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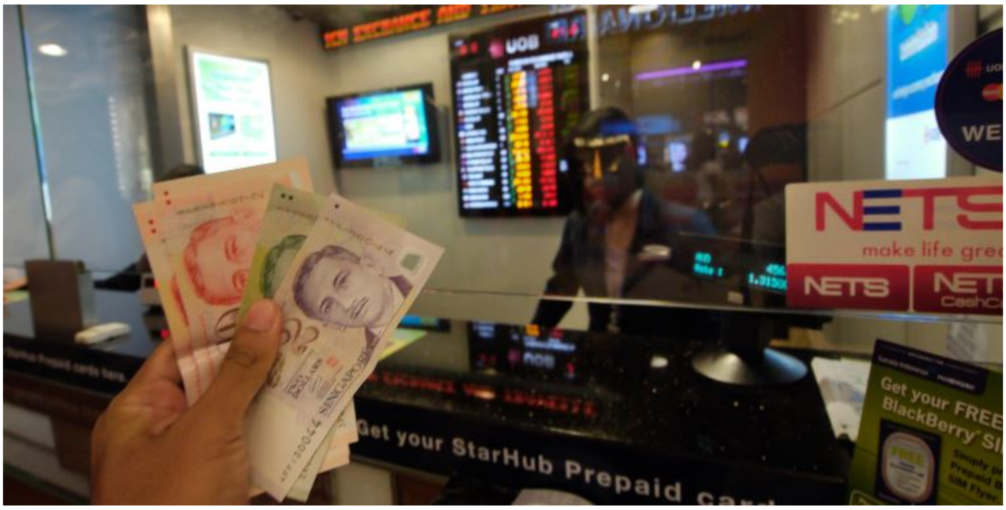
EXPLAINER

Cutting Remittance Costs in a Click



A money changer services customers at Changi Airport. Photo credit: Lester Ledesma/ADB.

Digital technology is a game changer in reducing remittance costs between overseas workers and developing countries in Asia.

Published: 15 September 2016

Introduction

Remittances are the hard-earned product of workers whose migration is usually driven by poverty and lack of job opportunities in their home countries. And, with over 240 million people living outside their countries of birth, remittances are the saving grace for many economies.

But the costs associated with transferring money are steep. Globally, the average cost of sending remittances stands at 7.6% of the amount sent as of the second quarter of 2016.[1] On average, remittances to East Asia cost 8.5%, while fees to South Asia are less expensive at 5.6%.

Reducing remittance costs would have a huge impact on migrants and their families as well as a multiplying effect in terms of financing health, education and other spending beneficial to society.

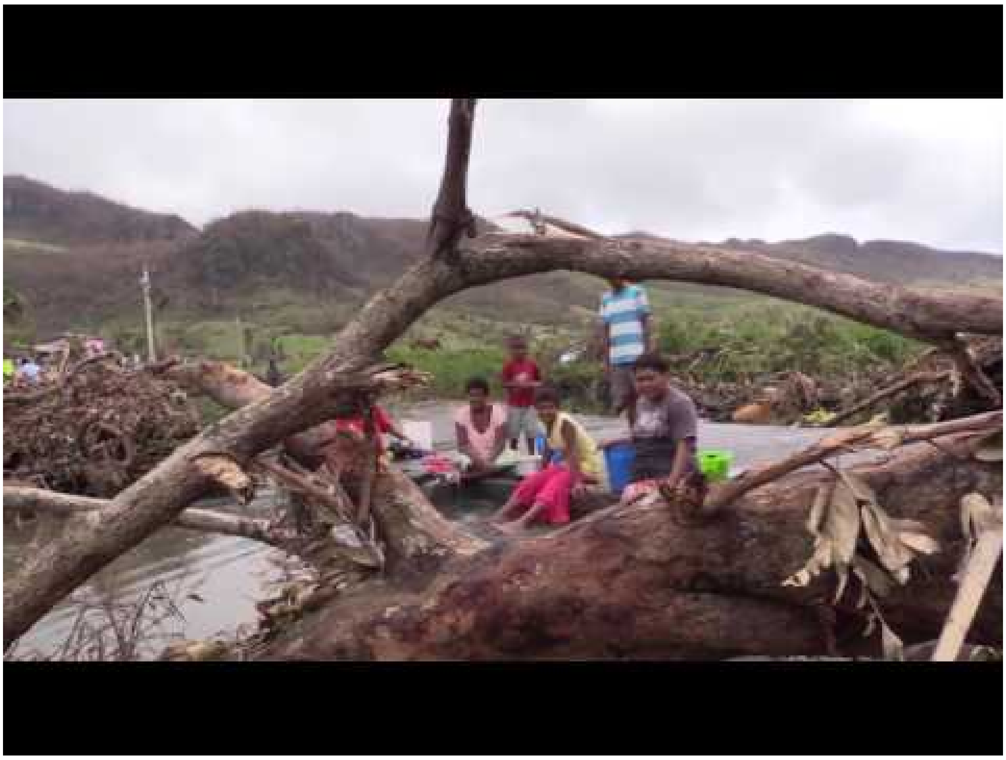
Bringing down the cost of remittances has emerged as one of the sustainability goals of global policy leaders who recognized the importance of remittances both as a foreign exchange source and an economic lifeline. At the G-20 Leaders' Summit in Brisbane, Australia in November 2014, a commitment was forged to reduce the global average cost of transferring remittances to 5%.

This is where technology has become a game changer.

Through digital technology, money transfer operators are now able to offer remittance services at significantly lower costs than traditional over-the-counter services. Digital service providers are also able to pass on the benefit of being subjected to less stringent anti-money laundering and counter-terrorism financing regulations than those imposed on formal channels such as banks.

1*"Remittance Prices Worldwide,"* June 2016 issue, The World Bank.

How big is the remittance market in Asia?



In 2015, remittances exceeded $430 billion in 2015 worldwide, more than two-thirds of which went to developing countries, according to World Bank estimates.

Of this amount, developing countries in Asia received roughly $200 billion in remittances—more than any other region.

In countries such as India and the Philippines, remittances can even exceed foreign direct investment inflows. In Nepal, a low-income country with a large proportion of overseas workers, remittances account for nearly 30% of the gross domestic product (GDP), the largest share in Asia.[1]

Below are the Asian countries ranked according to the size of their remittance market:

Country	$ billions (2015)	Share of GDP (%)
India	70.4	3.4
Republic of China	62.3	0.6
Philippines	27.3	9.6
Bangladesh	15.0	8.7
Viet Nam	12.0	6.4
Sri Lanka	7.0	8.9
Nepal	6.6	29.2
Republic of Korea	6.6	0.5
Thailand	5.7	1.4
Japan	3.7	0.1
Myanmar	3.1	4.8
Malaysia	1.6	0.5
Mongolia	0.3	2.1

Source: World Bank

[1]*"Reducing Remittance Fees can Boost Asian Economies,"* Sean Creehan, Federal Reserve Bank of San Francisco

What is the cost of remitting money in Asia?

Among low- and middle-income countries, remittance costs totaled roughly $47 billion in 2015, according to the World Bank. Globally, the average cost of sending remittances is currently at 7.6%. [1] On average, remittances to East Asia cost 8.5% of the transaction value as of the second quarter 2016 while fees to South Asia are less expensive at 5.6%.

Digital channels are helping reduce remittance costs, as mobile payment services charge roughly 4.1% transaction fees—more than 50% less than the average rate in East Asia.

In comparison, the average remittance cost through commercial banks stood at 11.3%, although bank-based transfers remain the most dominant mode of remittance in Asia due to the proliferation of banks.

MIGRATION AND REMITTANCES IN ASIA AND THE PACIFIC

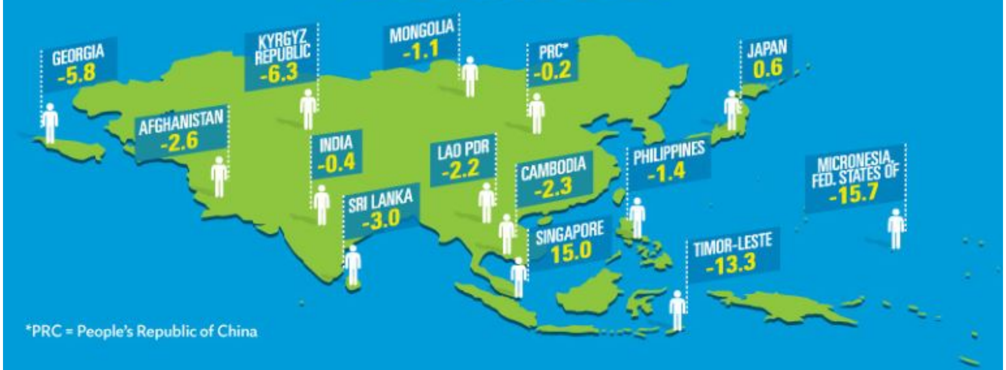
ADB

A remittance is a transfer of money by a foreign worker to an individual in his/her home country. Workers' remittances are a significant part of international capital flows, especially in the case of labour-exporting countries.

NET INTERNATIONAL MIGRATION RATE

Net migration rate is the difference of immigrants and emigrants of an area in a period of time. A positive value represents more people entering the country than leaving it, while a negative value means more people leaving than entering it.

Annual Average (2010 - 2015)



*PRC = People's Republic of China

WORKERS' REMITTANCES AND COMPENSATION OF EMPLOYEES VS FOREIGN DIRECT INVESTMENT, NET INFLOWS

2010 2011 2012 2013

Workers' Remittances and Compensation of Employees

Country	in $ million 2010	2011	2012	2013	in % of GDP 2010	2011	2012	2013
AFGHANISTAN	331	247	385	385	0.1	0.1	0.1	0.1
CAMBODIA	153	160	256	278	1.4	1.3	1.8	1.8
PRC	52,460	61,576	57,987	60,000	0.9	0.8	0.7	0.7
GEORGIA	1,184	1,547	1,770	2,056	10.2	10.7	11.2	12.7
INDIA	53,480	62,499	68,821	69,969	3.1	3.2	3.6	3.6
KYRGYZ REPUBLIC	1,266	1,709	2,031	2,290	26.4	27.6	31.4	31.7
LAO PDR	42	110	59	64	0.6	1.4	0.6	0.6
MICRONESIA, FED. STATES OF	no data							
MONGOLIA	266	279	320	343	4.3	3.2	3.1	3.0
PHILIPPINES	21,369	23,058	24,641	25,351	10.7	10.3	9.8	9.3
SRI LANKA	4,123	5,153	6,000	6,690	8.3	8.7	10.1	10.0
TIMOR-LESTE	132	131	114	120	3.1	2.3	1.8	2.0

Foreign Direct Investment, Net Inflows

Country	in $ million 2010	2011	2012	2013	in % of GDP 2010	2011	2012	2013
AFGHANISTAN	76	91	94	no data	0	0	0	no data
CAMBODIA	783	902	1,557	no data	7.0	7.0	11.1	no data
PRC	272,987	331,592	295,626	347,849	4.6	4.5	3.6	3.8
GEORGIA	869	1,084	831	1,015	7.5	7.5	5.2	6.3
INDIA	27,397	36,499	23,996	no data	1.6	1.9	1.3	0
KYRGYZ REPUBLIC	438	694	372	no data	9.1	11.2	5.7	no data
LAO PDR	279	301	294	no data	4.1	3.7	3.2	no data
MICRONESIA, FED. STATES OF	10	1	1	no data	3.4	0.3	0.2	no data
MONGOLIA	1,691	4,715	4,452	no data	27.3	53.8	43.1	no data
PHILIPPINES	1,070	2,007	3,215	3,860	0.5	0.9	1.3	1.4
SRI LANKA	478	956	941	916	1.0	1.6	1.6	1.4
TIMOR-LESTE	1.5	28	8	no data	1.5	0.7	0.8	0.3

SOURCE
- Asian Development Bank Key Indicators 2014

[2]*"Remittance Prices Worldwide,"* June 2016 issue, The World Bank.

What drives the cost of remittance?

The following factors are instrumental in driving up the cost of remittances: [1]

- Underdeveloped financial infrastructure of countries
- Limited competition
- Lack of transparency
- Regulatory obstacles
- Lack of access to the banking sector by remittance senders and recipients
- Difficulties for migrants to obtain the necessary documentation on their national identification

In addition, in 2014, concerns emerged that renewed focus on Anti-Money Laundering and Combatting the Financing of Terrorism regulations in Australia, the United Kingdom, and the United States are pushing up remittance costs. These came about after the closure of bank accounts of Money Transfer Operators and their agents due to rising global concerns about cross-border money transfers, and the subsequent risk of liability for breaching regulations. These developments were suspected to have increased remittance prices, reduced competition, and encouraged the use of informal channels.

[1] Massimo Cirasino, World Bank, *"Reducing the costs of transferring remittances: How realistic is the proposed target for Post- 2015?"*, presentation made at The 13th Coordination Meeting on International Migration, February 12, 2015. http://www.un.org/en/development

How are digital channels helping reduce the cost of remittance in Asia?

According to the World Bank, the cost of sending money to the Pacific has been dramatically reduced by over 62% with the use of digital channels.

In a May 2016 conference on "Financial Inclusion in the Digital Economy," organized by ADB, the Consultative Group to Assist the Poor, and the ADB Institute, representatives of various financial technology companies shared several examples of digital innovations that are drastically reducing remittance costs through a combination of new technology and government-led awareness campaigns.

- Transparency initiatives such as SendMoneyPacific (http://www.sendmoneypacific.org) enable remittance senders to compare prices and learn about the benefits of innovative digital remittance providers. The Australian and New Zealand government-funded website looks at the fees and foreign exchange rates charged for money transfer services, and publishes this information for free to help remitters get the best deal possible.
- The New Zealand online currency exchange platform KlickEx (http://www.klickex.com) connects banks, local businesses and consumers with the best possible exchange rates at any given time. Using the internet, customers find the best exchange rates based on the urgency (priority) of the

transaction and current market conditions. KlickEx scans foreign banks and local businesses to locate funds at the selected rate. Once located, the exchange is instant, and the funds arrive in the other country immediately.
- Digicel Pacific (http://www.digicelpacific.com) is a leading global communications provider with operations in 33 markets in the Caribbean, Central America, and Asia Pacific. Its technology allows people to send money to their families in Fiji, Papua New Guinea, Samoa, and Tonga. Money is received in Digicel Mobile wallets and loaded and sent via KlickEx Pacific.
- Smart Money (https://smartpadala.ph) was launched in 2001 by Smart Communications, one of the dominant telcos in the Philippines, as a mobile financial service. With SMART Money, customers can use their mobiles to send and receive money domestically and internationally. Customers can cash in and out in branches and ATMs of Banco de Oro (BDO), Smart's banking partner and e-money issuer; microfinance institutions; pawnshops; and money changers that are widespread across the country. For international remittances, Smart has business ties with international banks directly or through its local commercial bank partners in countries with high concentrations of overseas Filipino workers.

Resources

World Bank. *The cost of remittances worldwide.*

The economics of remittances

Video showing the importance of remittances

What drives the increase in remittance cost

Catalysts for Financial Inclusion: Remittance and Digital Finance

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Sabine Spohn is primarily responsible for managing the Microfinance Risk participation and Guarantee Program. Prior to ADB, she worked as Deputy Head in Frankfurt School of Finance and Management, responsible for its Asian project portfolio. She has a commercial banking background and holds a PhD in Development Studies from the University of Melbourne.

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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. He launched DMA's Asia Pacific operation in Sydney, Australia and is involved in major remittances projects, including the World Bank's ongoing global remittance prices database.

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