

Remittances

Harnessing the \$1 trillion remittances market
to accelerate access to inclusive finance



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Data, data, data on remittances to ADB Region



\$ 683 billion

272 million

6.8%

\$ 275 billion

6.6%

38.5%

7.0%

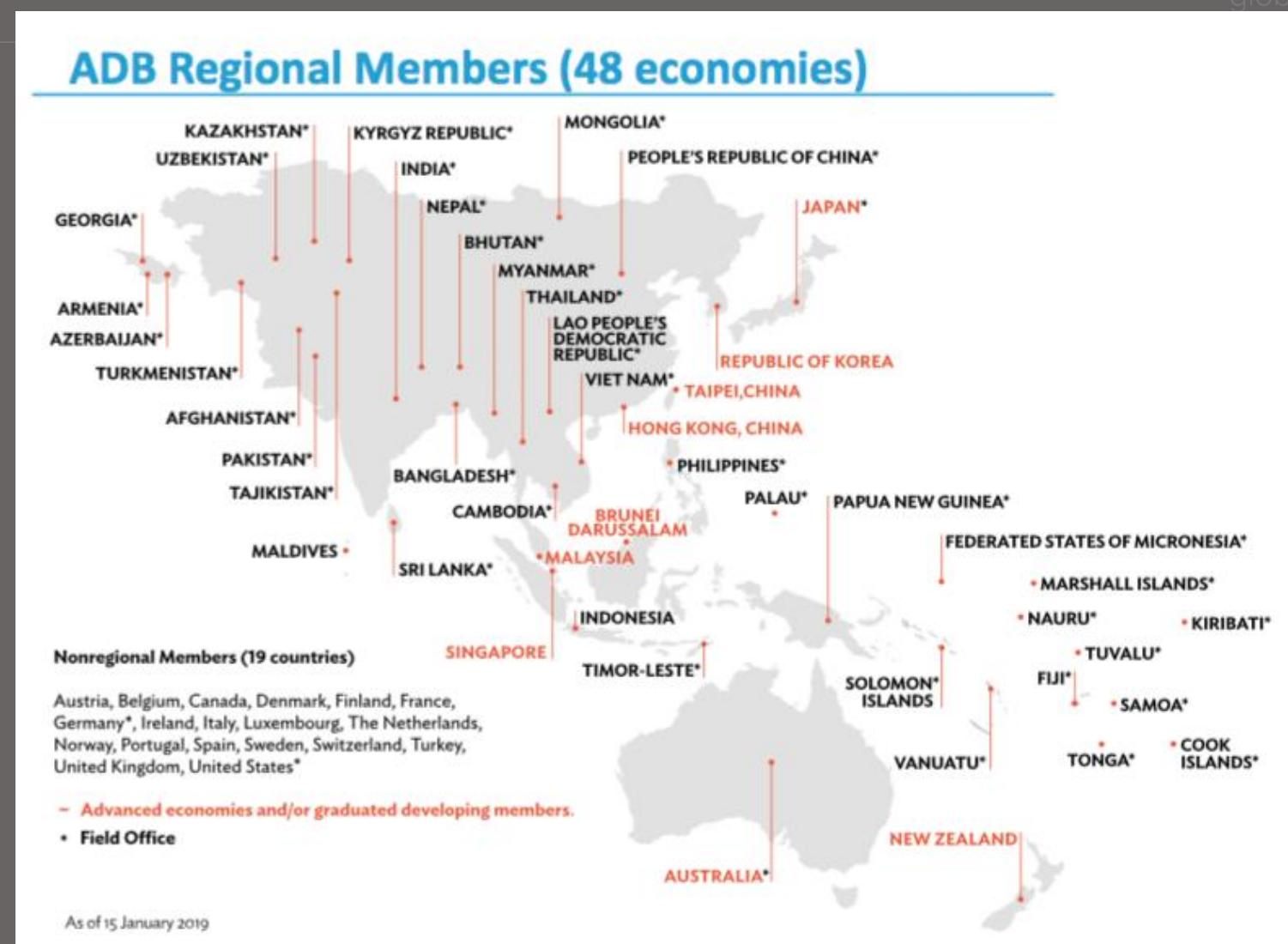
29.9%

5.0%

Contents

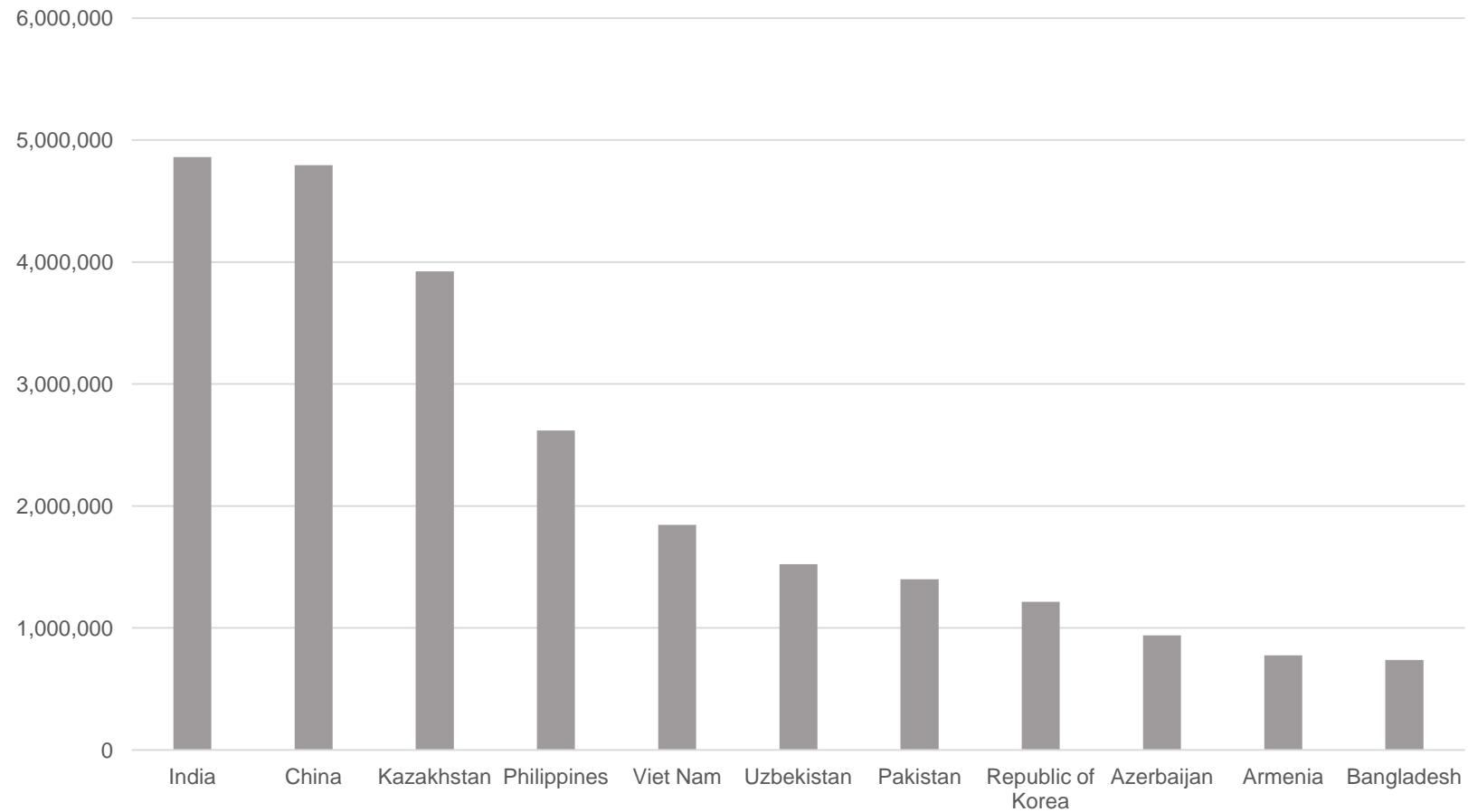
1. Background information on remittances in the region
2. Remittance challenges and how to overcome them through improved data and harnessing technology
3. Opportunities to leverage remittances for financial inclusion
4. The vital and enabling role of financial service regulators to encourage remittance competition, and create proportionate regulation and coherent policy development

Background on remittances in the Asia Pacific

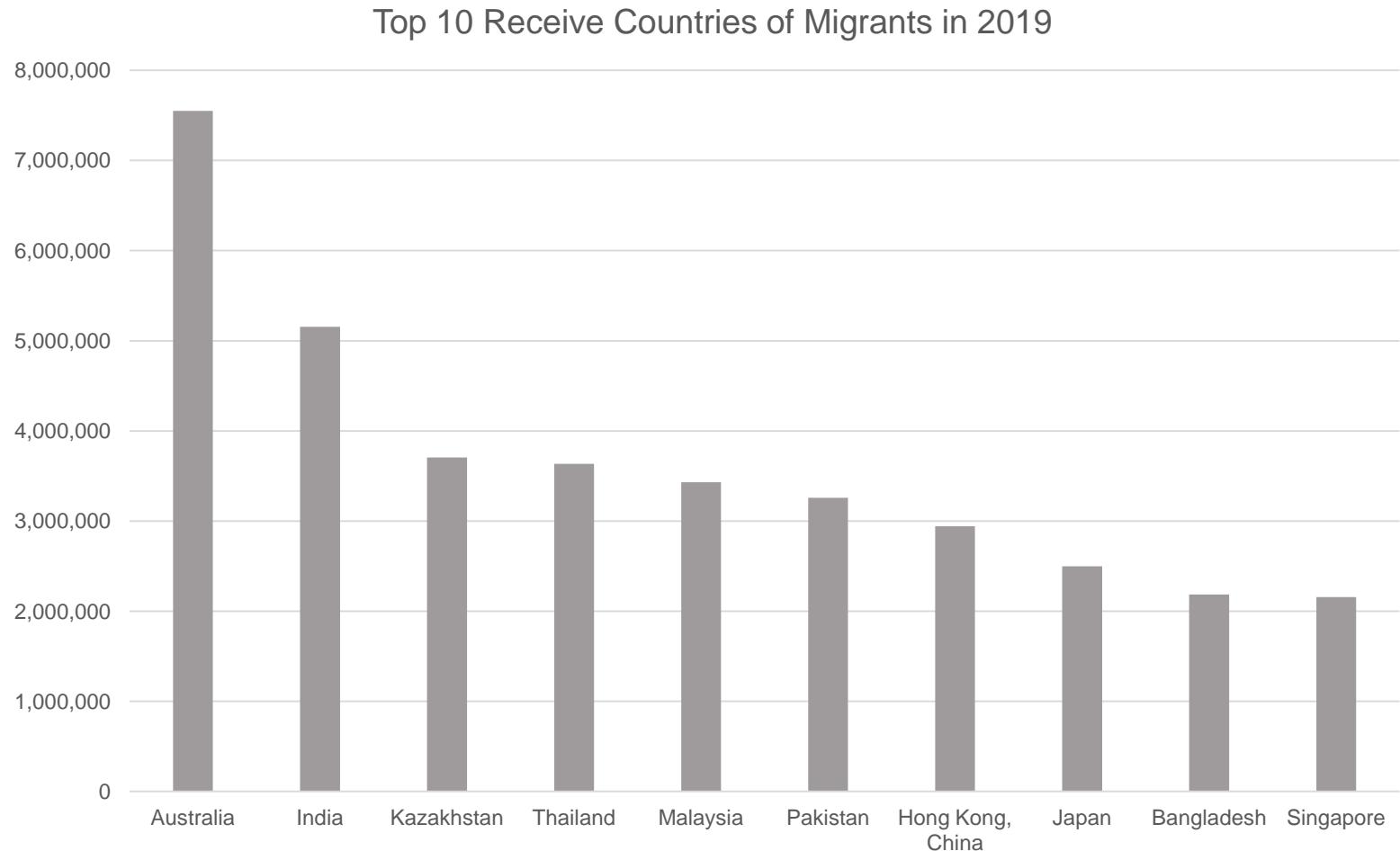


Top Outbound Migration Countries

Top 10 Migrant Sending Countries, 2019



Top Migrant Receiving Countries in Region



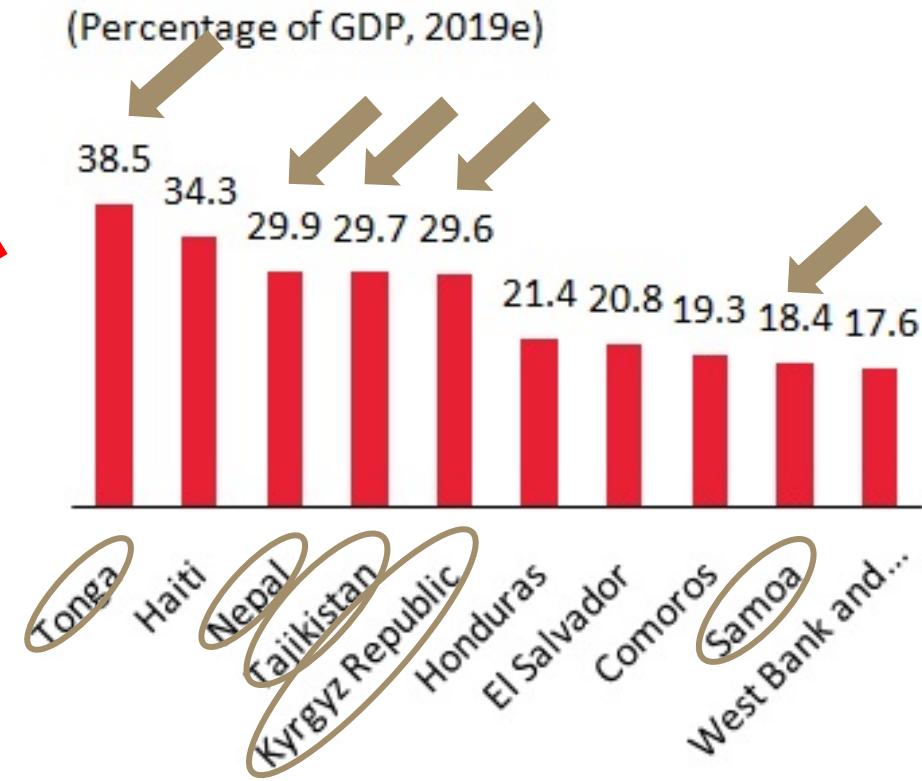
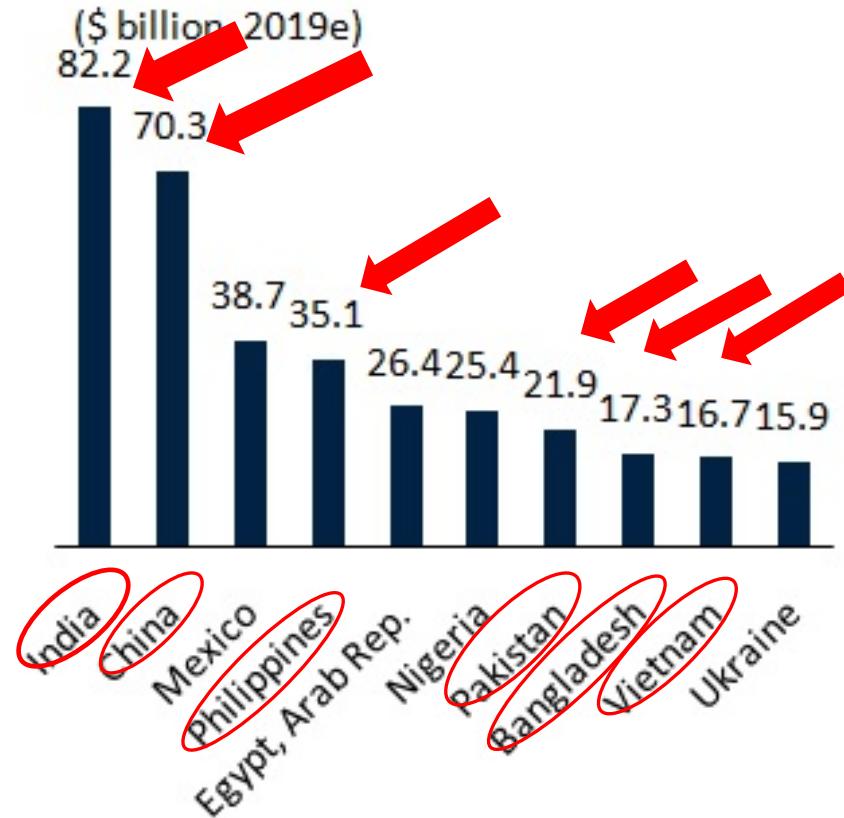
Projections of Remittance Flows to LMIC



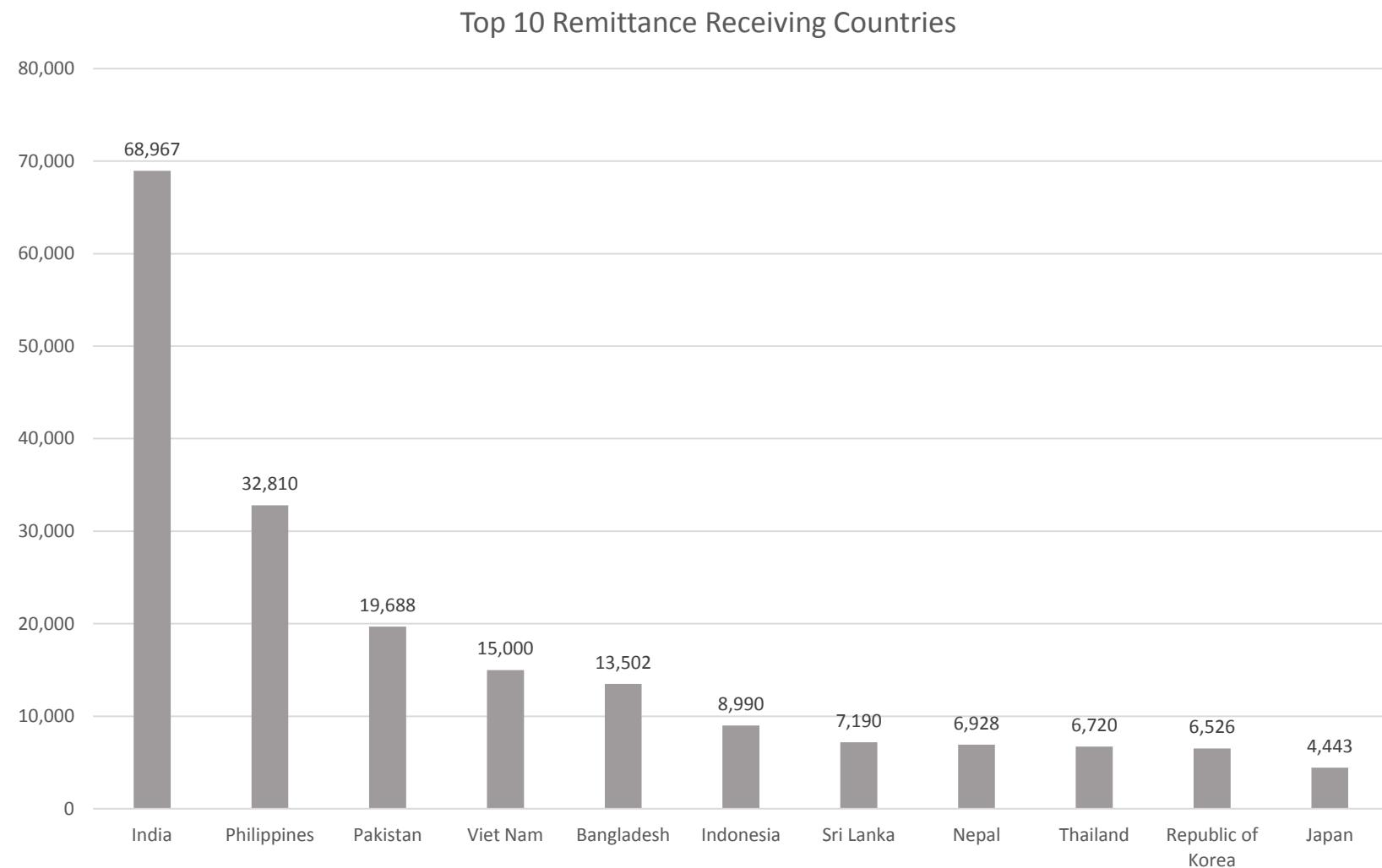
	2010	2016	2017	2018	2019e	2020f	2021f
(\$ billions)							
Low and Middle Income	343	444	484	526	551	574	597
East Asia and Pacific	96	128	134	143	149	156	163
Europe and Central Asia	38	44	53	58	59	62	64
Latin America and the Caribbean	56	73	81	89	96	99	103
Middle East and North Africa	39	51	57	58	59	61	63
South Asia	82	111	117	132	139	145	150
Sub-Saharan Africa	32	38	42	47	49	51	54
World	470	589	634	683	707	739	768

World Bank Estimates

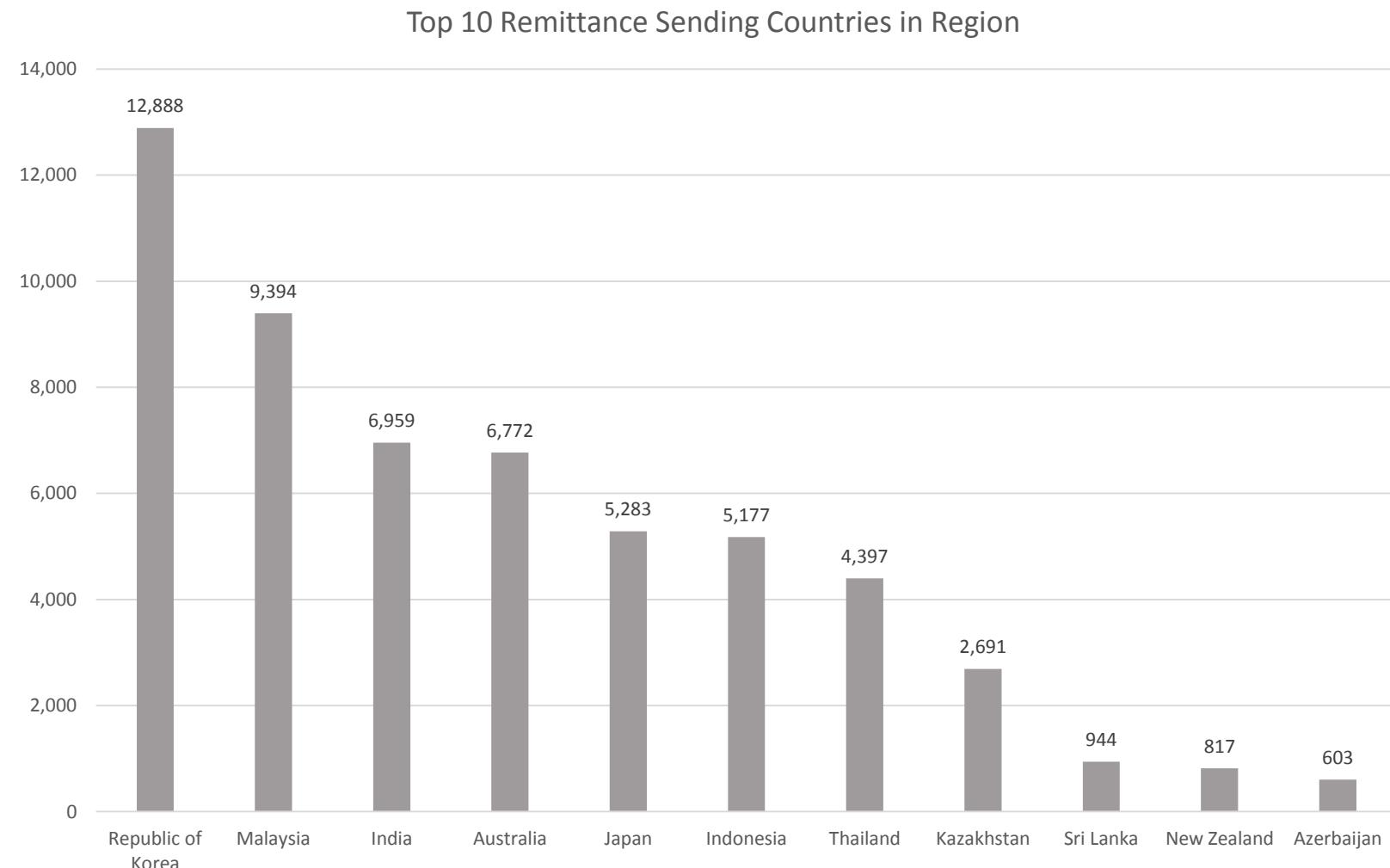
Global Top Remittance Recipients, 2019



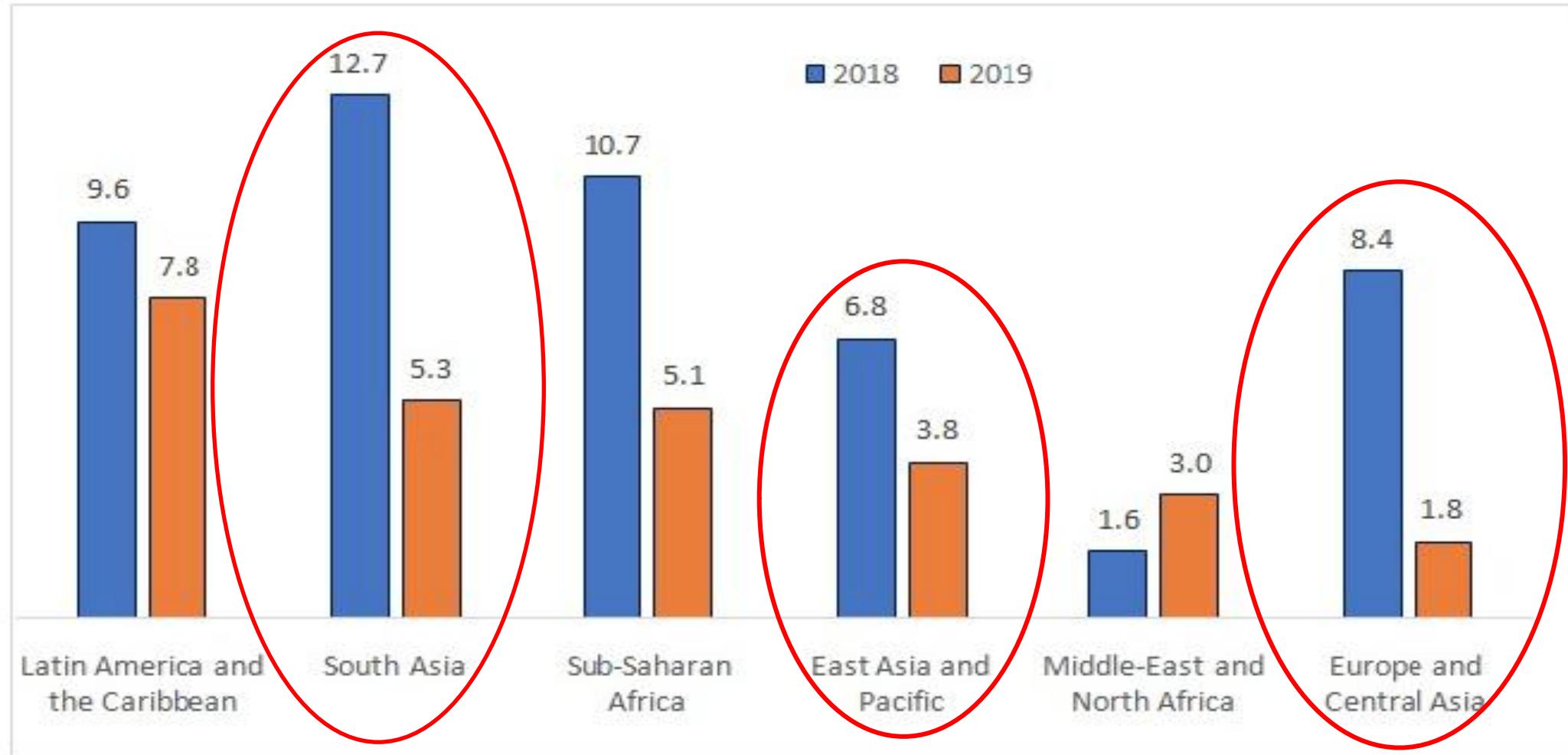
Asia Pacific is mainly an Inbound region



Outbound Remittances are important for some

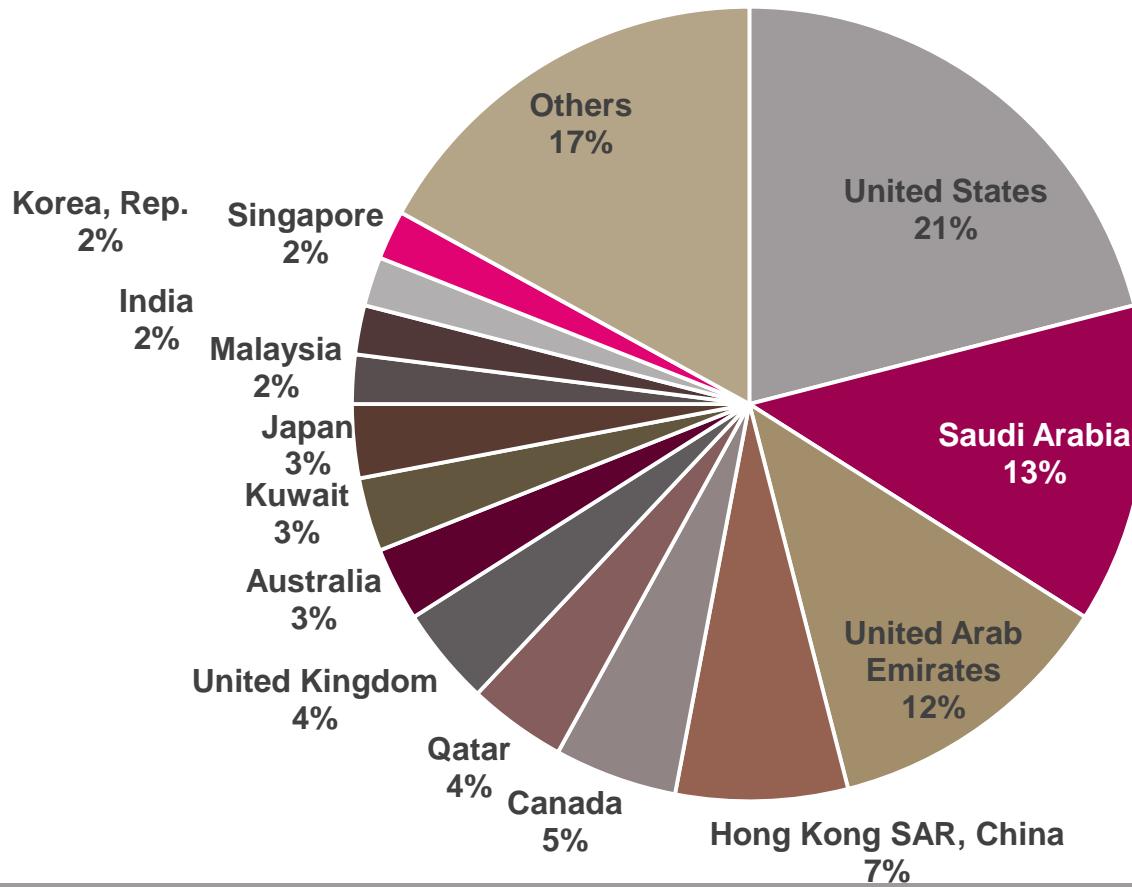


Remittances are growing more slowly in 2019 (%)



Remittances come from multiple regions

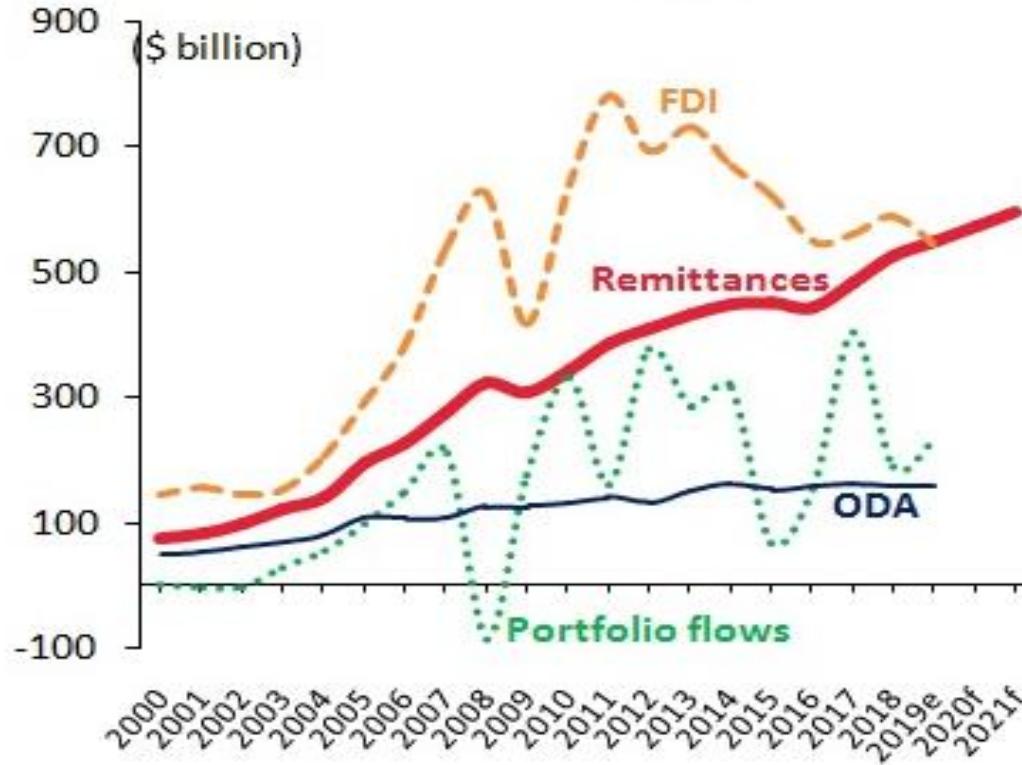
Main Remittance Send Markets to CPMS (% total formal remittances received - USD 243 billion, 2017)



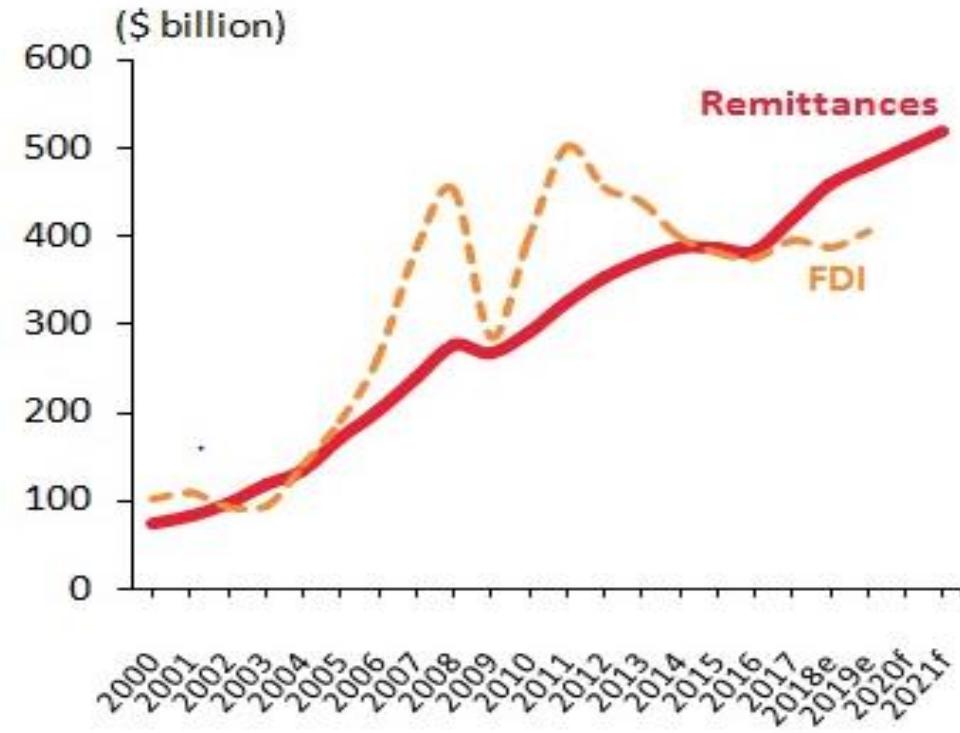
Remittances are the most important source of external financing



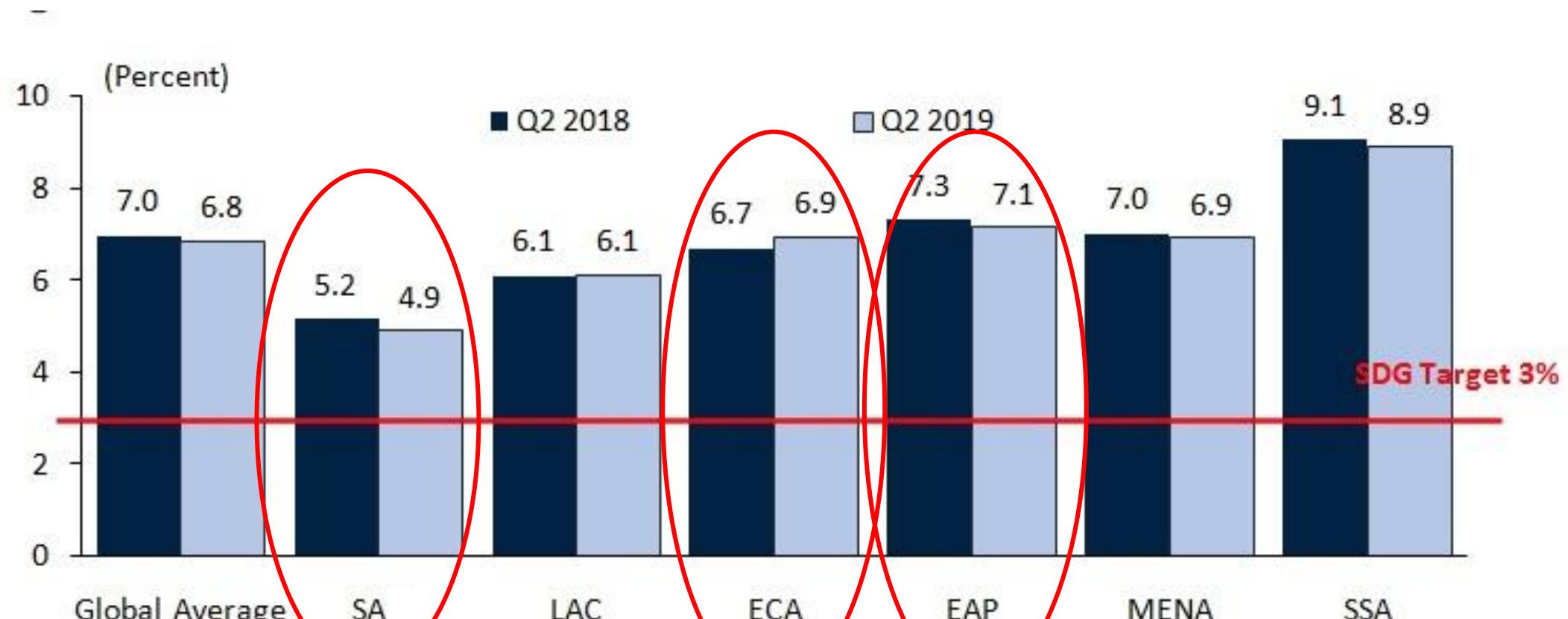
(a) Global flows including China



(b) Global flows excluding China



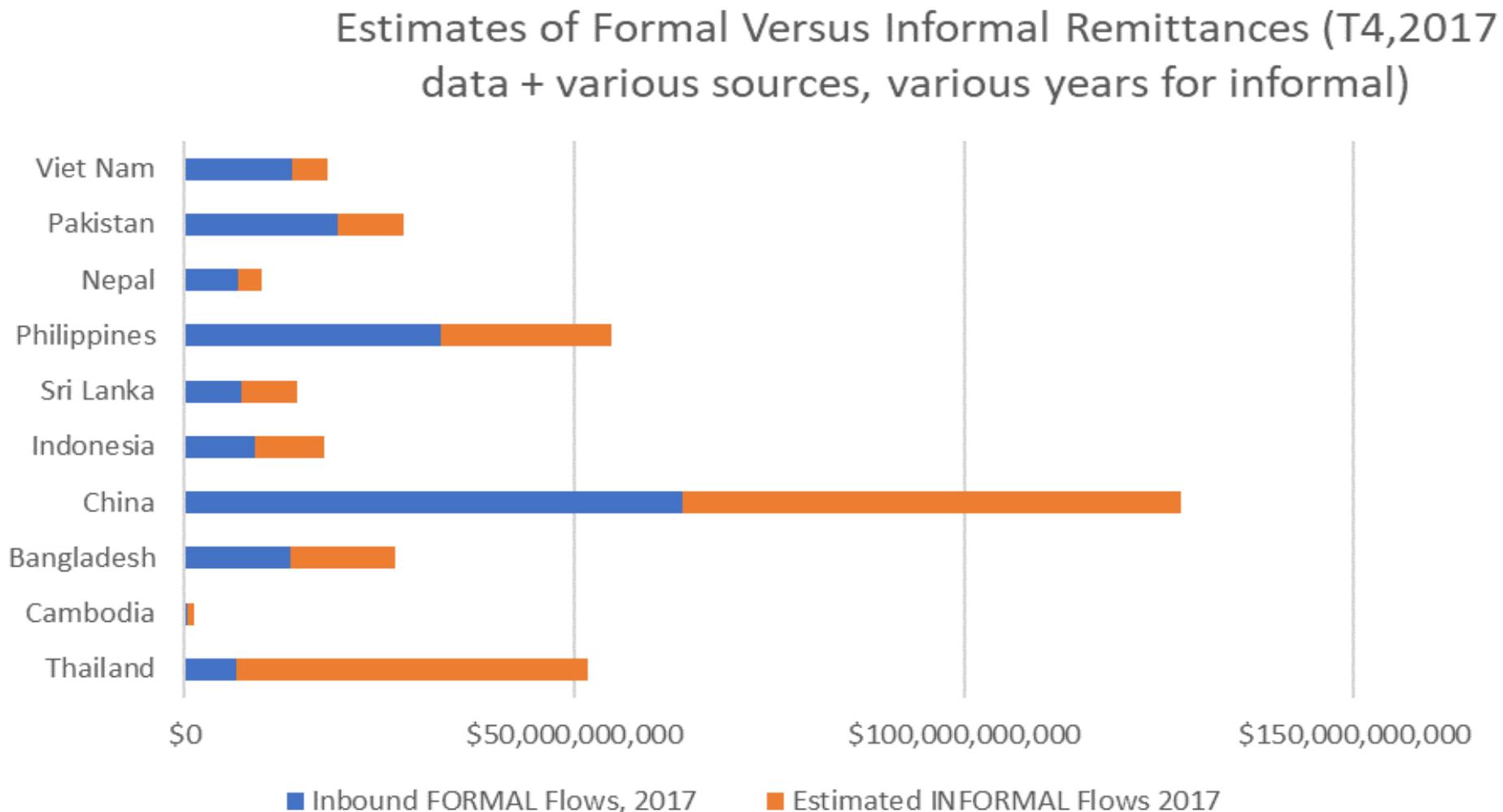
Cost of Sending Remittances



Money Transfer

- Remittances have traditionally been sent informally in the region using methods such as Hawala/Hundi
- Recently there has been a rise in the use of digital e.g. mobile money, desk/app based services
- Crypto-currency solutions are now being tried

Informal remittances are significant in Asia



Summary of introduction

Asia is a massive region

- 48 countries
- World's largest receive region
- 6 of the top 10 receiving countries
- 5 of the top 10 most remittance reliant countries

Over 6,000 individual corridors

- Mixture of global, regional and corridor specific remittance operators
- Over 1 million pay out locations
- 850 million transactions
- Charging over \$18bn

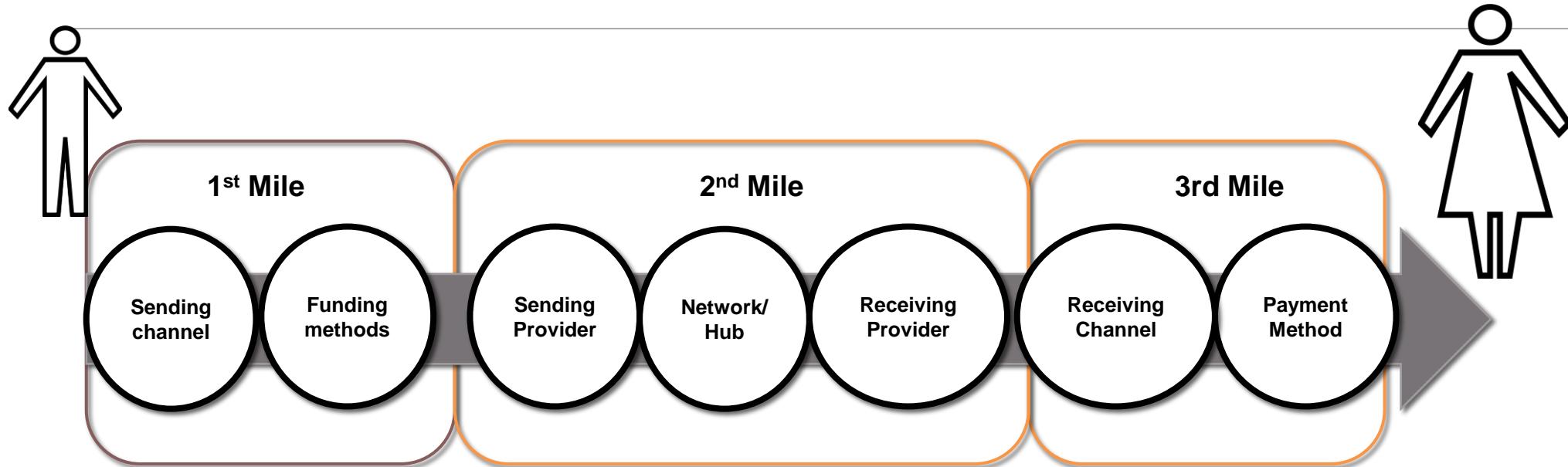
Cash-to-cash is the dominant method, but other methods, such as account-to-account are beginning

Remittance challenges and how to overcome them through improved data and harnessing technology

Challenges and opportunities

1. Costs
2. Informality
3. Data
4. Tech
5. Working with senders and receivers
6. Regulatory environment
7. Coordination among stakeholders

The Remittance Value Chain



- | | | | | | | |
|---------------------|---------------------|-------------------|------------------------|-------------------|---------------------|------------------------|
| • In-person, branch | • Cash Payment Card | • Traditional MTO | • Internal system | • Traditional MTO | • In person, branch | • Cash Payment Card |
| • Internet | • Bank Account | • Digital MTO | • SWIFT | • Banks | • Internet | • Bank Account |
| • Mobile | • Banks | • Ericsson | • HomeSend/ Mastercard | • MNOs, Telcos | • Mobile | • Mobile Money Account |
| • Phone | • MNOs, Telcos | • Visa | • Retail networks | • Non-bank FIs | • Phone | |
| • ATM | • Exchange houses | | | | • ATM | |

1. Costs

WHY COSTS ARE HIGH

Use of agents

Exclusivity Agreements

Level of Competition

Compliance Costs

Direct and indirect costs to the remittances value chain

Small Size of some corridors

SOLUTIONS

Change in business model

Use of digital

Transparency

- Financial Literacy

- Comparison websites

Financial inclusion – linked products

Regulators to create an even playing field

2. Informal transfers - Recorded vs. Unrecorded Flows

Recorded	Unrecorded
<ul style="list-style-type: none">• Formal• Through a bank, business or declared at border• Record of transaction that is shared with central authority	<ul style="list-style-type: none">• Informal• Hand to hand• Can be agents, they just don't report• Seen as more trust-worthy and cheaper

Prevalence of informality

It is estimated that as much as 50 percent of transactions are informal

Research shows that remitters and their families use informal services for a number of different reasons. Indeed, research also shows that many of these remitters and their families do not know that they are using an informal service. Reasons why informal services are used include:

- They are not allowed to send money formally (for example due to an irregular migrant residency status or because they possess insufficient identification to meet KYC requirements)
- Informal services often offer a better product solution, for example, cheaper, faster, or better distribution in rural areas
- The existence of an exchange control regime which leads to a parallel/or black foreign exchange market
- Cultural propensity to use familiar informal systems such as *Hawala*.
- Lack of access to formal services (e.g. people in the rural areas)

How Informal Channels Work

A number of informal channels are used by remittance users globally.

- Difficult to obtain information on informal remittance providers.
- Informal remittance channels can be very large, and providers often offer cheaper options than those available through formal channels.

Informal networks operate via a number of business models, including:

- Bulk payments from senders,
- Netting of the financial position of the informal operator against the liabilities of another business partner in a different jurisdiction
- Third-party invoice settlement
- Individuals carrying cash
- In kind payments.

What's the problem with Informality?

- Informal remittances are seen as a problem for governments because they have no sight of them and they could be being used for criminal purposes or tax avoidance.
- For senders and receivers there is no consumer protection around them and also they can often be more expensive than imagined
- From a development perspective they can result in missed opportunities for financial inclusion and remittance linked products.

“High costs to send remittances formally cannot wholly explain why people choose to use informal services, **for instance Sri Lanka is a cheap country to send formal remittances to, yet an estimated half of its remittances are sent informally.** Other factors include a cultural propensity for people to use *Hawala*, **an inability to send formally due to insufficient documentation** and the possibility that informal services offer **other advantages, such as faster or better coverage.**”

Informality Summary

Plenty of causes

It can be both a good and a bad phenomenon

Solution

- Increase data management, household surveys, etc.
- Education
- Removal of black markets, more effective (or no) exchange controls
- Develop agreements on approach to identification requirements of irregular migrants

3. Lack of accurate and meaningful data

Most remittance numbers are underestimated

Leads to a lack of focus at the highest levels on how the markets can be improved

Conceptually simple to obtain accurate remittance data for formal remittances. Why not make it a requirement of being granted a licence that detailed data is provided, on a confidential basis, to the licencing body?

Very rarely happens due to a number of factors, including:

- Lack of capacity in government to process data
- Lack of knowledge within regulators on the type of information that could be gained from market providers;
- Difficulties with distinguishing remittances from other types of cross-border payments (particularly for banks), an
- Inability to separate cross-border mobile payments from domestic mobile transactions, and many others.

The split by gender, socio-economic background and region the money is sent from and to, etc., would help.

Why there is a lack of accurate remittance data

Demand side research is expensive to undertake and has normally been qualitative rather than quantitative. Generally it is not publicly available. This is a major gap.

In addition, there is a major lack of understanding on the scale of informal remittances. If it were better understood then more attention would be paid on how to formalize them.

To date, a very limited number of household surveys in receiving countries have provided sufficient data to extrapolate the results to provide a national measure of the size of informal markets. These surveys have proved expensive to undertake and have therefore often not been repeated nor widely used. It would be exceptionally helpful to have disaggregated data.

One more challenge: defining remittances

Not all cross-border flows are remittances and differentiating can be hard

- Sending to or for self
- Investments and donations
- Paying for a service or goods (for self)

IT'S IMPROTANT TO ASCERTAIN THE PURPOSE OF MONEY TRANSFERS

What type of data is wanted?

- Volumes/Totals
- Count of transactions and amounts
- Corridor: origin or destination
- Method of transfer
- Reason for transfer
- Demographics of sender and recipient
- Informal channels

Data – How to Improve it

- Look beyond balance of payments
- Capacity building within governments
- Develop consistent approach across governments
- Produce guides for data departments
- Conduct household surveys to establish size of informal, use of funds, investments, etc
- Automate as much as possible

4. Opportunities to innovate all along the remittance value chain, especially last mile

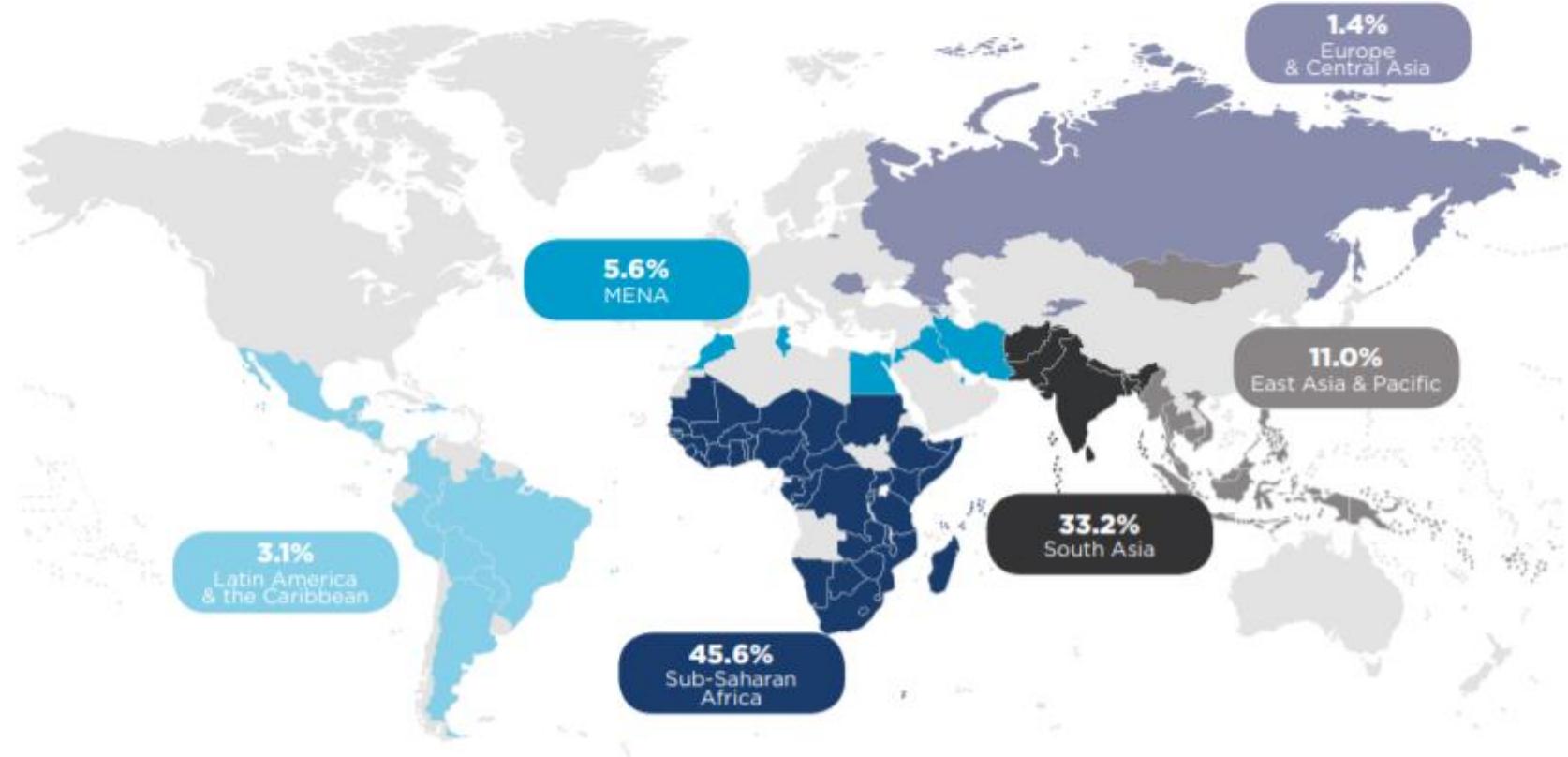


- Distributed Ledger Technology
 - Crypto-Digital Currencies
 - Still new, especially in developing markets, but potential could be profound
- FinTechs
- RegTechs
- Mobile Banking
- Automated Processes for data reporting

Mobile Money Accounts Globally

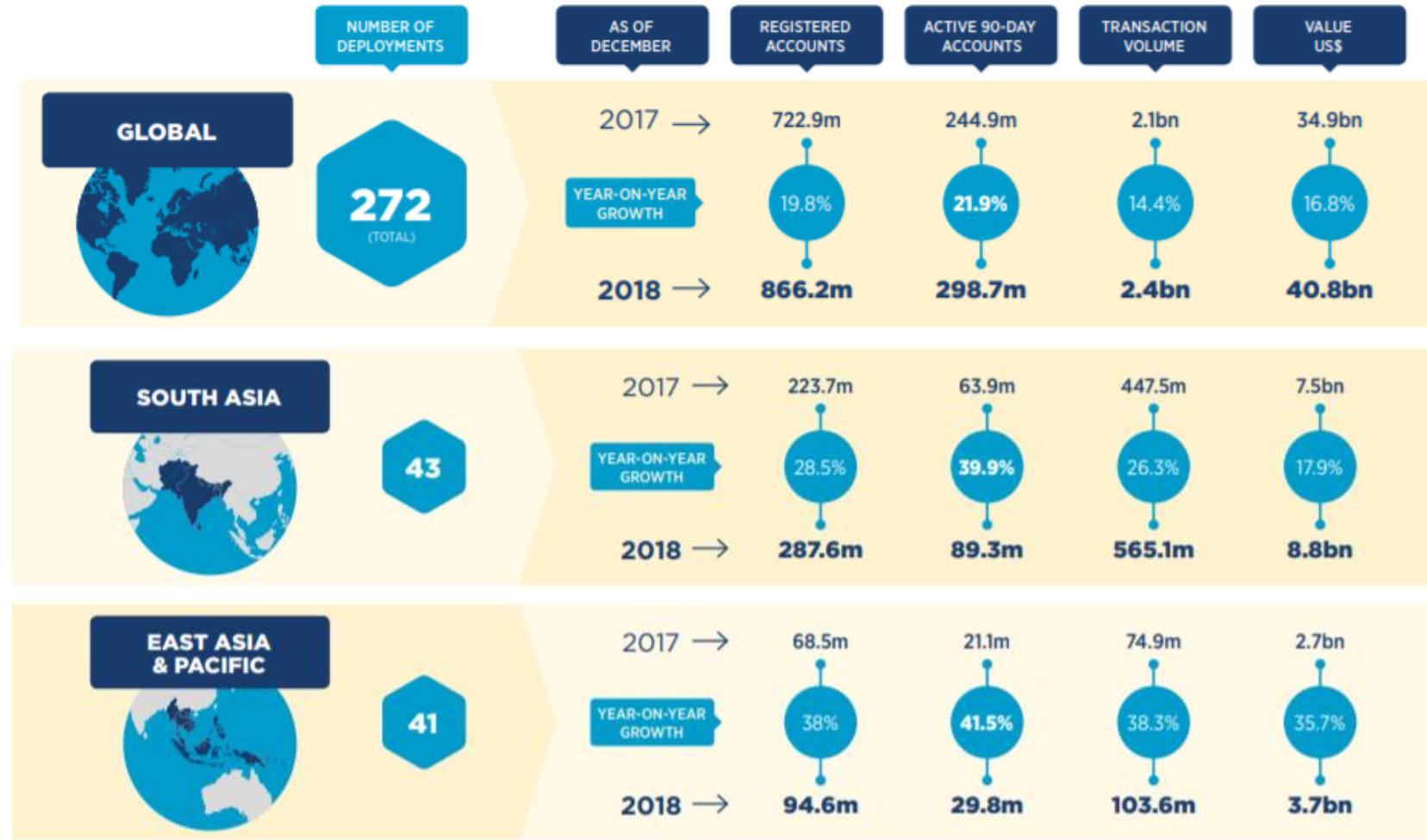
Figure 1.

Global spread of registered mobile money customers, December 2018⁶



Source: GSMA 2018

Regional Growth in Mobile Money



Source: GSMA 2018

Figure 6.

Mobile money account registration growth in Asia

South Asia

63%
CAGR
(2013-18)



East Asia
& Pacific

44%
CAGR
(2013-18)



2013
2.1%

2018
22%

% of adult population registered for
a mobile money account

2013
3.3%

2018
19%

% of adult population registered for
a mobile money account

What's needed to make mobile money work



- Good regulatory framework Interoperability with other payment systems
- Access points – agents and mobile money as an accepted form of payment
- Increasing mobile penetration and access

5. Work with senders and receivers

Knowing Your Diaspora is critical (again, Data & Tech are important)

Actions/tools:

- Technology
- Financial education
- Faith based organizations
- Mentorship
- Diplomatic missions
- Research
- Co-ordination at both ends of the corridor
- Legal frameworks

6. Improve coordination among stakeholders

- Link both ends of the corridors
- Enhance collaboration and build connections, partnerships, knowledge sharing.
- Policy coherence and good use of available resources
- Share best practices and experiences

Leveraging Remittances for Financial Inclusion

Remittances are important

- Lifeline for many migrant families
- Driver of economic growth for the country
- Increase foreign exchange flows
- Increase financial inclusion
 - 75% of remittances are spent on consumption, leaves 25% to be leveraged for development opportunities

Sustainable Development Goal 10.c

10.c by 2030, reduce to less than 3% the transaction costs
of migrant remittances and eliminate remittance corridors
with costs higher than 5%

Objective 20

Promote faster, safer and cheaper transfer of remittances
and foster financial inclusion of migrants

The Global Compact creates opportunities

- Support IDFR
- Harmonize an enabling regulatory framework for cross-border payments
- Incentivize the private sector to expand remittance services
- Improve domestic payments infrastructure and access, new technologies
- Improve data collection on remittances and payments systems
- Increase transparency
- Introduce incentives for lowering costs of remittances
- Develop programmes and instruments to promote investments from remittance senders in local development and entrepreneurship in countries of origin,
- Improve irregular migrants' access to formal remittances;
- Use remittances as a tool for financial inclusion;
- Improve coordination among stakeholders

What hinders the productive capacity of remittances?



Lack of data

Lack of legal
institutional
framework

Lack of Trust

Opportunities to leverage remittances

1. Undertake a mapping of diaspora and emigrants to understand:
 - Education levels
 - Type of migrant work
 - Average incomes
 - Savings
2. Many migrants do not trust the governments of their country of origin, and often their host country, so need to build trust
3. Provide incentives to use formal financial products

Opportunities to leverage remittances. Cont.

4. Pre-departure training to help migrants and their families manage their money more effectively
 - Opening accounts and the introduction of savings and pension related products
5. Use digital
6. Matched funds, community investments, remote bill payment, capacity building for entrepreneurs

Examples of successful initiatives



Is a website and soon to be launched App that

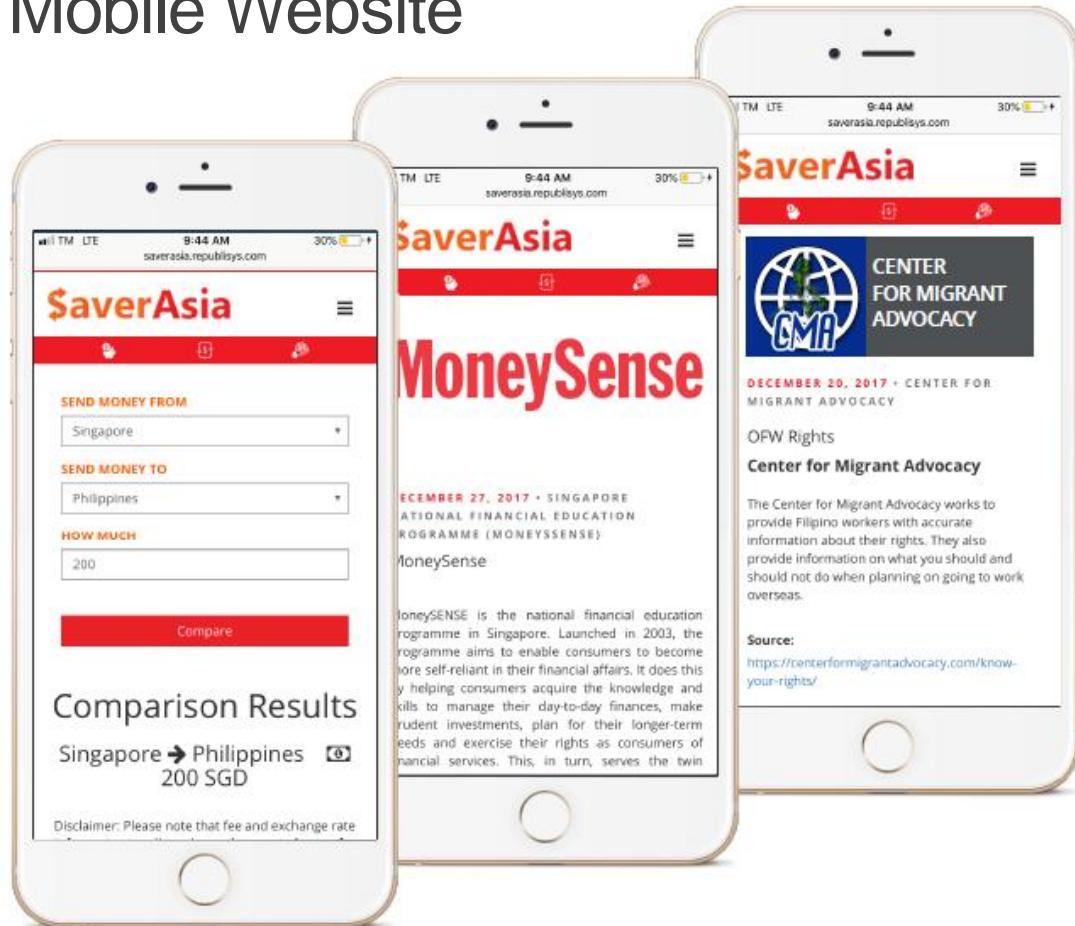
- Provides **information on remittances and financial services for migrant workers**
- Provides live rates and full corridor comparison (collected periodically)
- **Empowers migrant workers** to make informed decisions that will improve their finances

SaverAsia currently covers 13 **remittance corridors**:

- Singapore – Myanmar, Indonesia, Philippines
- Malaysia – Cambodia, Indonesia, Myanmar, Vietnam
- Thailand – Myanmar, Cambodia, Laos
- Australia – India, Indonesia, Philippines and Vietnam

SaverAsia is partially supported by the ILO through its TRIANGLE in ASEAN programme. TRIANGLE in ASEAN is supported by the Australian Department of Foreign Affairs and Trade and the Global Affairs Canada.

Mobile Website



App – coming Q1 2020



SendMoneyPacific (SMP) has been providing key remittance information for Pacific island communities in Australia (Aus) and New Zealand (NZ) since the beginning of 2009:

- Average MTO costs for sending \$200 from Australia at 8.9% - lowest recorded to date and almost half 2009 cost of 18.1%
- Average MTO costs from NZ at 7.9% - lowest recorded to date, down from 14.9% in 2009
- 1 in 5 Pacific remitters in NZ and 1 in 6 in Australia used SMP in 2018 to compare remittance services
- Facebook is a key outreach tool for Pacific remitters, with 113,000 people following the SMP page

SendMoneyPacific



The image shows three devices displaying the SendMoneyPacific website. The top device is a tablet showing the homepage with a comparison tool. The bottom-left device is a smartphone showing a 'Money planner' feature. The bottom-right device is a desktop computer showing the comparison tool in more detail.

SendMoneyPacific - We compare the fees and rates of money transfer providers to the Pacific Islands

Free Government Service
SendMoneyPacific is supported by the Australian and New Zealand Governments.

Compare and save on money transfers

Sending country: Please select | Receiving country: Please select | Compare

SendMoneyPacific - saving you time and money

What is SendMoneyPacific?
SendMoneyPacific is an Australian and New Zealand Government funded website that compares the fees and exchange rates for money transfers to the Pacific Islands¹ – it does not handle money transfers and we have no invested interest in the money transfer companies listed. We simply provide free information so you can get a deal on your international money transfer costs.

Popular Transfers:

Australia to Fiji	New Zealand to Fiji	USA to Fiji
Australia to PNG	New Zealand to PNG	USA to Samoa
Australia to Solomon Islands	New Zealand to Solomon Islands	USA to Tonga
Australia to Samoa	New Zealand to Samoa	
Australia to Tonga	New Zealand to Tonga	

Examples of successful initiatives

Philippines – Every Penny Saved

Examples of successful initiatives

Pakistan Remittances Initiative

Objective:

- Facilitating, Supporting, Faster, Cheaper, Convenient & Efficient flow of remittance
- To create investment opportunities in Pakistan for overseas Pakistanis

PRI has formulated a comprehensive strategy aimed at greater commitment of financial sector towards remittance services and the resultant development of a remittances culture. This has brought transparency to the remittance market and provided adequate consumer protection, efficiency of payment system infrastructure, and incentives for the remitters, beneficiaries and overseas entities.

Role of regulators

Regulatory environment

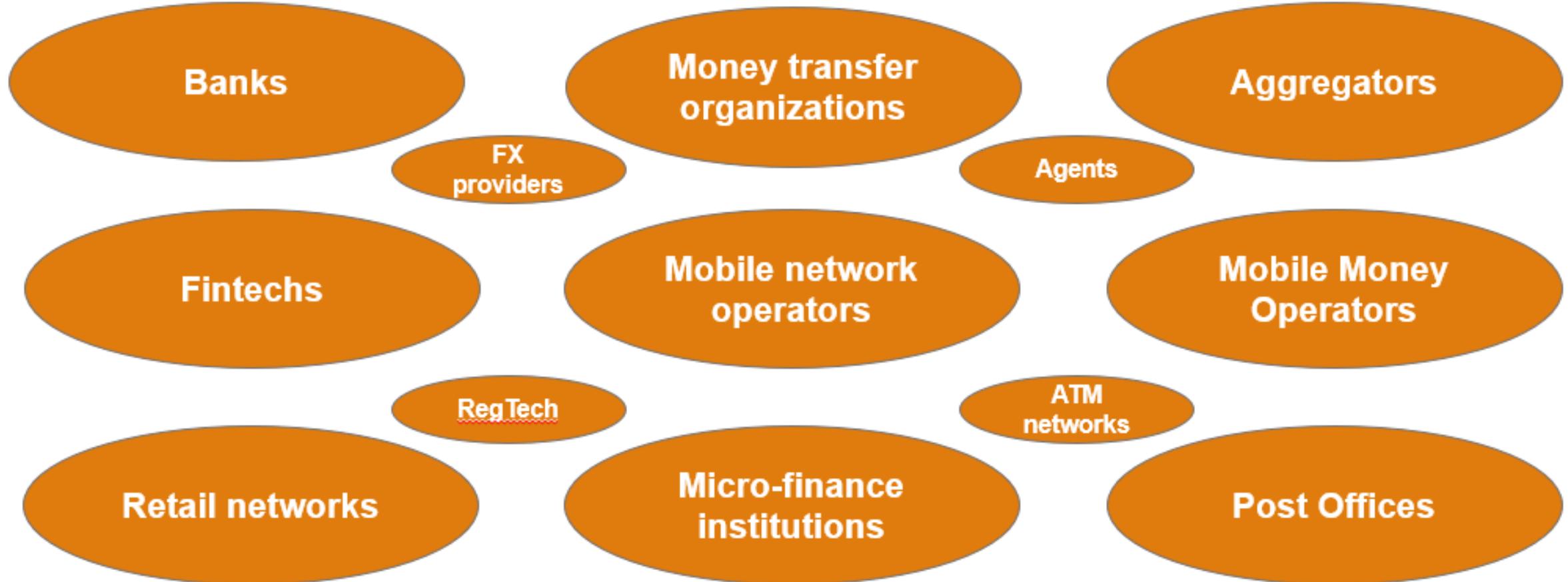
Impacts every critical area of remittances

- Inappropriate regulations contribute to high costs, informality

Solutions include:

- Consistency
- Functional regulation – not by institution
- Types of operators
- Proportionality, e.g. KYC
- Enable innovation - RegTech

The private sector is a key partner



Engage	Create	Implement
Engage with the private sector – develop two-way communication channels. Task forces, round-tables, forums.	<p>Create a level playing field</p> <ul style="list-style-type: none">• Regulation – interoperability, no exclusivity• Consistency across markets• Allow multiple actors to participate• Remove barriers caused by informality	Implement the actions in the GCM, especially around incentives and data collection

The role for governments and public sector

Some specific considerations for Asian countries

- Implement a remittance specific regulatory framework
- Develop national and regional payment networks
 - Widen the networks of businesses that are allowed to pay-out
 - Remove exclusivity arrangements
- Improve financial education
- Standardize and potentially harmonize KYC/AML arrangements across the region
- Examine impact of exchange controls on remittances
- Ensure remittances are not taxed

Some specific considerations for Asian countries, cont.



- Provide consumer protection legislation for remittances
- Increase transparency for remittance senders and receivers
 - Regulation
 - Price comparison portals
- Improve digital payout infrastructure in all receive markets
- Make digital remittances an attractive solution
- Consider establishing a remittance based bank
- Improve data collection and sharing

Summary

Summary

There are massive opportunities for the formal remittances markets to grow

Financial inclusion products are very promising

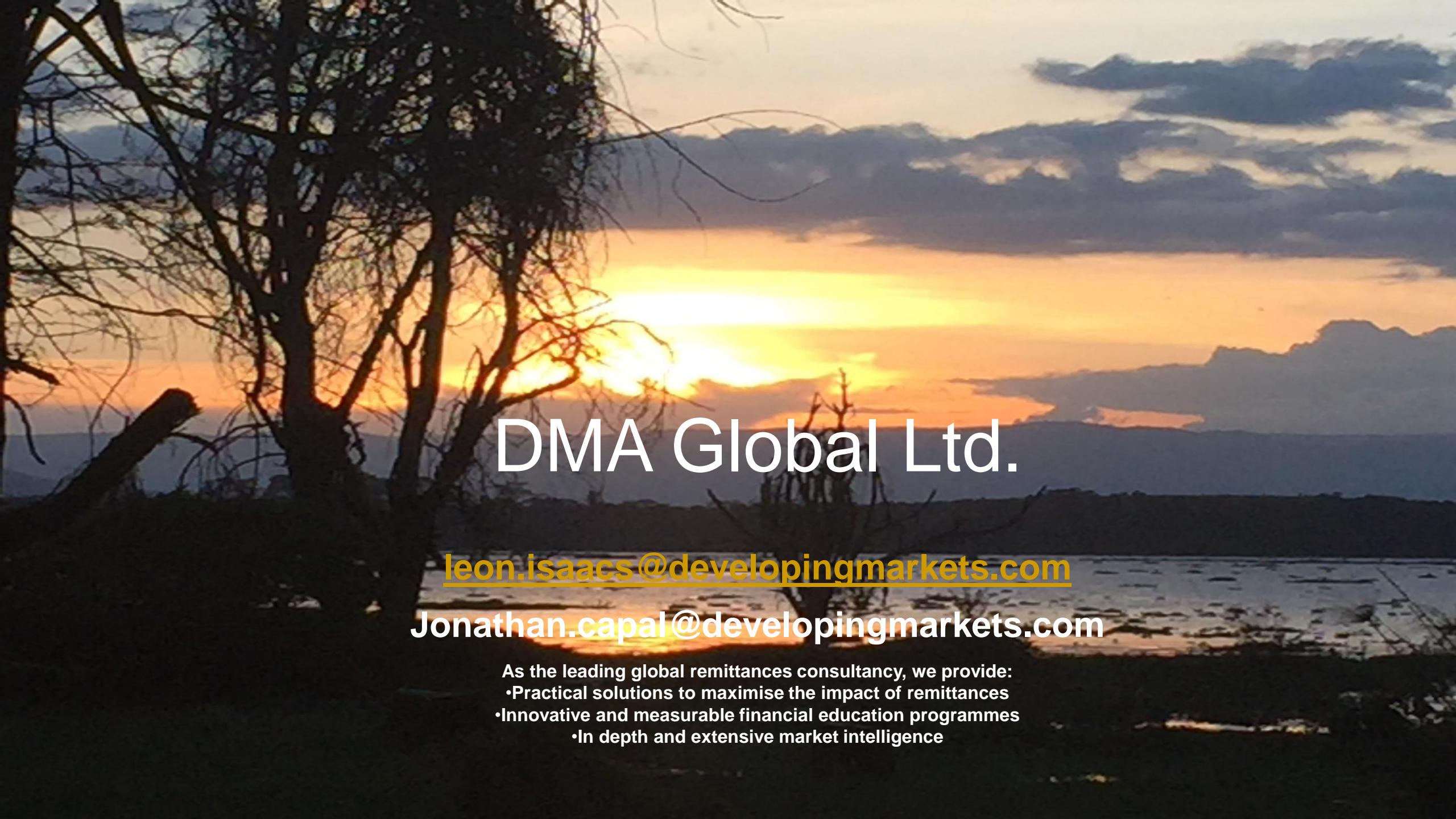
ADB Region has a number of challenges if it is to develop fully

Remittances involve multiple actors and multiple jurisdictions

A real need to find scalable solutions – because it is hard work

But, if we do it properly:

IT WILL BE WORTH IT

A wide-angle photograph of a sunset over a range of mountains. The sky is filled with warm orange and yellow hues, transitioning into cooler blues and purples at the top. In the foreground, the dark silhouettes of bare trees frame the scene. The mountains in the background are partially obscured by clouds, creating a sense of depth and beauty.

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As the leading global remittances consultancy, we provide:

- Practical solutions to maximise the impact of remittances
- Innovative and measurable financial education programmes
- In depth and extensive market intelligence