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Evolving International Remittance Technologies: Policy Implications

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Summary

- The international remittances industry is undergoing transformation with new players entering the space.
- Inefficiencies in the remittance processes result in high fees, slow speed and use of informal channels.
- One of the reasons for high fees and slow speed is the extensive value chain for traditional players, which results in the need for larger margins in order to compensate participants.
- Digitization can help alleviate some of these issues and mobile money services offer a good example.
- Remittances are a key driver for mobile money adoption. El Salvador and Qatar are two success cases for using mobile money for remittances in a receiving and a sending remittance country, respectively.
- However, there are impediments to digitization as related to identification, connectivity, financial services and education but certain policies and programs can help deal with them.



What are international remittances and their costs?

International Remittances are *cross-border person-to-person payments of relatively low value*. The transfers are typically recurrent payments by migrant workers who send money to their families in their home country every month.

The payments are:

- Typically relatively low-value compared to, for example, wholesale bank-to-bank.
- Recurrent, usually a series of individual instructions rather than a standing order.
- Transfers between relatively low-income individuals and the senders who as migrants may not always be well integrated into all aspects of the host-country's society and economy.

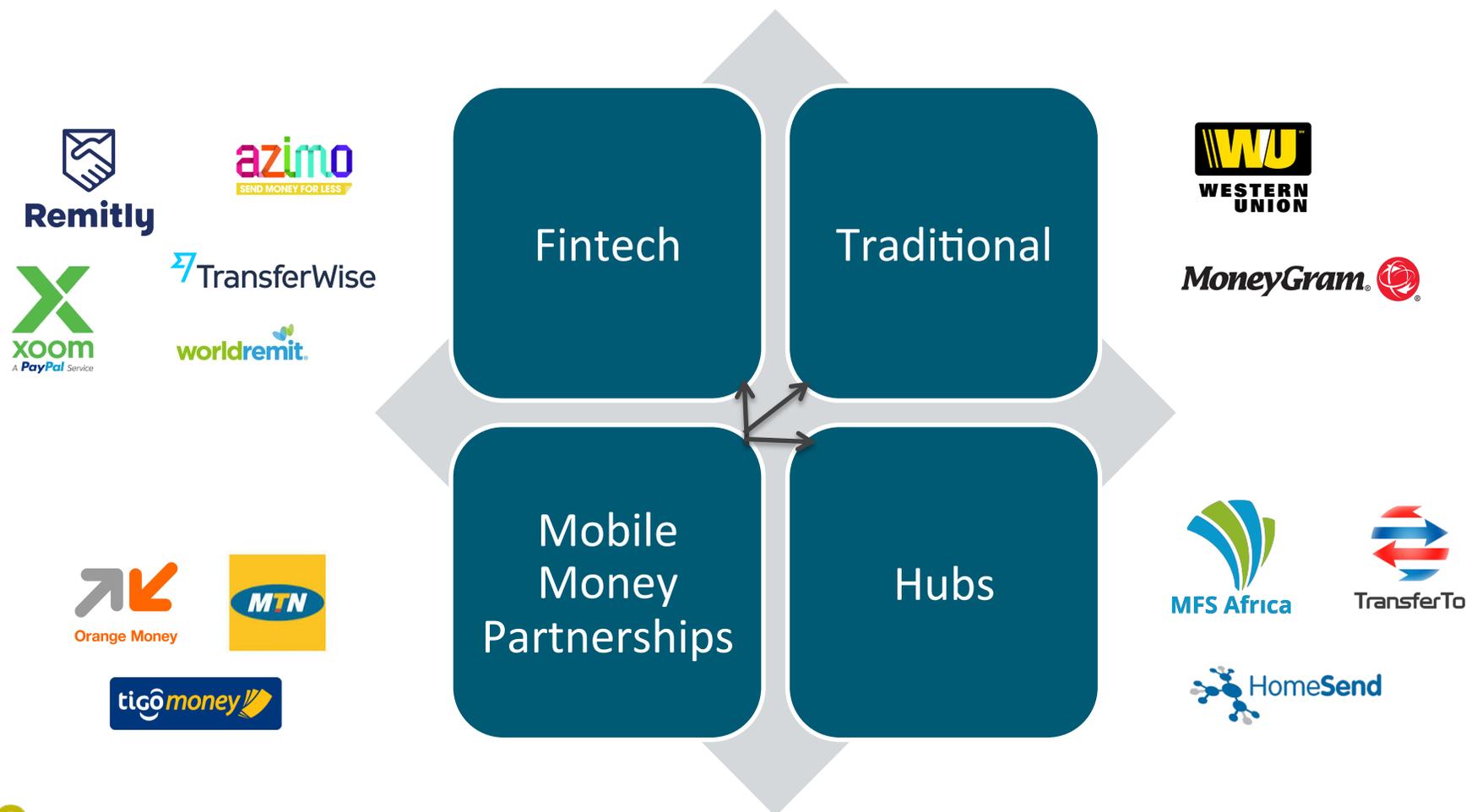
| Global Remittances Value (2016 est.) | % remittances sent digitally | Average Cost of Sending Money | Ave. Cost of Sending Money via Xoom | Ave. Cost of Sending Money via Mobile Money |
|---|-------------------------------------|--------------------------------------|--|--|
| US\$ 600B | 6% | 7.42% | 3.93% | ~3.71% (est) |

Sources: *Digital Remittances: Enhancing Financial Health for Families around the World*, Xoom, 2016, <http://www.businessinsider.com/paypals-xoom-growth-digital-remittance-2016-5>, World Bank Remittance Prices, BIS (<http://www.bis.org/cpmi/publ/d73.pdf>), Mondato Research and Analysis



How are international remittances evolving?

Traditionally international remittances have been sent via banks, money transfer operators (MTOs) such as MoneyGram and Western Union, and informal channels. However, the remittance space has been changing. Mobile operators and Fintech companies provide attractive alternatives to the traditional models by offering more convenient and cheaper methods of sending remittances via cards, computers or mobile phones.



What is the remittance process?



- KYC due diligence:
 - In person
 - Remote
- Wire instructions:
 - Teller
 - Online
 - Call center
 - IVR integration
 - Teller/Agent application
 - ATM integration
 - Mobile/ App

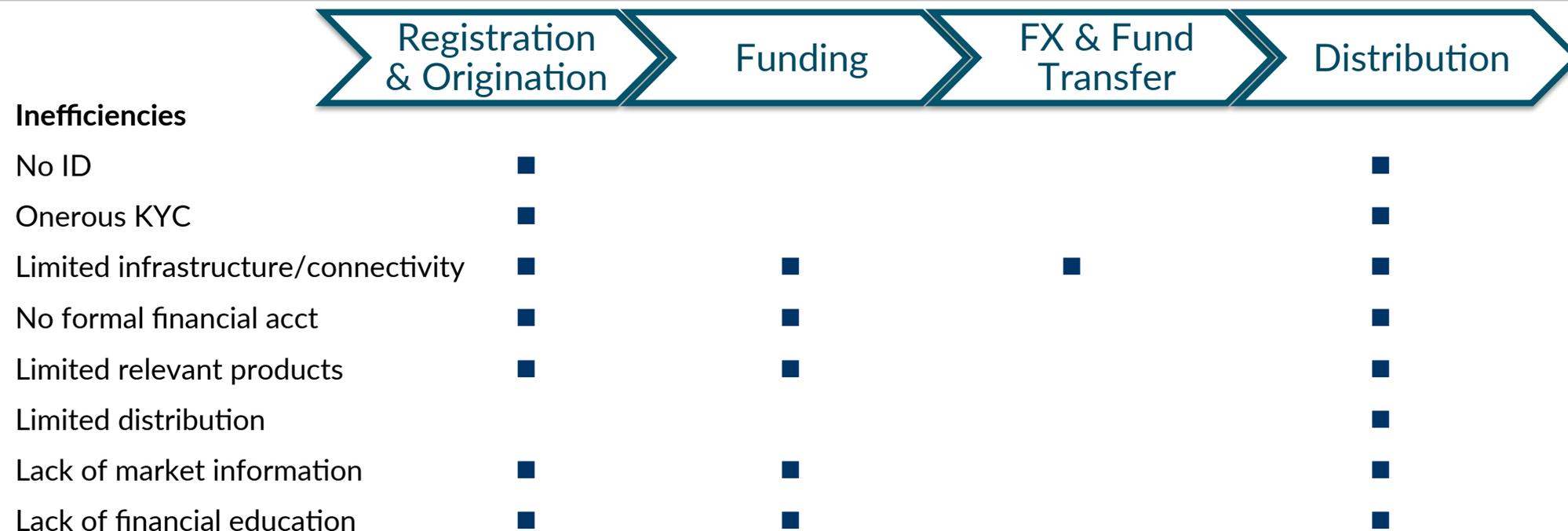
- Cash over counter
- Account debit
- Check
- Card (debit/credit)
- Direct debit/Giro via Internet
- Planned/Recurring
- Mobile money/E-money account
- Airtime top-up
- Digital/Crypto currencies

- Funds converted to destination currency
- Currency rate and amount (indicative or guaranteed) reported
- Funds transferred:
 - Bank acct to bank acct (complex)
 - Proprietary network
 - International hub
 - Informal channel

- Cash over counter
- Account credit
- Check/Demand Draft
- Card
- Mobile/E-money account
- Airtime top-up
- Digital/Crypto currencies
- Pay Bill
- School Fees
- Investment instrument
- Goods/Services
- Pay mortgage/loan



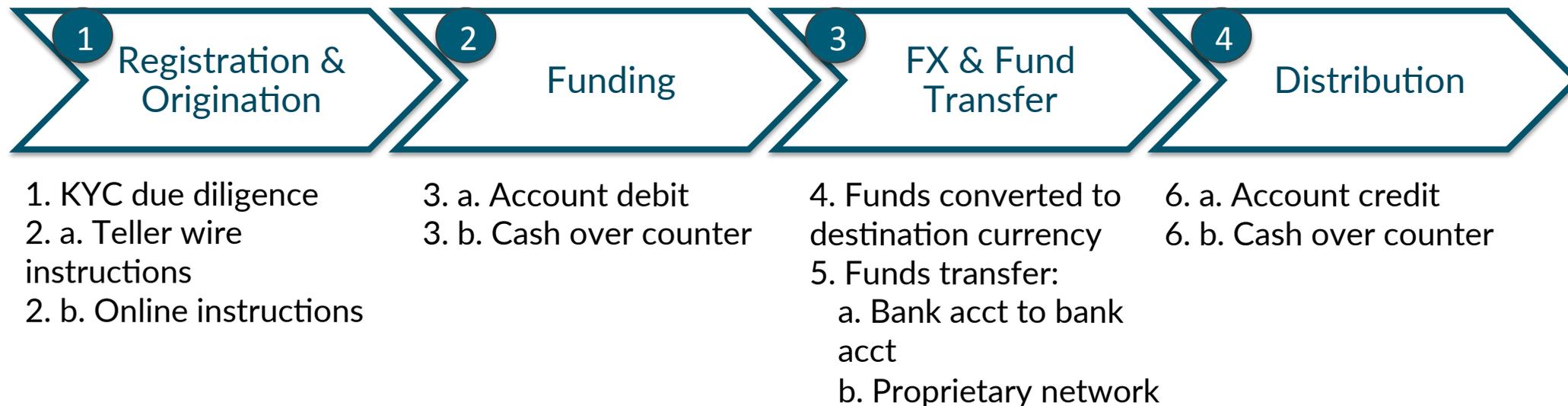
Where are the pain points?



These inefficiencies in the value chain could result in high cost, slow speed, and use of informal channels (low control and transparency) for remittances.

Why are traditional remittances expensive?

An extensive value chain for banks and MTOs results in the need for larger margin in order to compensate participants.



- If unbanked but has ID, individual must go to bank branch or agent or use informal channel (1,2,4)
- MTO proprietary network is cheaper and fast to transfer funds but agent network is expensive (3)
- Banks transfer money to other FI and use international networks, which could be an expensive and long process (3)

These inefficiencies in the value chain could result in high cost, slow speed, and use of informal channels (low control and transparency) for remittances.



Can Digitization Help?

Cost

If all remittances become digital we could see total savings of US\$ 21 Billion per year.

Control and Transparency

The development of digital channels contributes to increased remittance through formal channels.

Speed

Digital payments can be made in real-time, received at home, and cashed-out in small amounts.

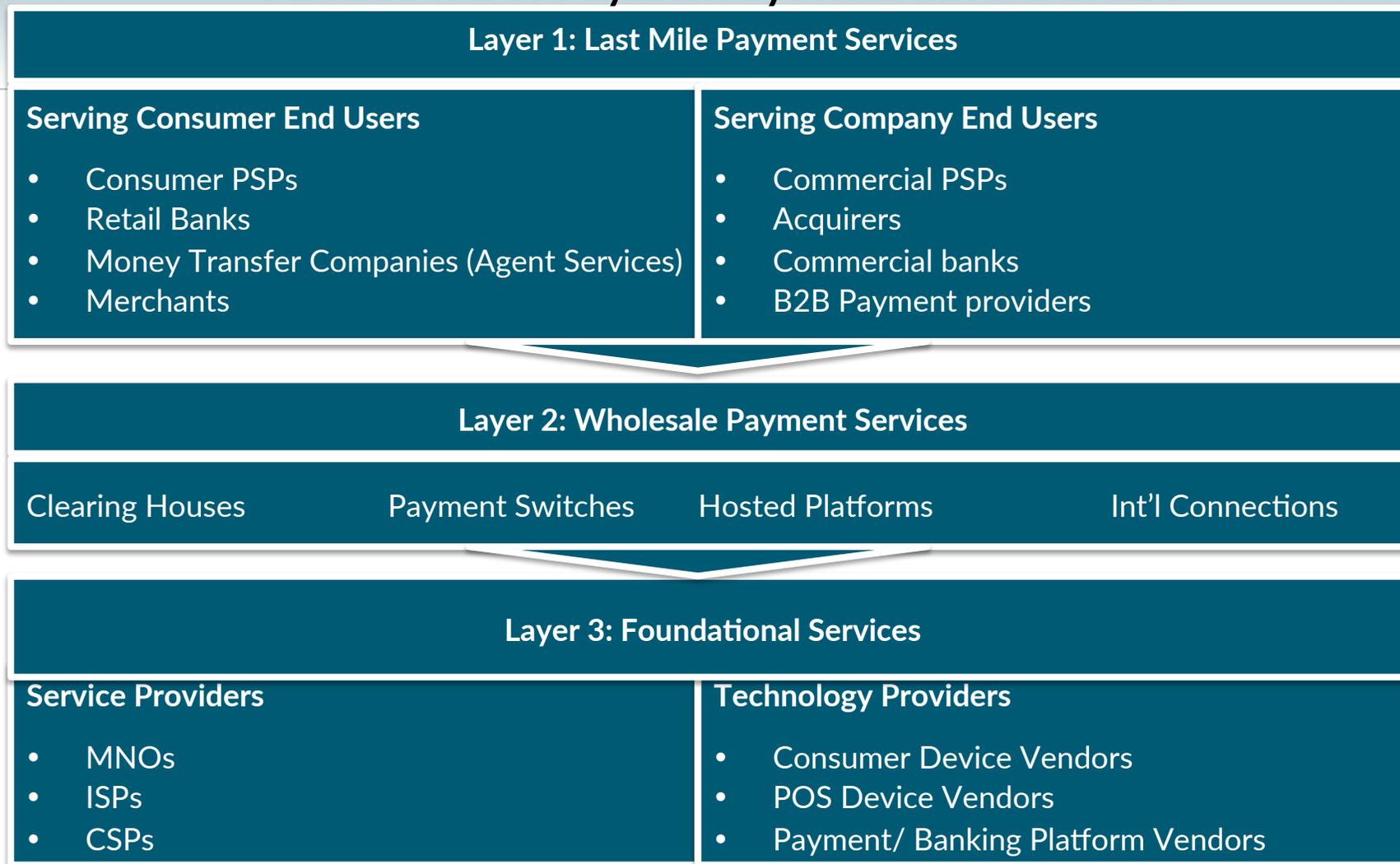
In Niger, mobile transfers reduce the time required for collection by up to 4 times vs. cash (travel and wait time, ex. 40 minutes travel time, 3 hours waiting time).

Source: The Opportunities of Digitizing Payments, A report by the World Bank Development Research Group, Enhancing Financial Health for Families around the World, Xoom, 2016, Mondato Research and Analysis



What Can We Digitize?

Abstraction of Payment Systems Infrastructure



Digitize and develop all layers for improved efficiency, speed and cost.

Source: Mondato, 2016, *Digital Payment Systems, Mobile Money Services and Agent Banking in Bangladesh, Nepal and Sri Lanka*



Has it Been Done?

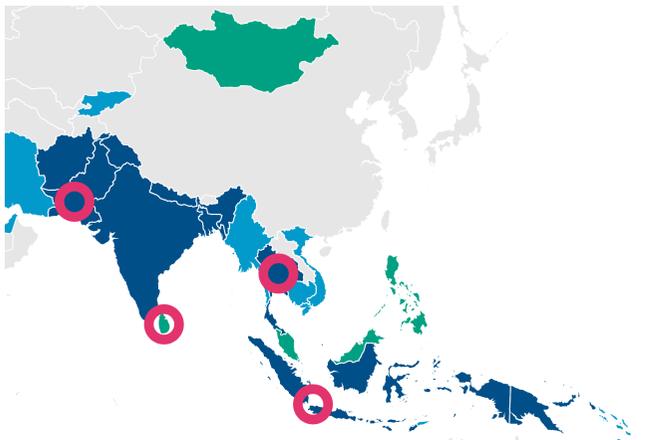


Traditionally MTOs such as MoneyGram and Western Union had to develop own distribution networks, which is very expensive. While bank transfers are time consuming as a transfer has to go through various networks and banks. New players are employing efficiencies at different parts of the value chain.



Disruption Examples: Deep Dive Mobile Money

| Country | Financial Inclusion (%)* |
|-------------|--------------------------|
| India | 52.8 |
| China | 78.9 |
| Philippines | 28.1 |
| Pakistan | 8.7 |
| Bangladesh | 29.1 |
| Nepal | 33.8 |
| Sri Lanka | 82.7 |



Mobile money applies a downward pressure on remittance cost, 50% cheaper than traditional players:

- Propels greater competition,
- Leverages existing networks and infrastructure,
- Captures smaller remittance values than traditional players.

Mobile money remittances could be a gateway to financial inclusion.

- Financial inclusion is still low in certain markets in Asia. Use of mobile money to receive remittances have proven a key use case to increase adoption of mobile money and ignite other use cases, leading to growth in financial inclusion and more productive use of remittances.
- In 2015, there were 29 corridors, connecting 19 countries with international mobile money remittance mainly in West Africa. In Asia the only channels were Qatar and Singapore to the Philippines.

Source: *The World Bank Migration and Remittances Factbook 2016*, *GSMA State of The Industry 2015 Mobile Money*, *Driving A Price Revolution: Mobile Money In International Remittances*, *GSMA 2016*, *Mondato Research and Analysis*

* Account at a formal financial institution (% age 15+, 2014)



How does it work on the receiving side? (El Salvador)

| | | |
|------------------------|--|---|
| Name | Tigo Money |  |
| Year Launched | 2011 | |
| Number of Agents | 2,500 | |
| Number of Users | 1M+ users (4.3M adult population) | |
| Number of Transactions | 2M/per month (not only remittances) | |
| Services | Phone recharges, donations, international remittances, merchant payments (restaurant). Remittances in partnership with traditional players/money transfer companies Western Union, MoneyGram and TransferTo (airtime top-up). Remittances represent 18% of GDP | |
| Results | <ul style="list-style-type: none"> • Remittances are the main driver of the adoption of Tigo Money • Adults with access to financial services grew from 13% in 2011 to 37% in 2014, driven largely by TIGO Money | |

Sources: <http://www.dinero.com.sv/en/finances/item/1967-tigo-money-is-positioning-itself-as-one-of-the-most-successful-services.html>

The World Bank Findex, GSMA, Mondato Research and Analysis.



How does it work on the sending end? (Qatar)

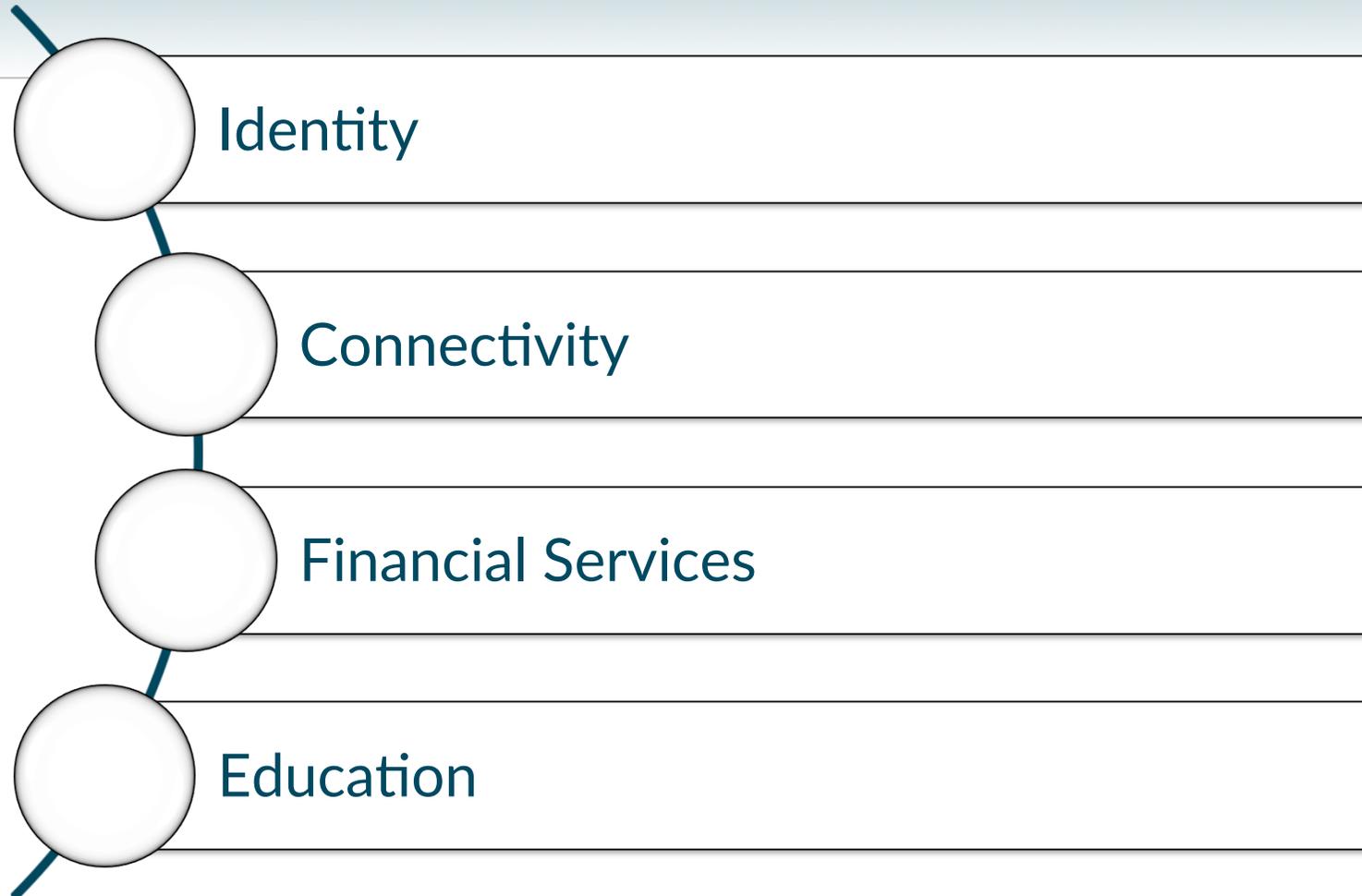
| | | |
|------------------------|--|---|
| Name | Ooredoo Money |  |
| Year Launched | 2011 | |
| Number of Agents | 200+ Ooredoo self-service machines (SSM), 200+ Ooredoo Shops, QNB Bank Account | |
| Number of Users | 1M+ users (>2M adult population) | |
| Number of Transactions | 500,000/per month (remittance). Compound annual growth rate 150% 2011 to 2015. | |
| Services | <p>Customers initiate international transfers from their mobile money account, and receivers can receive money directly to their mobile money account in some markets, or to pick up at MoneyGram. Biggest corridors are to Bangladesh, Indonesia, Kenya and the Philippines.</p> <p>Remittances in partnership with traditional players/money transfer company MoneyGram.</p> | |
| Results | <ul style="list-style-type: none"> • Remittances are an important driver of adoption of Ooredoo Money. • Payroll service to allow migrant workers to receive their salaries directly in mobile money acct. • Promotional offers for international transfers include free airtime and data, cashback offer, etc. | |

Sources: <http://www.gulf-times.com/story/413729/Ooredoo-Mobile-Money-customers-can-send-money-dire>

<http://www.qatarisbooming.com/article/transfer-money-internationally-moneygram-ooredoo-mobile-money-just-qr-1>, Mondato Research and Analysis.



What is the problem?

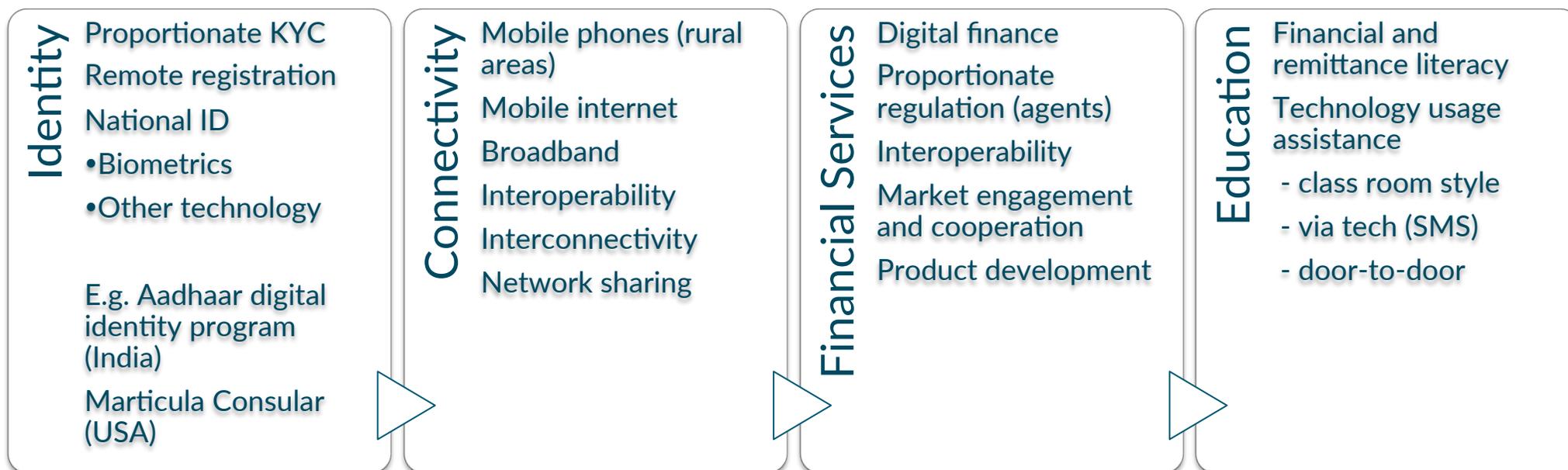


Sources: *Digital Remittances: Enhancing Financial Health for Families around the World*, Xoom, 2016, Mondato Research and Analysis



How to enhance remittances development impact?

Government Programs | Enabling Regulation | Private Public Partnerships | Donor Agencies Support



Sources: *Digital Remittances: Enhancing Financial Health for Families around the World*, Xoom, 2016, Mondato Research and Analysis



Existing studies: Bangladesh, Nepal and Sri Lanka

ADB Commissioned Study

Digital Payment Systems, Mobile Money Services and Agent Banking in Bangladesh, Nepal and Sri Lanka (2016)

Includes:

- Payment Systems Market Review
- Mobile Money Services and Agent Banking Market Review
- Regulatory Review
- Market Development Recommendations

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Mondato is a boutique management consultancy specializing in the provision of strategic, commercial and operational support across the digital finance and commerce (DFC) ecosystem.

Established in 2008 on a foundation of years of experience in the telecommunications, technology and financial sectors, Mondato possesses a unique understanding of the fast evolving, ever expanding DFC space; we understand the players' pain points, and have designed our solutions to address them. Mondato's portfolio of strategic and tactical offerings target MNOs, banks, retailers, vendors, regulators, DFIs, and others interested in implementing, investing in, or encouraging the development of DFC, whether as a pure play or as part of a broader proposition.

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