Catalysts for Financial Inclusion: Remittance and Digital Finance
Sabine Spohn, ADB and Jonathan Capal, DMA Asia Pacific

An animated, fact driven discussion on remittances was held at a breakout session at the ADB conference on Financial Inclusion in the Digital Economy. Sabine Spohn, Senior Investment Specialist with ADB, hosted the panel featuring Robert Bell, Executive Chairman of KlickEx; Jonathan Capal, Director of DMA Asia Pacific; and Imelda Nicolas, Chairperson for the Commission on Filipinos Overseas.

With over 250 million people living outside their countries of birth and a remittance flow of estimated $431.6 billion in 2015, safe and affordable remittances remain very relevant. Since average transaction cost is still 7.5% of transaction amount, digital channels will further support reduction of costs.

In light of this, the panel and audience discussed several key issues:

Remittance innovations and digital finance

Remittance technology and digital channels have become game changers in reducing remittance costs. They have enabled money transfer operators (MTO) to offer services cheaper than traditional, over-the-counter cash services, with the additional advantage of a lower risk profile through the greater anti-money laundering and combating terrorist financing (AML/CTF) procedures that digital services generally pursue.

Mr. Capal discussed how transparency initiatives—such as the Australian and New Zealand government-supported remittance comparison website "SendMoneyPacific" and the forthcoming "Saver Asia" platform— are allowing remittance senders to compare prices and learn about the benefits of innovative digital remittance providers. The video "The Power of Remittances" highlighted how digital services have helped to reduce costs by over 62% in the Pacific region, with digital services just over half the cost of traditional services.

Mr. Bell expanded on the benefits of remittance technology, citing the experiences of KlickEx's operations in the Pacific over the past six years. Across the world, innovative MTOs using digital channels have helped to lower the costs for senders and increase convenience for receivers, allowing receipt of funds in mobile wallets or at agents in remote regions. This has removed substantial travel inconvenience and costs.

Ms. Nicolas outlined how remittance innovations are benefitting millions of overseas Filipino workers. She expanded on several initiatives helping to accelerate digital innovation for Filipinos, such as the "Philippine Financial Freedom Campaign" of Peso Sense.

Perceived risks in the remittance market

"Derisking" behavior—because of anti-money laundering/know your customer (AML/KYC) concerns—among major international banks has resulted in the closure of many correspondent banking accounts of MTOs, forcing many of the operators in several countries to close or threaten closure. Philippine MTOs in Italy and remittance operations of its banks in other countries have closed. The audience heard how this risks raising remittance costs and lowering flows, a problem for the Philippines and other economies.

Banks still claim that they would lose money at lower prices for remittances and that they are risk averse to AML/CTF exposure that is not under their control. Banks have been resisting price innovation and real-time payments (unlike MTOs)—common frictions cited include claims of heightened risk in real-time payments, with real-time payments not allowing reporting entities time to monitor flagged transactions.

However, by closing MTOs and seeking to serve MTO customers (at higher costs) who have been disenfranchised, banks are increasing exposure and may be creating a greater security risk by driving remittances underground.

The different views expressed between sending and receiving country regulators were discussed. Sending country regulators do not routinely consider remittances systemically important to take on change management exposures, such as organizational risk or policy framework change. On the other hand, receiving side regulators recognize the importance of innovation and lower cost remittances to their economies.

How digital remittances can lower remittances costs

All panelists outlined the importance of government and donor agency support in the quest to use digital channels and innovation while maintaining AML/KYC standards to lower remittance costs.

The panelists expressed confidence that monitoring systems, compliance, and transaction costs have been brought down so far that the costs of dependable compliance regimes are not prohibitive or a barrier to entry. A bank is not likely to have superior monitoring technology to that of a MTO, despite the asymmetry in scale.

Several examples were provided (both by panelists and members of the audience) of regions where costs have drastically declined through a combination of new technology deployments and government-led awareness campaigns of that technology.

About the authors:

Sabine Spohn currently works in ADB's Private Sector Operations Department. In this position she is primarily responsible for managing the regional microfinance risk participation and guarantee program. Prior to ADB, Sabine worked as Deputy Head in Frankfurt School of Finance & Management, responsible for its Asian project portfolio. Sabine has a commercial banking background and has worked for one of the large German banks in Germany as well as Asia.

Jonathan Capal is a specialist in the field of international remittances with a background in managing remittances, financial literacy, migration and development projects, and foreign investments forums. In 2009 Jonathan launched DMA's Asia Pacific operation in Sydney, Australia. From this office he manages the Australian and New Zealand government supported project, www.sendmoneypacific.org and the Australian government initiated www.sendmoneyasia.org website. Furthermore, Jonathan is involved in major remittances projects including the World Bank's ongoing global remittance prices database http://remittanceprices.worldbank.org.