

Development and the Banking System

Uneasy Partners?

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Executive Summary

Remittances sent home by migrants can alleviate poverty, improve the credit rating of developing countries, and provide financing for small business and development projects. But while remittances are a hot topic in the development community, the banking industry — a critical partner — has yet to capitalize on these opportunities. This paper takes a look inside the “black box” of banking, through interviews with representatives from retail and universal (investment plus commercial) banks, diaspora organizations, international and research organizations, and policymakers.

The banking industry can play three major roles in the field of migration and development: facilitating remittances, providing liquidity for development projects, and supporting immigrants’ financial integration. While the financial system operates the infrastructure through which money is transferred and exchanged, banks have not fully captured the immigrant market. Banks face limited incentives to court immigrants as clients — in part because foreign clients are associated with additional bureaucratic hurdles (such as compliance and money laundering regulations) — and do not provide migrants with a portfolio of tailor-made products. This can push immigrants toward informal operators, deviating remittances from formal channels, and leaving migrants excluded from formal financial systems. This flaw in the banking business model means that banks are missing out on an emerging market, and immigrants — and their families in sending countries — fail to become “bankarized”, or financially integrated into the formal system.

The dearth of communication between the different groups in migration and development may bear some responsibility for this failure. Diaspora organizations’ interviewees highlighted flaws in the outreach efforts of international organizations and policymakers, claiming they had virtually no structured contact with them, or with banks. International organizations and immigration research organizations suggested that it was difficult to build relationships with banks’ senior management. In the other camp, while bankers understand the importance of remittances, they displayed low awareness of the recommendations of international organizations.

Immigrant banking can be “win-win”: shoring up sending countries, contributing to development, bringing the senders and recipients of remittances into the formal banking system, and contributing to banks profitability. But realizing this promise requires better outreach and dissemination on the part of international organizations; investments in research and development within banks; and the creation of platforms for dialogue, perhaps hosted by bankers associations and/or research institutes.

Introduction

The world has moved into an “age of mobility.”¹ The large-scale movement of people and money has permanently altered global society and the international banking system. In the coming decades, international migration will continue to rise: flows of people will increase for economic and non-economic reasons, businesses will seek access to a global labor pool, and multinationals will need to relocate expatriate employees with minimal disruption. These movements create both opportunities and challenges for the international financial system.

The major impact of international migration on financial systems is through remittances, money sent home by migrants. Global flows of remittances through formal channels — banks and money transfer operators — are estimated to have reached \$529 billion in 2012 (the true figure is thought to be larger since migrants often use informal remittance channels).² Since this figure far exceeds development assistance (more than three times the amount), remittances play a significant role in alleviating poverty. Remittances can also improve the credit rating of sending countries and provide finance for small businesses and development projects.

The potential for migration — and especially remittances — to promote development is a hot topic among international organizations, diaspora organizations, and policymakers. But realizing this potential depends on an effective global banking system — the owner and operator of the international platform through which money is transferred and exchanged. Since banks manage migrants’ wealth, they are critical to immigrants’ economic and social outcomes; banks also assess and approve financing for development projects.

This paper examines the relationship between the banking industry and other development stakeholders.³ It presents findings from 19 research interviews with retail and universal (investment plus commercial) banks, policymakers, representatives from diaspora associations, international organizations, and migration research institutes (for a list of interviewees, see Appendix 1).⁴ It examines how these different actors approach the issue of migrant banking, and the different value they place on remittances. It also sets out ways that banks and the development community could cooperate better to make the most out of migration.

The Role of the Banking System in Development

The banking system is an important player in migration and development. From an individual migrant perspective, the international infrastructure of banks means they cater to migrants’ needs in both host and origin countries. Since banks provide advice and support on money

¹ Demetrios G Papademetriou, *The Age of Mobility: How to Get More Out of Migration in the 21st Century* (Washington, DC: Migration Policy Institute, 2007), www.migrationinformation.org/transatlantic2006/age_mobility_032307.pdf.

² Gemechu Ayana Aga et al, “Migration and Development Brief,” (Migration and Development Brief 20, Migration and Remittances Unit, Development Prospects Group, World Bank, April 2013), www.knomad.org/powerpoints/Migration-and-Development-Brief-20-25April2013.pdf.

³ This paper is based on the author’s doctorate thesis, “Bridging the gap between migrants and the banking system: an innovative business model promoting financial integration, financial stability, and profitability.”

⁴ The current research employs semi-structured, elite interviews as its central method. Interviewees were selected on the basis of their migration expertise; for their ability to “lift the lid” on the organization of banks; and in order to achieve a broad spread — both geographically, and of the different stakeholders involved in migration and development. Interviewees were assured confidentiality and anonymity. Since the researcher is Portuguese, the research necessarily reflects this influence. But this does not, it is hoped, distort its application of the findings and recommendations to countries with similar profile and characteristics at both ends of migration corridors.

management, they can be an important player in fostering financial integration and wealth management. From a macroeconomic perspective, banks and (mainly sending) countries must ensure the financial stability of the system through liquidity, shored up through remittances. Remittances have a positive impact on countries' balance of payments, as well as providing liquidity for programs that have economic and social benefit.

In theory at least, the banking system occupies a pivotal position between policymakers and migrants, since it is well-placed to translate policies into field actions. In practice, banks fall short on many of these roles, and many of the policy recommendations from governments and international organizations fall on deaf ears.

A. Remittances

Remittances play a huge role in the economy and development of both the host and origin countries. The flow of money involves enormous sums: \$529 billion are estimated to have moved through formal channels alone in 2012.⁵ Analysts estimate that informal flows of migrant remittances might add at least another 50 percent of the recorded formal flows.⁶ The potential for remittances to improve development outcomes is therefore the subject of intense scrutiny.

Since the amounts are large, remittances also make up a large proportion of flows in the global banking network system.⁷ It might be therefore be thought that banks have incentives to court migrant business, as well as being well placed to cater to their remittances needs through a global network of coordinated systems. But while banks own the international infrastructure platform through which money is transferred and exchanged, they do little to capture the remittances market (e.g., in the European Union – see Box 1). To banks, remittances are just another 'cash transaction' that attracts a flat fee rather than component of a package they could offer to immigrant clients. They make little effort to attract immigrants as customers – perhaps put off by the additional bureaucratic hurdles, such as money laundering regulations, or because they see immigrants as low profit or transient. As a result, many immigrants get pushed towards informal money operators, attracted by fewer obstacles and tailor-made products.

From a development perspective this “misses a trick” as banks could provide a client-centered service that would improve immigrants' economic and social outcomes. From the perspective of banks, failing to capitalize on this emerging market seems shortsighted.

While the World Bank, IMF, UNESCO, G-8, G-20, and others publish literature, including statistics and other recommendations, about migration, interviews conducted with banking

⁵ Gemechu Ayana Aga et al, “Migration and Development Brief,” (Migration and Development Brief 20, Migration and Remittances Unit, Development Prospects Group, World Bank, April 2013), www.knomad.org/powerpoints/Migration-and-Development-Brief-20-25April2013.pdf.

⁶ The World Bank and International Bank for Reconstruction and Development, *Global Economic Prospects: Economic Implications of Remittances and Migration* (Washington, DC: World Bank and International Bank for Reconstruction and Development, 2006), www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2005/11/14/000112742_20051114174928/Rendered/PDF/343200GEP02006.pdf.

⁷ Dilip Ratha et al, “Migration and Development Brief,” (Migration and Development Brief 19, Migration and Remittances Unit, Development Prospects Group, The World Bank, November 2012), <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationDevelopmentBrief19.pdf>

representatives suggested that this literature –and its recommendations– does not filter through to the banking industry and its decision-makers.⁸

Box 1. Inadvertent Consequences of the Eurozone

Banks in the European Union have begun to neglect remittances in the last decade. Prior to the introduction of the Euro, most banks in less developed EU countries were focused on basic retail banking, including capturing savings from migrants. Remittances provided liquidity and foreign exchange, helping countries pay for imports and repay sovereign debt. Since the launch of the Euro, Eurozone countries and banks have had a diminished need to capture foreign currency. Banks have therefore moved into other products and businesses, such as derivatives, hedge funds, structured products, securitization, “bancassurance” (partnerships between banks and insurance companies), and business areas like private banking, insurance, asset management, mortgage, project finance and investment banking.

As a result, the transfer of remittances and foreign exchange market has opened up to new players – many of them unregulated – as well as to operators only concerned with remittances and not with managing migrants’ wealth. This has exposed migrants to risks, as well as diverting cash from formal channels such as the regulated banking system, which might be better place to contribute to development.

B. Liquidity, financial stability, and development

Tensions in sovereign debt markets can destabilize the financial system and, therefore, jeopardize financing for development projects.⁹ Alternative sources of liquidity are therefore critical to sustaining the financial system and promoting development.

If properly leveraged by the governments and the banking system, remittances can bolster sovereign creditworthiness. Because migrants’ remittance flows are highly resilient to economic shocks, they have been used to plug international financing gaps.¹⁰ From 2009, remittances were introduced into the joint World Bank-IMF Debt Sustainability Framework – meaning that countries can maintain a higher debt threshold if they receive a large flow of remittances.¹¹ Remittances are also valuable for countries since their debt collateral can be based on estimated remittances’ flows (e.g., diaspora bonds), seen as a stable source of foreign currency.¹²

Since developing countries often suffer from a lack of liquidity for projects that support economic and social development, injections of money from the diaspora can offer a potential

⁸ For example, a member of the executive committee of a European Bank (responsible for the commercial division that includes the migrant business sector, admitted when asked about remittances: “I should confess that I never searched, but I also should say that it [information] never came to my knowledge” (2012).

⁹ Banco de Portugal, *Financial Stability Report - May 2010*, at www.bportugal.pt/en-US/EstudosEconomicos/Publicacoes/RelatorioEstabilidadeFinanceira/Publications/ref_10_e.pdf.

¹⁰ Sanket Mohapatra et al, “Migration and Development Brief,” (Migration and Development Brief 13, Migration and Remittances Unit, Development Prospects Group, World Bank, November 2010), <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief13.pdf>.

¹¹ Aga et al, “Migration and Development Brief.”

¹² Dilip Ratha et al, “Migration and Development Brief,” (Migration and Development Brief 12, Migration and Remittances Unit, Development Prospects Group, World Bank, April 2010), <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief12.pdf>.

solution. Remittances provide foreign currency to pay for imports of products relevant to development (e.g., machinery and equipment); bring migrants' families into the formal banking system, facilitating self-employment; and provide financing for entrepreneurship and innovation.

C. Financial integration and wealth management

A large body of literature exists on various dimensions of immigrant integration, such as social and religious integration, healthcare, social security, language barriers and access to education. But with the exception of the topic of commission charged on remittances, the literature on financial integration is scant.

Banks have a social responsibility to support migrants' financial inclusion and economic integration. In the literature, this is sometimes described as "bankarization", meaning the inclusion of an immigrant (as well as their families in the origin country) into the financial system through his or her relationship with a bank. Only 25% percent of the population worldwide is estimated to have bank account,¹³ a figure that shows considerable room for improvement. "Bankarization" is important since it reduces the dependence of immigrants on informal networks by bringing them into the controlled environment of the banking system, or formal channel. It would also allow banks to capture the remittances market and allow them to "cross sell" other banking products (i.e. consumer credit, mortgages, and deposits) or business opportunities.

Currently, banks adopt a product-centered rather than client-centered approach¹⁴, meaning there is no product portfolio for migrants and their families. For banks to fulfill their financial integration role, they need to look beyond remittances.

Findings from Interviews

Despite considerable evidence that immigration is a central and enduring feature of globalization, migration and its associated monetary flows receive scant attention in the financial academic research and literature. For example, the macroeconomics literature concentrates on stocks and flows of money but not on the role banks can play in leveraging migrants' remittances for development. On the rare occasion that migrants are the focus of discussion in the banking literature it has more to do with regulatory issues, such as money laundering and Know Your Customer (anti-corruption legislation).

In general, the interviews revealed a surprising lack of communication between the banking sector, international organizations, research organizations, and diaspora associations, pointing to a sizeable gap between the banking industry and migrants' interests. This state of affairs was nicely summed up by an interviewee from a migrants' rights organization, who warned — when asked about the gap between banking and immigrants — "I think you will be disappointed here ... so prepare for disappointment!"¹⁵

¹³ The World Bank, News and Broadcast. *New Database Shows Three Quarters of World's Poor Are "Unbanked"*, at: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,contentMDK:23172927~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>

¹⁴ A member of an executive committee (2012) says "... to effectively deal with that segment ... ensure systems and products effectively to answer their [immigrants] needs."

¹⁵ Interview with the director of a migration research institute (2010).

Another common theme was a lack of dissemination or cross-fertilization of ideas. Most organizations did little to follow up on their policy recommendations; others had little contact beyond their core constituency (see Box 2). For example, a former EU Commissioner responsible for migration affairs criticized the level of communication between stakeholders and the banking system: “The role of the department [directorate of the European Commission] was over as soon as the recommendations had been published. Only issues of high priority [money laundering and terrorism] were discussed with governments and, sometimes, banking authorities.” As another interviewee, put it, “You say correctly [it] does not exist ... bankers talking to researchers and vice-versa”.¹⁶

Box 1. Preaching to the Choir? The Audience of Stakeholders’ Events

In order to confirm the impression given from interviews, the author analyzed the attendees’ lists of four seminars:

- *Growth Opportunities on the Migrants Market*, organized by EFMA, Paris, 10-11 February 2009.
- *Global forum on Remittances - Remittances as a development tool in Africa*, organized by IFAD – International Fund for Agricultural Development, Tunis, 22-23 October 2009.
- *[E+Im]Migrants: ‘A Profitable Business Niche’*, 3rd Annual European Bank-to-Bank Forum, organized by BAFT-Bankers Association for Finance and Trade, Windsor, UK, 14-16 January 2008.
- *International Money Transfer & Migrant Remittances Summit*, organized by ICBI, Rome, 2-3 July 2009.

The one organized by an international institution (IFAD) had over 95% of the attendees from international institutions, NGOs, and governmental organizations. The other three – organized by banking organizations – had over 95% of the attendees from the financial system. It is hard not to draw the conclusion that both the banking system and the international development world find it hard to communicate beyond their core constituency.

Source: Authors own analysis, presented in Ferraz (2010).

Finally, many of the interviewees were guilty of a degree “buck-passing”, in that they suggested that responsibility for dissemination belonged with “other stakeholders”.

Specific findings are presented below.

A. The importance of remittances

All stakeholders, from banks to international organizations, recognized the critical importance of remittances to migrants and economic development. For example, senior banking professionals spoke of the importance of “unilateral transfers” to the economic development

¹⁶ Interview with director of a migrant research institute (2010).

of individual countries.¹⁷ Others highlighted the importance of remittances to the liquidity of both banks and countries.¹⁸ In the words of a board member from a retail bank focused on migrants, “[Remittances] are on our agendas as a factor that is very important for the stability of the financial system and of the economy, in general.”¹⁹

Bankers also displayed sensitivity to the competing financial demands on migrants. Some emphasized the impact that migrants have on economic development through building houses and set-up businesses in their origin countries.²⁰ Others highlighted the potential of remittances to be used for development projects at origin countries.²¹ Interviewees also mentioned the need to retain savings at the host country, especially when immigrants had children and became more settled.²²

The importance of remittances to the economic development and stability of the financial system was also evident to bankers.²³

Comments about foreign currency money flows underlined their importance, especially in traditional countries of emigration, where remittances were thought to have provided over decades a stable liquidity source.²⁴ Some bankers emphasized the paramount importance of stable stocks of deposits by migrants.²⁵

B. Lack of awareness of recommendations of international institutions

International institutions and policymakers publish a number of recommendations to financial institutions to help them work effectively. A former EU commissioner claimed that “the point

¹⁷ According to a CEO of a bank in a former Portuguese colony (2012): “When you think about migration and remittances, everything is linked to an economic point of view”. “From a macroeconomic standpoint, these remittances which economists define as ‘unilateral transfers’ in the balance of payments, are a very important element in some economies” (2012). Interview with CEO of Latina America bank in Japan (2011): “[Remittances] were used to guarantee the issuance of foreign bonds [in a Latin America country]”. “I believe that question [contribution that remittances make to development and financial stability] is extremely relevant.”

¹⁸ The CEO of a Latin America in Japan (2011) stated, “Our immigrants in Japan remit annually around US\$6 billion back to my country,... those flows were very important for us [the bank and the country]”. Interview with CEO and member of the board of directors in a former Portuguese colony (2012): “Amounts of several billions of dollars [the remittances] ... if Ukraine didn’t have access to these funds, their problem would be much deeper”.

¹⁹ Member of the board of a top-five EU retail bank, responsible for migrant business (2012).

²⁰ CEO of a French bank (2012): “[Migrants] Keep responsibilities, towards their families at their origin countries, as well as make investments in their origin country, namely to build houses”.

²¹ Member of the executive committee of a development bank (2012): “The creation of certain incentive plans to projects regarding North African communities [that have immigrated] to Southern Europe, still lack a lot of development to actually become a serious thing”.

²² A CEO of a retail bank in USA (2012): “Suddenly they [the immigrants] were confronted with the second generations that didn’t want to go back; suddenly the money has to stay at [the host] country [to] finance their lives”. A CEO of a French bank (2012) had a similar point to make, “Having his life in a certain country and his own country [leads to the] materialization of the economic relation of a migrant”.

²³ A CEO of a French bank focused on migrants (2012): “It is [remittances] very important [for development and financial stability]”. An executive of a development bank (2012) was in no doubt of the importance of remittances, “I believe that the contribution [to the financial stability] can be very important ... and obviously that helps to solve funding problems contributing to the stability of the financial system”.

²⁴ Interview with a CEO in a former Portuguese colony (2012): “They are very important for banks worldwide, especially in countries like Portugal, which have, historically, important flows of migrants”. A CEO of a retail bank in USA (2012): “When people save money ... it’s a stable liquidity source ... because that it is relevant for the system”. A CEO of a French bank (2012) points out the importance of foreign currency money flows: “It’s absolutely essential. I remind you how important having such a flow of money was for Portugal ... [if] these flows were not there, we would have gone bankrupt very easily.”

²⁵ Interview with CEO in a former Portuguese colony (2012): “Flows are obviously important but not the most important; the most important are the stocks [of deposits of migrants]”. An idea shared by an interview with a CEO of a subsidiary of a Portuguese bank in a former Portuguese colony (2012): “I can tell you is that I know one specific bank that migrants represent about a third of individual clients’ deposits. It’s a huge amount!”

of contact is money laundering ... the sordid part of the story,” and in the words of a remittances expert at The World Bank, “As far as my institution is concerned, we created a standards framework, suggesting to the financial institutions [how] to make the market more efficient.”²⁶

But these recommendations do not appear to be getting through to the banking system.²⁷ Interviewees from the banking sector indicated that access to information published by international institutions was difficult. For example, one interviewee claimed that information published by international institutions was, “Very few ... very difficult to get ... very poor ... normally, their research is either obsolete, totally inaccurate or without interest.”²⁸

Another common theme was the absence of good internal communications and dissemination.²⁹ One branch manager claimed that the policy recommendations of international institutions failed to make it down to the level of branches.³⁰ But equally, CEOs claimed they knew little about these recommendations.³¹ Even banks with a clear strategy for disseminating research appeared to have little awareness of how these recommendations were interpreted. One claimed to have a “very well defined department” responsible for research and communication, but could not recall the last time he had seen it produce information about migration.³² Another CEO of a bank — when asked about responsibility for implementing policy recommendations — replied he did not have “detailed information about those matters.”³³

Interviewees provided a variety of explanations for this disconnect. According to one interview, the gap may have occurred due to “information overload” since international organizations were “not bridging and making a link to the financial system.”³⁴ Another suggested that the problem was that bankers did not see migrants as a priority: “Probably banking does not come up in front ... [also] banks don’t look at migrants as a potential market”.³⁵ Another view was that the international institutions simply did not know how to engage with the financial sector.³⁶ The World Bank’s take on this was rather different: “The reason why recommendations specific to the private sector are not accepted or adopted? I can’t really say ... could be the recommendations [of The World Bank] are uncomfortable for the private sector to adopt.”³⁷

Some international organizations discussed their dilemmas in engaging with the financial sector. For example, one board member of a migration research institute focused on migrants’ rights said: “If I tell you how many hours I’ve wasted in the last 25 or 30 years, trying to

²⁶ Interview with a remittances expert at the World Bank (2011).

²⁷ A former member of the executive committee of a French bank (2012), “*To be frank, I’m completely ignorant about the recommendations published [by The World Bank and other international institutions].*”

²⁸ CEO of a French bank in France (2012).

²⁹ Interview with CEO of USA subsidiary of top-six Portuguese bank (2012) put it down to communication issues, “*I am aware of several recommendations ... some very good ... I just don’t think they are widely known ... dissemination is probably not done in the best way.*”

³⁰ “*The bank does not provide that information [policies and recommendations] within the context of the migrants’ business*” (Regional manager in international division and former branch manager of a universal French bank (2012).

³¹ “*About international institutions specifically, I am not aware of their policies or recommendations*” Interview with CEO of a Latin America bank in Japan (2012). Interview with CEO in a former Portuguese colony (2012), CEO had a similar perception: “*My general perception is that these international bodies have become increasingly aware of the importance of these international flows ... But I’m not really aware of the exact actions that these international bodies have on this subject.*”

³² Interview with CEO of a Portuguese bank in a former colony (2012).

³³ Interview with CEO of a top-five Portuguese bank (2011).

³⁴ Interview with the director of a migration research institute (2010).

³⁵ Interview with former EU commissioner (2012).

³⁶ Interview with director of a migration research institute (2010), pointed out: “*It could be the international institutions if they knew how to do it ... but they don’t know, so they don’t talk.*”

³⁷ Interview with a remittances expert at The World Bank (2011).

persuade my colleagues [in international institutions] that financial institutions need to really engage the migration issue;"³⁸ "... [banks] have never been 'in the street' working [on this]."³⁹ One specific problem appears to be the absence of mechanisms for dialogue with senior management – rather than other levels.⁴⁰ For example, a researcher from a migration research institute said he had previously dealt with middle to upper-level management⁴¹, but in a non-planned and structured way.

Diaspora organizations also suggested that the outreach efforts of international organizations left something to be desired. One suggested that they never received correspondence from international organizations.⁴² According to the chairman of Portugal's largest single-nationality diaspora association, "There are studies, but I think economic studies ... to be honest with you, I never had access to them". Similarly, the chairman of an Eastern European diaspora association suggested the amount of research produced by international organizations was not met by outreach efforts.⁴³ Founder and chairman of a diaspora association put the gap down to a lack of communication, "It means they [international institutions] really do not know the market because of the lack of communication."⁴⁴

C. Limited communication between the banking system and diaspora organizations

Diaspora organizations have an interest in dialogue with the banking system for a number of reasons. One of the main hurdles to migrants' "bankarization" and financial integration is opening a bank account.⁴⁵ This can be a bureaucratic process involving KYC (Know Your Customer) and AML (Anti-Money Laundry) verification; migrants who lack a residence⁴⁶ or working visa⁴⁷ can also face obstacles to opening accounts. Since migrants have an interest in gaining access to credit products⁴⁸ (e.g., mortgage, microcredit, credit cards), and sending

³⁸ Interview with the director of a migration research institute (2010).

³⁹ Interview with director of a migration research institute (2010).

⁴⁰ A representative of an international institution confides (2011): "*Sometimes technical ['staff'] people know very well the issue, they are very passionate, very interested, would like to do something, but are not able to reach their higher levels [senior management]. This is an internal problem of communication in the bank*".

⁴¹ Regarding mechanisms to ensure a dialogue at the senior level of banks: the interview with director of a migration research institute (2010), states, "*The answer is probably not ... we have dealt with the middle-upper level*". On the subject of alerting senior management, the former EU commissioner (2012) exclaims, "*Oh yes, definitely!*"

⁴² Interview with chairman of the largest single-nationality diaspora association in Portugal (2012) stated, "*We were never informed ... never got correspondence from The World Bank, other institutions or supervision authorities*", a point with which the chairman of the largest single-nationality diaspora association in Portugal (2012) corroborates, "*No, there is no link ... from the EU? They are not accessible to everyone ... very complex ... people gave up on their offers ... they are not articulated with reality*". The interview with a former EU commissioner (2012), confirms this view: "*There is almost no connection almost no contact ... the [European Union] migrants' agenda is so overburdened with such terrible priorities!*"[money laundry, illegal immigration, repatriation]

⁴³ Interview with chairman of an Eastern European diaspora association (2012) replied, "*No ... I can't recall being contacted by them ... they produce so much paper and don't alert us [diaspora associations] or send [it] to us*".

⁴⁴ Chairman of a diaspora association (2012).

⁴⁵ Interview with a remittances expert at the World Bank (2011) stresses that [immigrants] opening a bank account become very, very reliable customers. There are banks offering credit after verifying that [immigrants] are able to send a remittance every month".

⁴⁶ Interview with director of a migration research institute (2010), suggests that "*including illegal immigrants, then they [the banks] could basically teach sort of banking etiquette and services ... it's about learning to use the bank, learning to relate it to everyday life, to their needs!*"

⁴⁷ Interview with CEO of a top-five Portuguese bank (2012) "*there is a tendency not to accept immigrants without a resident's visa*", a view confirmed by the diaspora association chairman (2012), "*Yeah! [the visa] is a [a barrier] ... [personally] I felt they [the banks] didn't want to work with an immigrant*".

⁴⁸ Interview with former EU commissioner (2012): "*My assumption is that banks look [at migrants as] potentially riskier customers than average customers, [but] let's be very clear, there are no markets without risk!*" The Chairman of the largest single-nationality diaspora association in Portugal (2012) "*think[s] the banks have in their algorithm, a variable relating to migrants' credit risks ... as risky clients*".

money to their families in their countries of origin, obstacles can push them toward informal channels and hinder their financial integration.⁴⁹

While diaspora organizations are aware that migrants may encounter difficulties with banks and that this impedes financial integration, their communication with banks is poor. Interviewees described the communication they had with banks as “informal”⁵⁰ and not “organized.”⁵¹ Others claimed they only spoke to employees low down in the banking hierarchy.⁵² Failure to communicate with the banking system was put down to limited human resources and the need to deal with other priorities. According to a chairman of a diaspora association, ‘banking issues’ were a low priority relative to other concerns of immigrants (e.g., legalization, working visa, health care, repatriation, education), and a problem banks should address and be concerned with.⁵³

Diaspora organizations were also critical of the absence of a structured contact with international institutions — and displayed a lack of awareness of their publications and recommendations. Banks’ involvement with diaspora organizations appeared to be limited to philanthropic contributions and CSR (corporate social responsibility). There was little attention on either side to the question of “bankarization” or financial integration.

D. Banks adopt a ‘product-focused’ strategy that does not address migrants’ financial needs

The interviews made clear that banks do not service migrants in customer-focused strategic fashion. Instead, they focus only on products such as remittances and cards, with a few exceptions like mortgages and restricted types of insurance. In other words, they offer plain vanilla products that do not address the specific needs⁵⁴ of the migrants, instead of offering a portfolio of products and services at both host and origin countries. A reason contributing to this may be that most banks do not have a specific marketing division dedicated to migrants. Instead, the product team develops a sub-product for migrants (i.e., a product named “payment transfers” that includes “remittances”). Additionally banks do not take into account migrants’ individual profiles,⁵⁵ such as their level of wealth, academic education, profession, age, or income level). In other words, instead of servicing a “migrant as a customer,”⁵⁶ they

⁴⁹ Interview with former EU commissioner (2012), stressed: “being integrated in the financial system is a tool to be integrated in the society”, although recognizing that “we [the European Union Commission] did not make specific recommendations about how banks should deal with migrants ... there were few for integration”.

⁵⁰ Interview with chairman of the largest single-nationality diaspora association in Portugal (2012), describes it as very informal, “No, no, we don’t have anything ... nothing structured ... it is actually very informal”.

⁵¹ Interview with chairman of an ONG-immigrant diaspora association (2012), “No organized pressure, no!”

⁵² Interview with chairman of large Eastern European diaspora association in Portugal (2012). The association spoke at the level of the account manager”.

⁵³ Interview with chairman of the largest single-nationality diaspora association in Portugal (2012). presents an argument for this, “Well, it’s very low priority for us to link to the banking system ... the immigrants have other problems ... I don’t think it is our responsibility ... why should I do it for the banks?”

⁵⁴ A member of an executive committee (2012) says it would help “... to effectively deal with that segment ... ensure systems and products effectively to answer their needs.” Interview with chairman of an ONG-immigrant diaspora association (2012) points out: “at the end of five years when they go to the banks [they] still face very difficult barriers ... a difficulty for integration is in respect to housing [mortgage] ... a big opportunity to help integrate people”.

⁵⁵ A marketing manager of a large Portuguese bank (2012) sees the “need to profile a customer in depth, banking habits, behaviour, consumption profile ... offer solutions to fill that gap”, a position supported by a representative of a migration research institute (2010), “profile the financial position of migrants’ ... demand and needs”.

⁵⁶ An executive committee member of a Latin America bank says that his bank “changed the business model, improving communication, making it more agile and flexible”, while a marketing manager of a French bank recommends “re-engineering the commercial process, selling with focused strategy, or the product matching the particular cycle of a client or a group of clients”. A representative of a migration research institute recommends look[ing] at the migrant as a customer, sell [them] several products ... [banks] are mistaken! They calculate profits simply looking at their net income, when actually, [they] should look at the range of services ... factoring that in!”

mechanically process just one product: remittances. The result is a lack of a consistent, strategic global vision of products adjusted to the financial needs of migrants.

Views as to why migrants' business attracts little attention varied. For example, a chairman of an international institution proposed that economists and development specialists "may not yet have seen the importance of remittances."⁵⁷ A representative of The World Bank suggested this was because "the infrastructure of remittances was extremely complex, and the banking sector was not the most responsive sector in the economy."⁵⁸ At the other extreme, a banking interviewee put it down to a 'banking fashion' issue: "This theme was probably not considered ... 'sexy' ... when you compare "remittances' business" with "private banking" - even the word is not sexy!"⁵⁹

While bankers admitted to paying little attention to migrants, they also — somewhat paradoxically — acknowledged that this was a problem.⁶⁰ A CEO of a bank in the European Union suggested that banks needed more support from international institutions and better incentives.⁶¹ For example, emigrants used to receive tax and financial benefits in Portugal. The removal of these incentives impacted negatively on their motivation to send remittances to the origin country. Despite several banks recognizing this matter, they have not taken steps to lobby for these benefits to be reinstated, showing a lack of communication between banks and policymakers.

Interviewees also highlighted a lack of coordination and communication between their headquarters and subsidiaries abroad as an obstacle to serving migrants' interests at both ends of the corridor.⁶²

Conclusions

A. Summary

This paper presents findings from interviews with politicians, international institutions, academics, migration research institutes, banks, and diaspora associations. The results reveal significant challenges in the relationships between the key actors in the migrant finance system.

⁵⁷ Chairman of a migration research institute (2010).

⁵⁸ Interview with a remittances expert at The World Bank (2011), addressed the complexity, "*The general infrastructure—rules and systems behind a complex world ... not just a socio-economic phenomenon, but also a very technical and very delicate aspect of economic life*". The director of a migration research institute (2010) says: "*The banking sector is not the most responsive sector in an economy; it really depends from country to country ... or [they] are not able to explain to the technical people; ... it's too complicated, there's no business case for us [bank], etcetera*".

⁵⁹ Interview with CEO in a former Portuguese colony (2012).

⁶⁰ CEO of a US bank focused on migrants' business stated (2012), "*There is a lot to be done, a lot! It's completely under-explored*", a refrain repeated by two marketing managers in a French bank, and in a Portuguese bank say, respectively, "*... I have no doubt about that! Compare the cross-selling ratio*" and, "*Both sectors [emigrants and immigrants] are under-explored in my bank ... the bank only pays attention to emigrants when they visit us [Portugal] in the summer*".

⁶¹ A CEO of a French universal bank (2012), suggested that a new take on responsibilities was required, "*There is a lot of work to be done by international institutions ... for instance support to the [financial] institutions that work in this business ... very little has been done; nothing to give incentives!*"

⁶² A CEO of a French bank agrees (2012) that "*... the relationship it's not always smooth ... at the origin country they feel these customers are problematic ... emigrants come to the country in the summer, when the branches are understaffed...*", while a former branch manager (2012) says, "*We have a lot of pressure, and the lack of communication [between the headquarters and the subsidiary] exists actually on purpose ... and many times we damage the business because of this! Conflict of interest or lack of awareness? Clearly it is a conflict of interest!*"

Most interviewees (including bankers themselves) complained that banks pay insufficient attention to migration. The senior management of banks appears to be insufficiently attuned to the positive impact banks could have on the economic and social development in the origin countries, as well as the contribution to financial integrate immigrants at the host countries. Some are aware of the importance of remittances, but they show little understanding of how remittances could improve their banks' profitability and financial stability; or of the concerns, data, and recommendations from international institutions.

The research also points to poor dissemination on the part of international institutions such as The World Bank, IMF, UNESCO, G-8, G-20, and EU. While these organizations all publish data and recommendations about migration, there is a lack of communication, resulting in poor quality knowledge among their audiences.

Interviewees suggested that structured contact between international institutions and diaspora associations is virtually absent. This lack of communication among key stakeholders—international institutions, banking system and diaspora associations—is likely to significantly hinder the implementation of policies.

B. Recommendations

Raising awareness in the banking industry is critical to improving communication and transmitting knowledge. Effective and cooperative dialogue among the migration arena's stakeholders—international institutions, migration research institutes, banking system, diaspora associations, and politicians—is critical in order to implement policies that stimulate development. Each of the key players has a role to play in improving cross-fertilization of ideas and knowledge. In particular:

- **Migration research institutes** could play a leadership role by bringing together each of the relevant actors to stimulate dialogue and encourage policy implementation. This role could include allocating responsibilities and establishing key performance indicators.
- **The senior management of banks** appears to be unaware of the benefits of migrants' financial integration for their profits, as well as migrants themselves and development more broadly. One way to improve this would be for senior management to delegate responsibility for monitoring and disseminating concerns, data, and recommendations of international institutions about migration, for example to the research department.

Banks could also revisit their business models to establish an effective strategy to capture the migrant business segment at both ends of the *corridor*, i.e., at the origin and host countries. This would include adopting a 'customer approach' philosophy that takes account of the array of portfolio of products and services rather than seeing migrants solely through the 'product' lens of remittances.

- **International institutions** could be more active in inviting stakeholders from outside their field to events, as well as identifying opportunities to participate more broadly, such as in migration events organized by consultants and banking industry. This could include inviting other stakeholders to conferences, and holding regular meetings with banks and bankers associations' CEOs, politicians and other senior officers level.
- **National bankers associations** in host countries or geographical regions could play a role as 'platforms of knowledge transmission'. Bankers associations like the American Bankers Association, European Banking Authority, Canadian Bankers Association,

Australia Bankers Association and others, as well as at the origin countries of relevant *corridors* (bankers associations in Latin America, Asia and Africa) could be disseminate research produced by international institutions.

In addition, there is a strong case for further research on the relation between the banking system and migrants—rather than limited to the dominant field of commissions and costs of remittances—including on the potential of the banking system to promote development, social responsibility, financial integration, and sustainability.

Appendix I: Interviewees' profiles

Abbreviations

BM – Branch Manager
D – Diaspora Association
DRC – Development Research Centre on Migration, Globalisation and Poverty
EC – Executive Committee or Board of Directors
II – International Institution
MRI – Migration Research Institute
MM – Marketing Manager
P – Politician

The Table below provides profiles of interviewees, including a brief outline of their past and current responsibilities, and the type of bank or institution with which they are involved. Interviews were conducted in the 2nd semester of 2011 and in 2012.

Interviewee pseudonyms	Interviewee profile	Responsibilities	End of the Corridor
1. Andrew-P	Andrew has been an academic and a politician for much of his career. He is a former Commissioner in the European Union involved in migration policies and issues (over 5 years), minister of the government and member of parliament of his country (over 15 years), as well as a member of the European Parliament. He was also a judge at a high court (5 years). He is currently chairman of the board of directors of several companies, as well as president of shareholders' meetings of several listed companies. Andrew holds a law degree and masters in political science.	Politician in Portugal and EU involved in migration policies	-
2. Mark-MRI	Mark is chairman and senior researcher of an institute concerned with migration research, as well as an academic. He has conducted extensive research, policy analysis and advocacy on issues relating to the flows of remittances and migration; he worked also at the US Foreign Service Institute. He holds a PhD and has published widely on remittances and migration.	Migration Research Institute and academic	-
3. Robert-MRI	Robert is a member of the board of an institute dedicated to the study of migration, and member of the board of other international organisations dedicated to the research and policy issues on migration, as well as adviser to several countries on migration policies and issues. He has held senior positions at the OCDE Migration Committee, US Immigration Policy and Research, and at the International Migration Review. Robert holds a PhD and has taught at several universities. He has published widely on migration topics.	Migration Research Institute and academic	-

4. Nick-II	Nick holds a senior position at the World Bank. He has performed extensive work on remittance markets in host and origin countries. He also holds responsibilities within the Global Remittances Working Group, and participates in technical-assistance projects for remittances. Nick holds a Masters degree.	International institution	-
5. Anthony-EC	Member of the board of directors and member of the executive committee with responsibility for the commercial area including the migrant business sector, for a top-five retail bank in a European Union country. Previously he was Deputy-CEO of the bank and regional commercial manager. He has over 25 years' professional experience.	Retail bank focused on emigrants	Origin
6. David-EC	CEO and member of the board of directors of a bank in a former Portuguese colony, David is the former managing director of the international division of a top-five bank in a European Union country, with responsibility for its subsidiaries and offices overseas, including several that focus on the migrant business sector. Former CEO of banks in former Portuguese colonies and in Latin America, he have also been a commercial manager of the retail banking network for a top-five bank in a European Union country. He has over 22 years of professional experience.	Universal bank	Host & Origin
7. Gil-EC	Member of the board of directors and of the executive committee of a retail bank in North America, Gil was a former board member of the executive committee of a retail bank in a European Union country. He was former managing director of an investment bank and has over 20 years of professional experience in banking.	Retail with focus on migrants	Host & Origin
8. John-EC	Currently CEO of a bank focused on migrants in an Asiatic country; former CEO of the Portuguese subsidiary of a top-three Latin American bank focused on migrants living in the European Union and in Asia. Formerly he has been deputy CEO of a bank in an Asian country and a regional manager. He has over 30 years of professional experience.	Universal bank; subsidiary focused on migrants	Host & Origin
9. Louis-EC	Member of the board of directors and CEO of a French bank in France, subsidiary of a top-five French universal bank focused on the migrant business sector. Marketing manager of a top-three bank subsidiary in a former Portuguese colony, he was formerly an investment banker and has over 20 years of professional experience.	Retail with focus on emigrants	Host & Origin
10. Martin-EC	Member of the board of directors and of the executive committee of a development bank, he was a former member of the executive committee of the French subsidiary of a top-five Portuguese universal bank, with responsibility for the commercial area. Deputy general manager of the international division in Portugal, he has over 35 years of professional experience.	Retail focused on migrants	Host & Origin
11. Mary-BM	The only female interview, Mary-BM is currently a regional manager in the international division; former branch manager of a subsidiary of a top-five universal French bank focused on the immigrant business sector. Formerly she was the manager of the emigration division in a top-five bank in a European Union country. She has over 12 years of professional experience.	Retail bank focused on migration	Host
12. May-MM	Marketing manager (10 years) of a subsidiary for a top-five French bank focused on the migrant business sector in Paris. Previously, he was a bank-assurance product manager (at an insurance company), product manager at a mass-market retail network, and deputy manager during the launch of the internet-banking site of a top-six Portuguese retail bank. He has over 20 years of marketing experience.	Marketing manager	Host
13. Paul-MM	Currently Paul is CEO of a firm operating in marketing and communication. Paul was marketing general manager (2000–10) of a top-five retail Portuguese bank with responsibility for advertising, marketing campaigns, product development, pricing strategy, competition analysis and operatives involving CRM. Paul also led the rebranding of the bank in eight countries. Previously, Paul was a journalist (1985–2000). A lecturer of institutional communication (10 years) he has	Former retail bank marketing manager	Origin

	published several articles and books. He holds a degree in law and several post-graduate qualifications. He has over 30 years of professional experience, 11 of which have been in banking.		
14. Peter-EC	President and CEO of a subsidiary of a Portuguese bank in a former Portuguese colony, he has been CEO of the banking holding company for a top-five bank in a European Union country, senior advisor to the board of directors, and a member of the board of directors of a development bank. His professional career has been mainly in the commercial area and general management. Former CEO or general manager of subsidiaries or branches in eight countries over 27 years. He has over 30 years of banking experience.	Member of EC Retail bank focused on migrants	Host & Origin
15. Thomas-EC	Chairman and CEO of a top-six Portuguese bank (6 years). Previously a member of the executive board of directors responsible for the migrant business sector (8 years) for a top-three Portuguese bank, having previously been managing member of the board of directors (including responsibility for migration), director of the international division managing the migrant business sector (10 years), and held several other positions in different areas of the bank. He holds a degree in law and has over 40 years of banking experience.	Chairman and CEO of a retail bank	Origin
16. Charles-D	Chairman of the largest single-nationality diaspora ONG association in Portugal since 2000. An immigrant, Charles has lived in Portugal for over 15 years. He is a mechanical engineer working for a private company operating in the industrial area.	Diaspora association	Host
17. Tim-D	Founding chairman (of Portuguese nationality, married to an immigrant) of an ONG-immigrant diaspora association since 2001, with a wide network in Portugal (Lisbon, Beja, Coimbra, Ericeira and Albufeira). Tim is an academic (electronics engineering field) who began working in the field of the social integration of immigrants in the mid-1990s. The association he founded represents 96 nationalities.	Diaspora association	Host
18. Oleksandr-D	Oleksandr is chairman of a relevant Eastern European country diaspora association (3 years) and was previously a director of the same association, established in Portugal (7 years). An immigrant, Oleksandr has lived in Portugal for over 12 years and holds a degree in economics. Professionally, Oleksandr works in trade, operating between his own country of origin and Portugal.	Diaspora association	Host
19. Phillip-EC	President and CEO (2000–10) of a North American subsidiary of a top-six Portuguese bank. Previously, Phillip was general manager of the international division; general manager for branches in the USA, Madrid and London, and international bank officer. Phillip holds a degree in management and has over 35 years of professional experience.	CEO of a retail bank focused in migrants	Host

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