advice, transportation, health system...), that provide the migrants with the possibility to open a bank account before arriving ("Start banking before arriving").

On its website, Westpac also offers newcomers the opportunity to find and contact advisors able to speak their language. Thus, it is possible to speak more than 20 languages with Westpac advisors, even before you arrive in Australia! Many of them have among their assignments the responsibility to help migrants upon their arrival and throughout their integration, providing them with tailored solutions. For example they can consider incomes received abroad when granting personal credit in Australia.

Bankamiz, a community approach exclusively focused on domestic needs

Finding out that Turkish community investments were increasing toward Germany and less toward Turkey, Deutsche Bank has developed Bankamiz, exclusive aiming to “resident” needs of the community. Excepted a free money transfer service to Turkey, Bankamiz does not have any offer for Turkish investments support in Turkey.

This initiative is based on an affinity approach developed with customization of existing products (e.g. credit cards with visual affinity), appropriate communication (e.g. dedicated website in two different languages) and remarkable efforts on distribution network. Deutsche Bank has set up a call-center and Bankamiz corners in 50 agencies staffed with people from the Turkish community.

Deutsche Bank estimates that the Bankamiz initiative helped to welcome around 70,000 customers since its launch. The opportunity to replicate the concept to another community is currently being studied (Source: M. Cinar Bankamiz, Kurt Salmon interview).

Global approach of banks operating in host countries and countries of origin

Significant migrant communities have generally been followed in Europe by banks coming from their countries of origin. Interested by the migrants’ assets, those banks have developed subsidiaries in order to address the “expatriate” needs. Thus, these subsidiaries which are generally able to open accounts from Europe (checking account, savings accounts...), try to provide close support for migrants projects in their countries of origin. Moreover, their money transfer offering is usually very large (in terms of variety of delivery modes) and competitive.

As any European bank, these subsidiaries have developed an offer to answer most of the migrants banking needs in host countries. For example, Attijariwafa Bank (Morocco) has launched in Europe a daily banking offer with savings services and credit offers, able to match with migrants main expectations.

The bank has increased its influence year by year and is currently leading more than 60 branches in Europe (doubling in size since 2006) located in principle Moroccan neighborhoods (30 branches in France).

If they are still challengers in the race to become the major banks of migrants in Europe, it seems that banks from countries of origin could benefit from their strengths and assets to come as a leading actor on this market...

Therefore, the BCP Luxembourg case (which addresses the Portuguese communities in France and Luxembourg) is quite symptomatic. After being a Portuguese bank subsidiary (Millennium BCP), BCP Luxembourg turned to be majority owned by BPCE in France. So, it has become a “host country bank” while it used to be an “origin country bank”!

Today, the primary purpose of the BCP bank is focused on migrants’ domestic needs. It offers a complete range of basic banking services. BCP’s affinity fiber is its competitive advantage, evidenced by its distribution network, “When you walk into a BCP branch in Luxembourg, you are in Portugal” (source: P. Olive BCP Luxembourg, Kurt Salmon interview). BCP Luxembourg facilitates migrants to access its range of Millennium BCP products in Portugal. For example, migrants can fund their time deposit accounts in Portugal from Luxembourg.

IBB, religion as axis of affinity marketing

Beyond the community approach targeting migrants from a particular country, Islamic finance conquered new customers through the prism of religion with great success.

The Institute of Islamic Banking, a research center in London, believes that the annual growth rate of this activity is between 10 and 15%. Currently, there are about 200 financial institutions operating in nearly 80 countries. In the 2000s, Islamic finance, initially concentrated in Egypt and the Middle East, spread to Europe.

With over 2.5 million Muslims, Britain is the first European country to have given an agreement in 2004 to an Islamic bank, the Islamic Bank of Britain (IBB). The bank, created by a group of English and Middle East investors (Abu Dhabi, Qatar, Saudi Arabia and Barhein), is the first British bank to offer exclusive banking products and services that conform to Sharia (unlike institutions such as HSBC, which propose a Sharia compliance offer).

With more than 15 million Muslims, the European market is important. Besides, the IBB also hopes to attract non-Muslims like in Malaysia, where Islamic banking products are now widely used by non-Muslims, interested in ethical investments (investments of IBB exclude armaments, casinos, corporate debt...).

Conclusion

The Migrant Banking market is complex, because it cannot be understood as a single segment.

Each community has its own culture, its own relation to money and its own integration goals... Some communities are eager to be assimilated to the host population as fast as can be, while others committed to preserve their identity and traditions since they have been uprooted.

Thus, knowing the targeted communities, their codes and their aspirations is a necessary prerequisite to establish a development strategy.

Nevertheless, establishing a marketing positioning that reflects the desire to be the migrants' bank, seems to be a major first step.

It is obvious that the challenge is less about offerings than marketing, communication and distribution. Indeed, if implementing dedicated banking agencies seems not to be required, having advisors from the communities targeted in branches of their local neighborhoods, is probably the best way for a bank to gain the migrants' trust.

As for the opportunity to cover all or part of their banking needs in both host countries and countries of origin, it is important to be cautious. Migrants are primarily approaching European banks to be supported in their domestic projects. In addition, our analysis of African migrant communities revealed that they were not expecting a "single bank" model. Paying attention to discretion, these migrants often prefer to keep the exclusive overview on their assets... But again, other communities may have a different view...

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About Us

Kurt Salmon ✨

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As trusted advisors, Kurt Salmon partners with clients to design, and then drive, strategies and solutions that make lasting and meaningful impact. We are committed to delivering measurable results for our clients through executional excellence.

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