

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.*

## 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.<sup>1</sup> 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.

<sup>1</sup>"*Remittance Prices Worldwide*," June 2016 issue, The World Bank.

## How big is the remittance market in Asia?



In 2015, remittances exceeded \$430 billion 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.<sup>1</sup>

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

<sup>1</sup>"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%.<sup>1</sup> 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.





Registered as a company to reduce the cost of remittance in

# IMMIGRATION AND REMITTANCES IN ASIA AND THE PACIFIC

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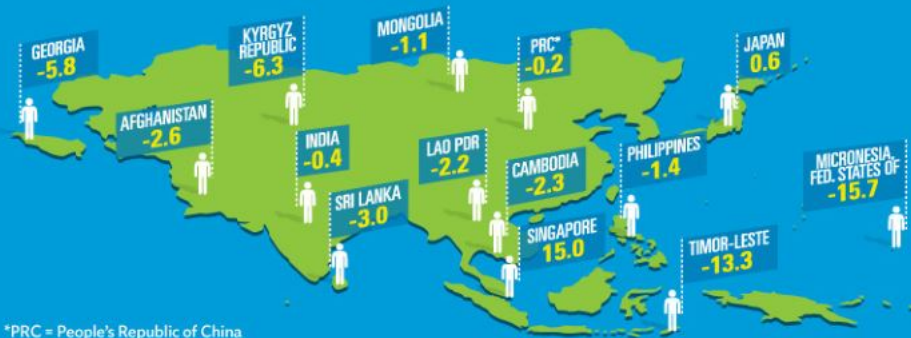
A remittance is a transfer of money by a foreign worker to an individual in his/her home country. Workers' remittances are a significant part of international capital flows, especially in the case of labour-exporting countries.



## 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)

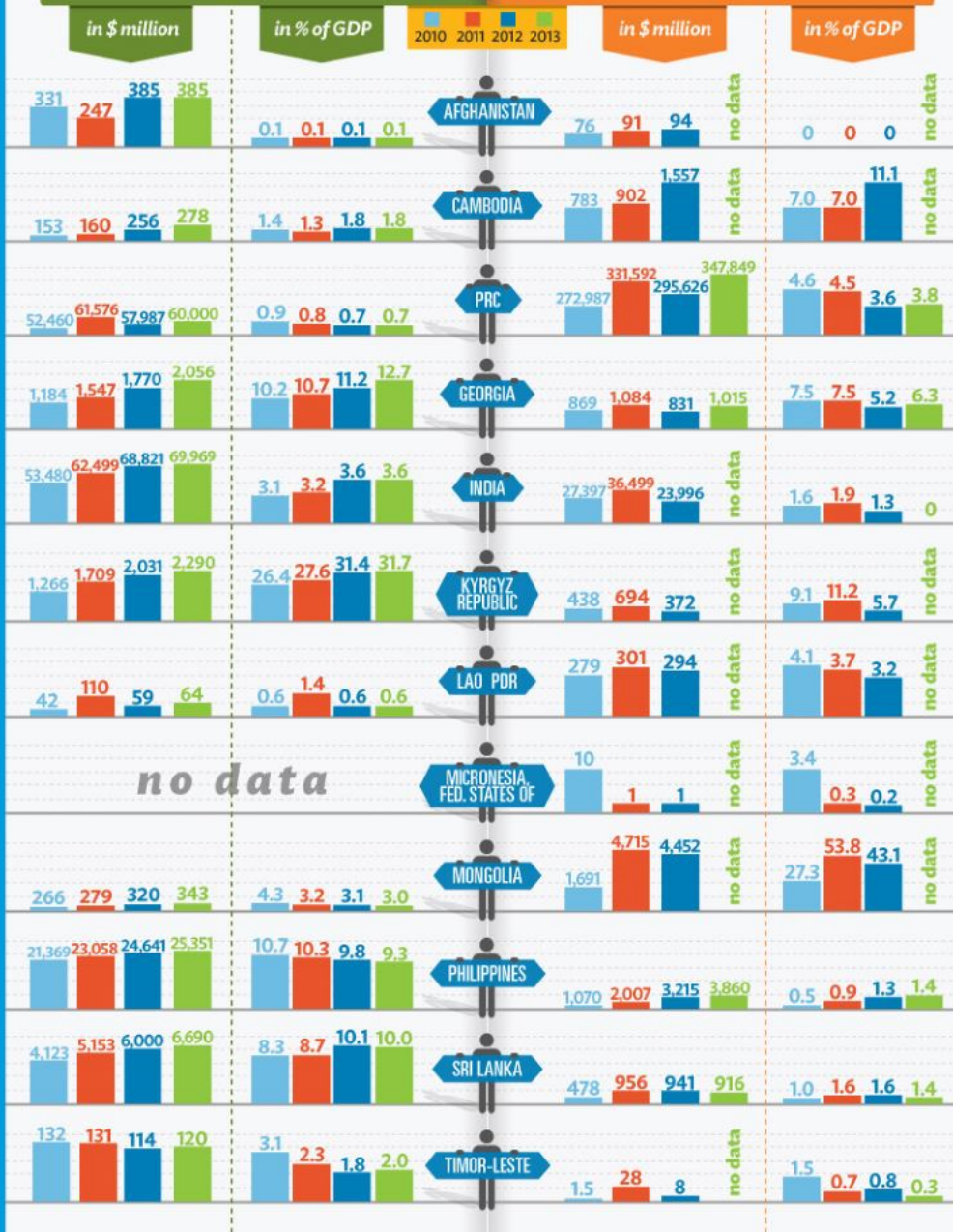


\*PRC = People's Republic of China

## WORKERS' REMITTANCES AND COMPENSATION OF EMPLOYEES



## FOREIGN DIRECT INVESTMENT, NET INFLOWS



SOURCE

Asian Development Bank Key Indicators 2014