

Finance Sector Group Webinar on:

Remittances in Asia The Impact of COVID-19: Harnessing Digitization to Aid Recovery in Asia

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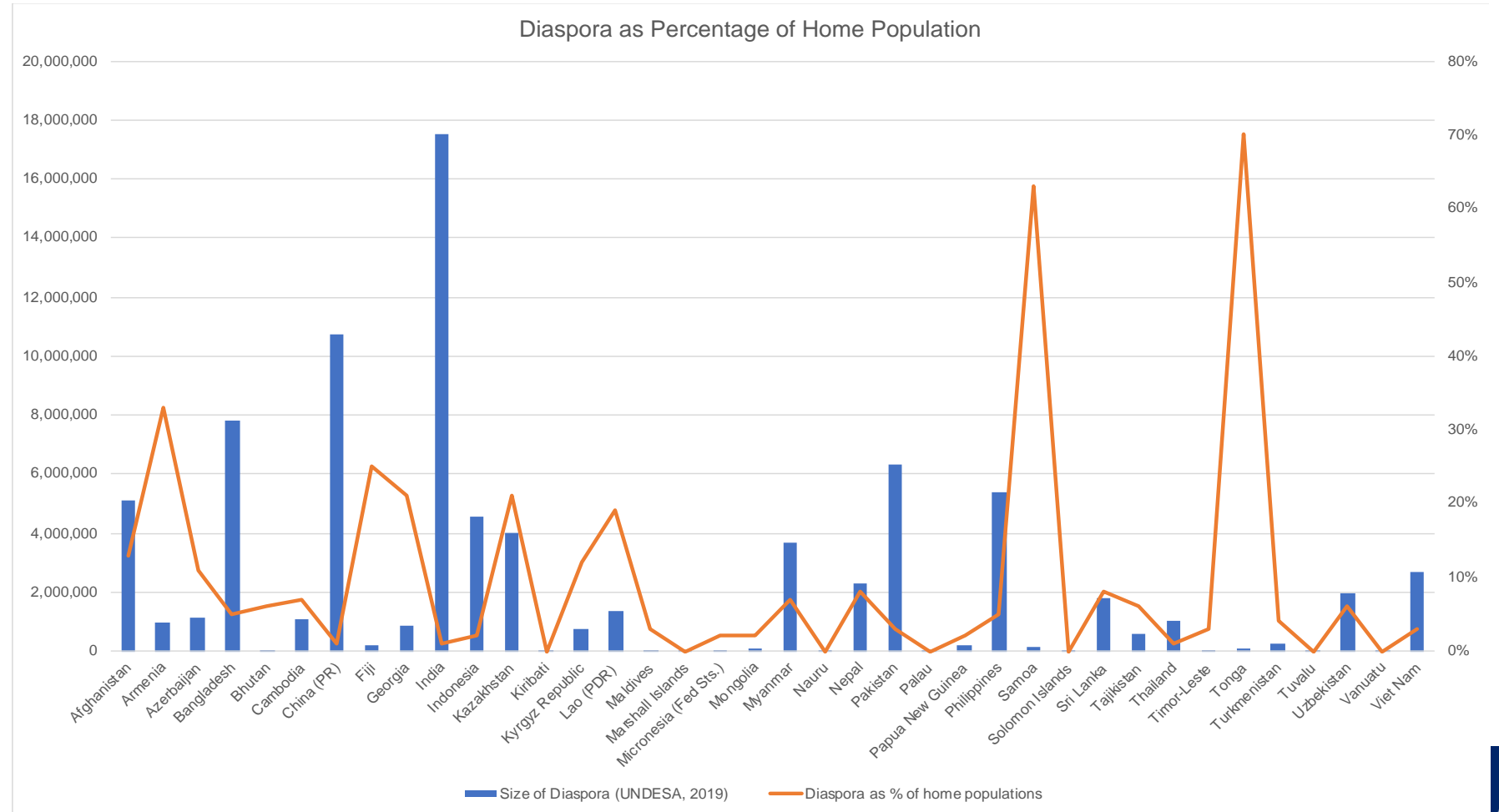
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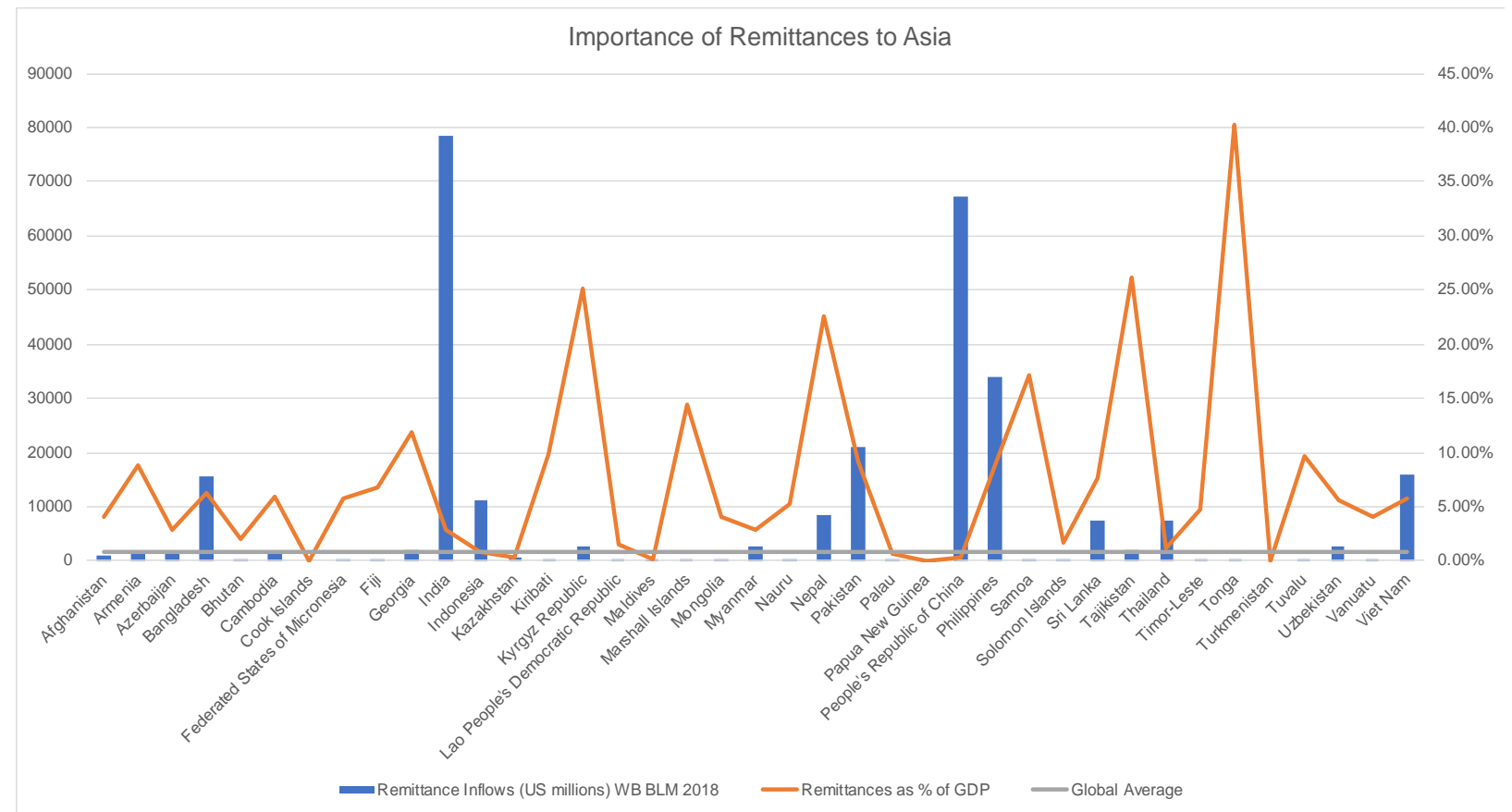
Migration is important for Asia

- Diverse area
 - 4.5 billion people
 - 84 million migrants
- Diverse destination countries
 - Middle East
 - Australia/NZ
 - USA
 - Europe
 - Intra-Asia



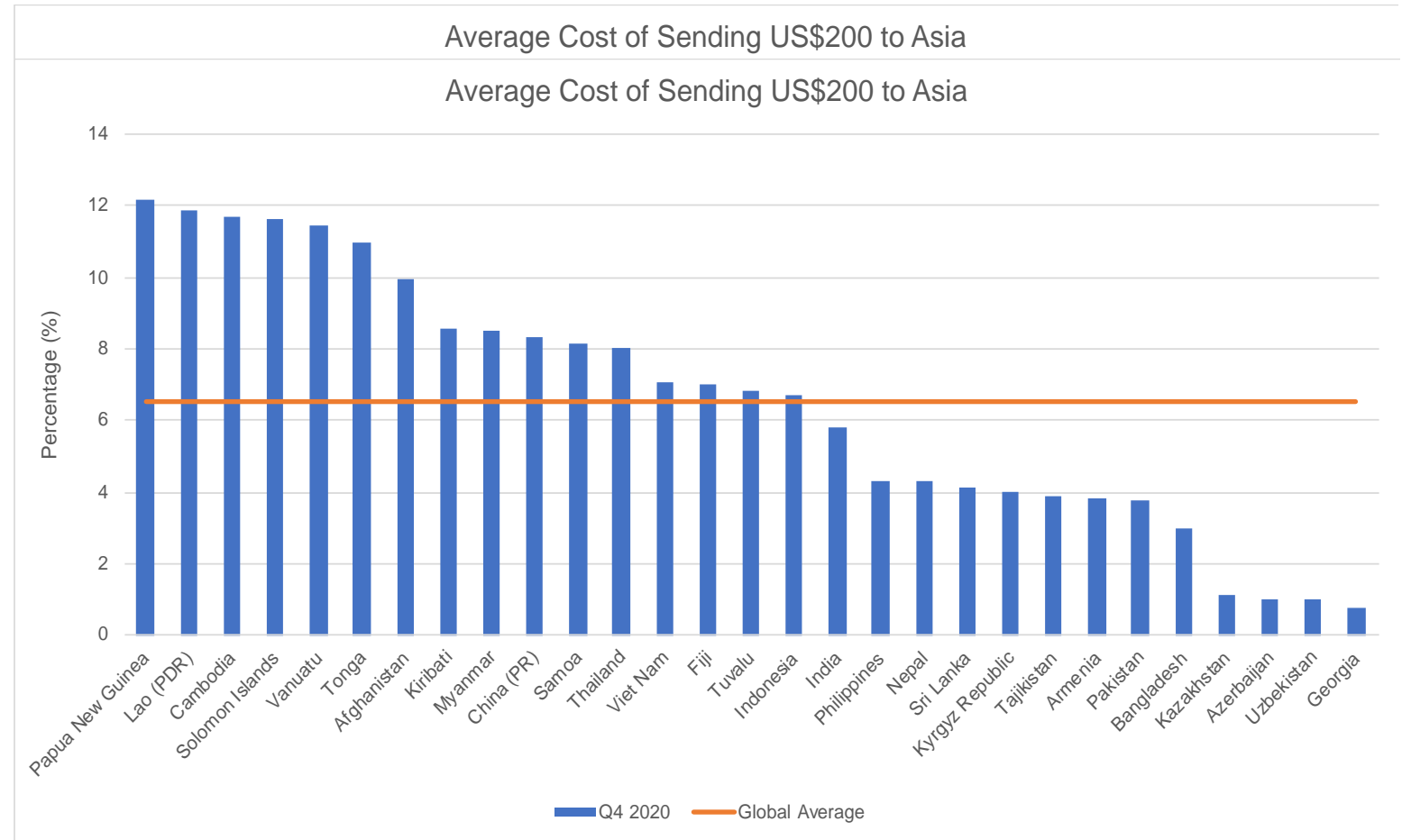
The importance of remittances

- \$302bn in 2018
- Main receivers – value
 - India
 - People's Republic of China
 - Philippines
 - Pakistan
 - Vietnam
- High percent of GDP
 - Tonga 40%
 - Tajikistan 26%
 - Kyrgyz Republic 25%



Remittances pricing is generally too high

- Remittance pricing across Asia varies
- No subregion reaching the SDG 10.c. target of 3 percent so far.
- Central Asia is cheapest
- Pacific Island Countries is most expensive.
- Pricing determined by the sending country and the type of provider.
 - E.g. From Middle East to India averaged 3.71%
 - 3.29% to Sri Lanka
 - New Zealand to Samoa 11.62%



Challenges with remittances

1. **High Remittance Costs.** Remittance prices across Asia vary, but are all above the global target **SDG 10.c.** on reducing the cost to 3 percent

- Lack of competition;
- Operational costs in cash-to-cash services
- Number of entities in the value chain
- Compliance and KYC costs
- De-risking

2. **De-risking**

- A significant problem for the remittance industry since 2012-13.
- Threatens progress in financial inclusion;
- Reversing advancements in reducing remittance prices and fees;
- Moves higher risk transactions from the regulated system into more opaque informal channels
- Loss of access to financial services for humanitarian organisations;
- Some Central Banks and others tackling the negative side effects of de-risking.
 - Pacific Remittance Project in 2019,
 - Develop a regional KYC tool and approach,.
 - ADB has supported the development of a KYC utility in Samoa.



Challenges with remittances

3. Cash is king

- Consumers like cash because:
 - More control over the transaction
 - Trust - agent is a key factor in the remittance transaction and it is often easier to trust a person
- Asia has many digital payments options available, but
 - Not enough alternative services online
 - Mobile money not prominent enough, even in rural areas in Asia
- A lack of financial education
- Remittance senders and participants have strong concerns over privacy especially if they are providing their personal details online.



Challenges with remittances

4. Informal Remittances

- Transactions that are made outside the formal financial system, and could include:
 - Friends or family travelling with cash,
 - Bus drivers transporting cash across borders,
 - Remitting in goods or services
- Hawala/Hundi informal system is widely used in Asia because they work for users.
 - Lower cost
 - No requirement for ID or KYC documentation
 - Lack of awareness of other alternatives and also whether service is legal or not
- Informal remittance practices are a concern for regulators/policy makers
 - Not possible to trace who is using them
 - Foreign currency from them does not pass through formal channels
- To reduce informal transactions the formal market must be more attractive: lower costs, harmonising KYC, financial literacy



Challenges with remittances

5. Regulatory Environments

- There are significant differences between subregions in their legal and regulatory frameworks,
- Relatively new area with different countries at different stages of development. Common standards in areas such as eKYC, fraud protection, etc. would be beneficial
- The time that it takes to approve licence applications varies significantly between countries.

6. Lack of data

- There is a lack of consistent and reliable data on remittances
 - Significant improvements in recent years in countries such as Bangladesh, Pakistan and the Philippines
 - Availability and dissemination is weak in most countries
 - Information on method of sending or receiving, demographics (including gender, age and location) would be useful
 - Accurate data is key to being able to understand the importance of remittances to a home country.



COVID-19 and Remittances to Asia

- **As COVID-19 became a global pandemic, there was a great fear that remittances were going to significantly decline**
 - April 2020, World Bank predicted global decline of 23 percent
 - Revised to 7 % decline in 2020, followed by 7.5 percent decline in 2021, (\$470 bn)
 - For South Asia, October 2020 predicted a decline of 4 percent in 2020 and 11 percent in 2021
- **The lockdowns in the largest host countries were the cause of initial fears. Migrants are very resilient and have made every effort to continue sending remittances**
 - Average value of a transaction decreased but the frequency of sending increased.
- **Initially there was a decline in remittances being sent to some Asian markets.**
- **By the end of 2020 the impact was not as severe as initially predicted.**
 - Bangladesh, increase of 8 percent
 - Pakistan, increase of 9 percent rise
 - Fiji, increase of 11 percent



COVID-19 and Remittances to Asia

- **Remittance volumes held up because:**
 - Fall in informal remittances
 - Government efforts to change customers behaviour
 - People not able to travel to perform the Haj
 - Some favourable exchange rate devaluations, e.g. Nepal
- **Whilst COVID-19 has been devastating for many people, it has also served as a catalyst for change in the remittances market**
- **Central Banks introduced initiatives to encourage migrants to send money home, including the adoption of digital remittances**
- **Digital remittance service options have increased significantly since the beginning of the pandemic.**



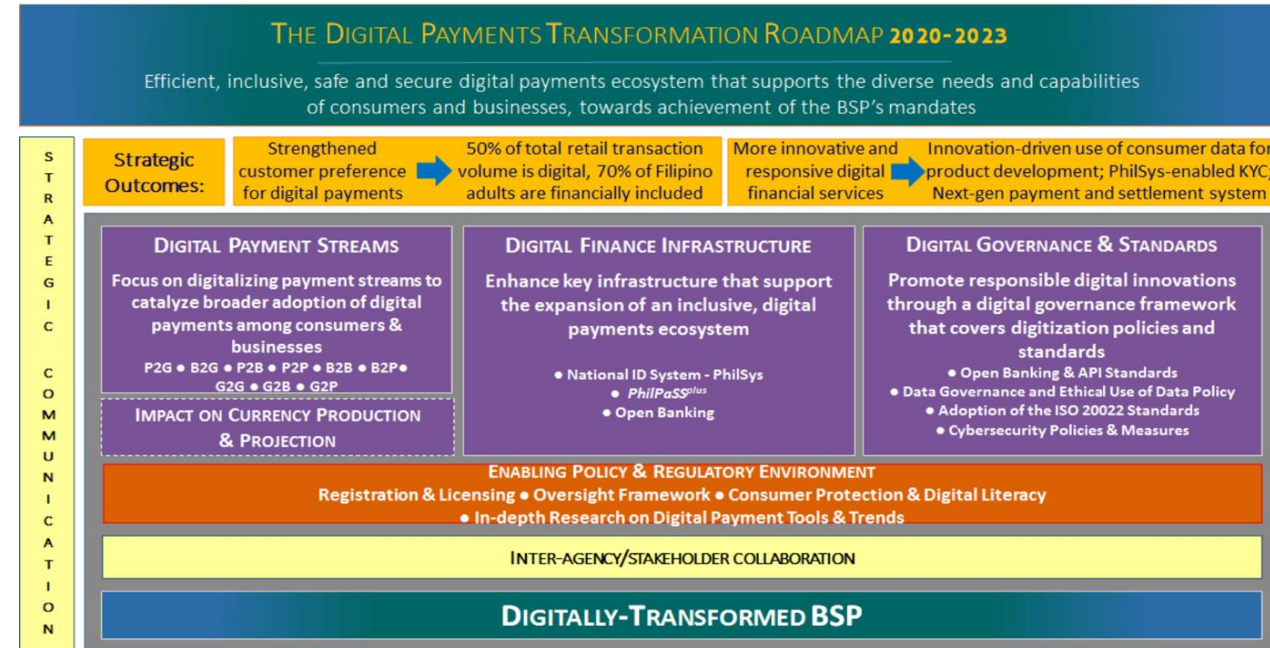
Digitization and remittances

- Digitization can bring a number of benefits:
 - Lower transfer costs – mobile wallet-to-mobile wallet was 3.53 % Q3 2020 (GSMA) v global average remittance cost of 6.75%
 - Digital remittances normally credited to an account, enhanced financial inclusion
 - Digital financial services can contribute to increased resilience of the financial sector, especially in times of crisis
 - Improved transparency
 - Efficiency
 - Convenience
 - Improved access
 - International remittances, via mobile money, contribute to 14 of the 17 SDGs



Case – study Philippines

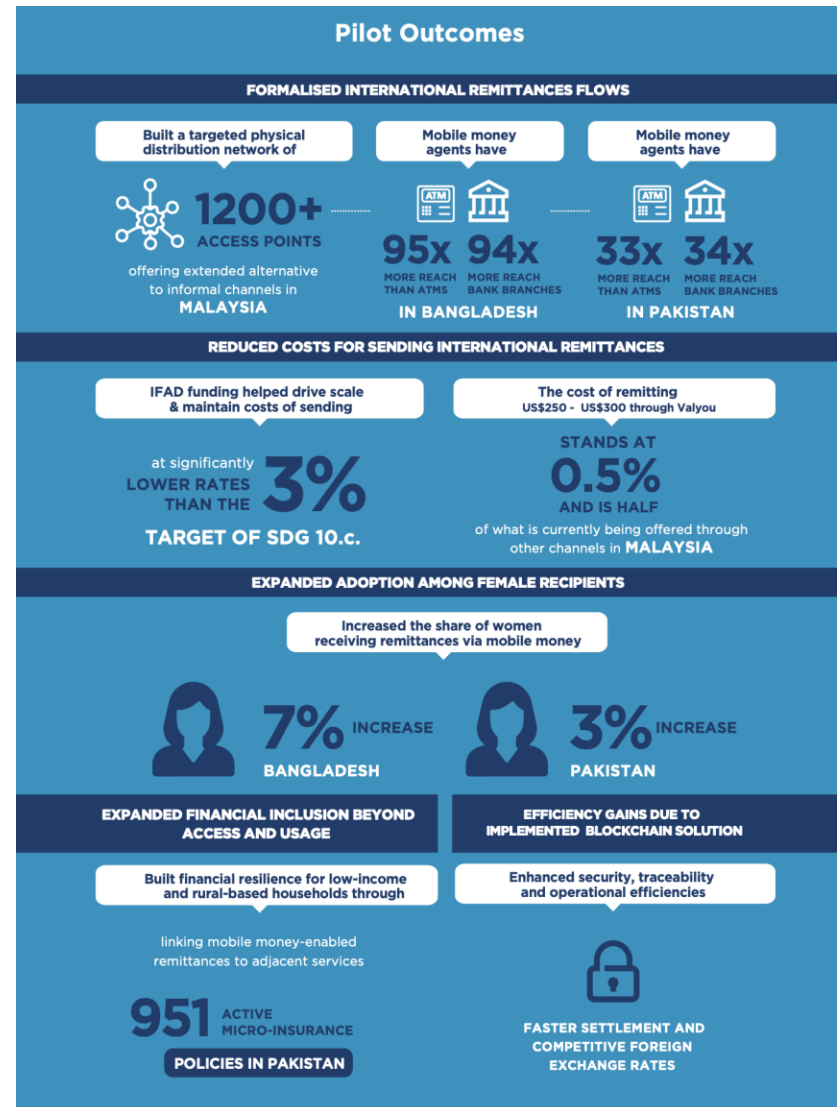
- **The Philippines has a coherent payments digitization strategy.** Digital Payments Transformation Roadmap:
 - Digital payments to be 50 percent of all payments by 2023
 - Aims to increase financial inclusion to 70 percent (from 34 % in 2017), by 2023.
- **The Digital Payments Transformation Roadmap contains three pillars**
 - Digital Payment Streams
 - Digital Finance Infrastructure, e.g. InstaPay and PESONet
 - Digital Governance and Standards



- Key supporting features include a digital national ID scheme and National QR Code Standard (QR Ph) (introduced in November 2019).

Case Study - Valyou, Malaysia

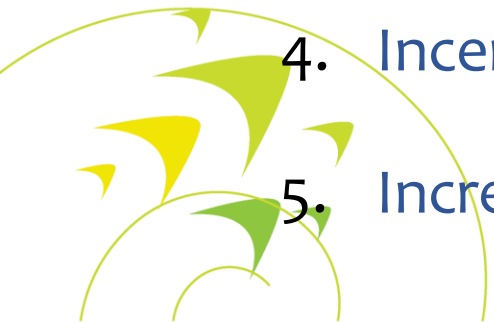
- Between 2017 and 2020,
- Malaysian mobile money provider, Valyou piloted an app-based international remittance service for migrant workers from Pakistan and Bangladesh.
- Traditional cash-based corridors, often hawala.
- Set-up targeted distribution
 - Stores in Malaysia
 - Direct to account in Bangladesh



- Pilot showed that mobile money can:
 - help turn informal to formal
 - reduce remittance costs
 - increase financial inclusion
 - increase uptake by female recipients.
 - Increased coverage in rural areas

Recommendations

1. Increase regional cooperation on digital remittances Asia-wide, including the sharing best practice
2. ADB to bring its expertise and experience to help enhance digital capacity and improve remittance related policies and practices
3. Develop a digital remittances tool kit which can be used to help countries with their development
4. Incentivise digital transactions to encourage rapid adoption
5. Increase financial education on digital services



Recommendations (cont.)

6. Simplify on-boarding process, whilst reassuring users that it is secure
7. Development of digital ID solutions to ensure greater financial inclusion
8. Use technology to Support AML and CFT implementation and compliance, as well as improve supervision
9. Regulators, financial institutions and MTOs should work together to safeguard remittances and promote competition and innovation by creating an enabling operational environment
10. Effective interoperability to be introduced where appropriate to make it as easy as possible to pay how, where and when the users wish to.



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