

Effective and Affordable Remittance Systems

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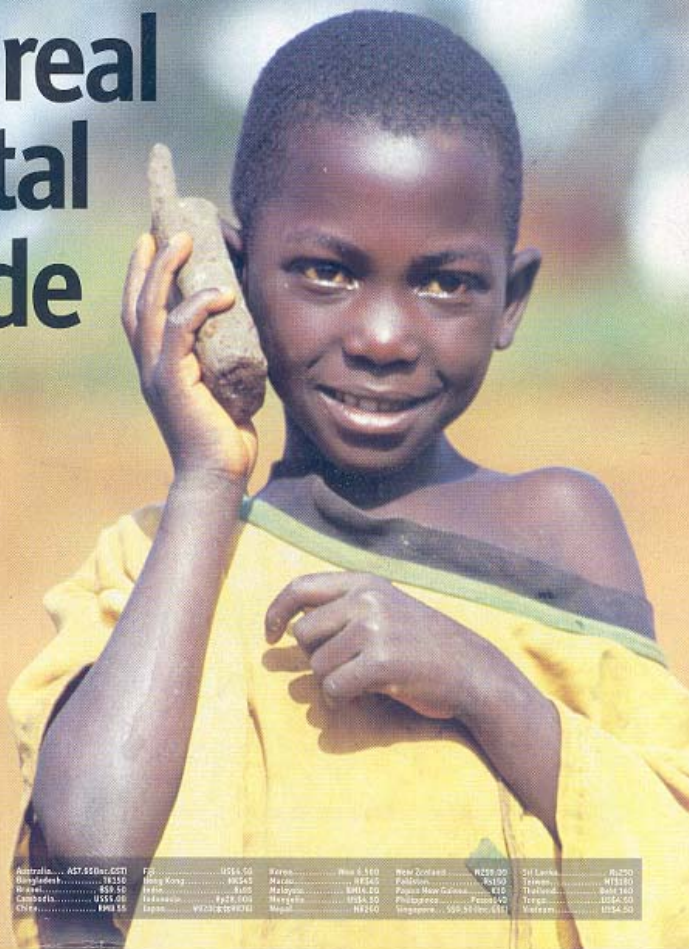
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The real digital divide



Australia	AS\$ 910 per GST	FR	US\$ 50	Green	New 5.160	New Zealand	RZ\$ 90	Sri Lanka	Ru\$ 250
Bangladesh	Tk\$ 150	Hong Kong	HK\$ 45	India	Rs\$ 45	Pakistan	Pk\$ 100	Taiwan	NT\$ 100
Brazil	R\$ 50	Japan	¥ 100	Malaysia	RM 1.00	Paper New Guinea	K10	Thailand	Bt\$ 100
Cameroon	CFA 500	Indonesia	Rp\$ 100	Nigeria	N\$ 50	Philippines	P\$ 100	Togo	CFA 50
China	¥ 100	Israel	₪ 100	Saudi	S\$ 100	Singapore	S\$ 50	Turkey	TL\$ 100

“Encouraging the spread of mobile phones is the most sensible and effective response to the digital divide.”

The Economist, March 12-18, 2005

Mobile phone is technology with greatest impact on development

- The Philippines experience with mobile phones and remittances
- Role of Asian Development Bank in remittances
- Securitization of future cash flow remittance cash flows for developmental uses

Philippines Migration

- ❖ 7.6 mm residing and working abroad
 - 2.9 mm contract based (>one year)
 - 2.8 mm permanent residents or immigrants
 - 1.6 mm irregular or undocumented
- ❖ 3.3 mm - U.S.
1.4 mm - Middle East
- ❖ Over two thirds come from rural areas
- ❖ 65% are women
- ❖ 76% in Singapore are domestic helpers
- ❖ 25% in US are professional and 46% are service and sales, clerical
- ❖ 28.5% of world's seafarers are OFW

Philippines Remittances

- ❖ PHI is third largest recipient after Mexico and India
- ❖ 2003 - \$7.6 Billion in reported flows
- ❖ 2004 - \$ 8.3 Billion (est.)
- ❖ 2005 - \$ 9.1 Billion (projected- wsj)*
- ❖ Total flows including underreported and informal (unregulated) flows estimated to be 25%-100% of reported flows

How are remittance distributed

Large commercial banks dominate the distribution of remittances with a market share of well over 80% with 4296 offices and 4351 ATMs

- ❖ Informal channels (padala) and friends est. to be \$1.5 billion plus per year
- ❖ Believe gradual shift to formal channels because:
 - better service by Phil. commercial banks
 - growing financial literacy among OFWs
 - closing of unregulated MTOs in sending countries

Remittance Industry is big and profitable business

ADB survey:

▪ BSP estimate for 2003	\$7.6 Billion
▪ Average transaction size	\$350.00
▪ Transaction volume	21.7 mm
▪ Aver. Fee or commission	\$8.00
▪ Aver. FX spread	1.0%
▪ Transaction revenue (21.7mm X \$8.00)	\$174 mm
▪ Fx Revenue (\$7.6B. X 1%)	\$76 mm
▪ Total revenue	\$250 mm

Actual revenues likely to be substantially higher because of under reporting and range of fees.

Remittances and Bank Pricing

- ❖ Bank pricing factors:

Sending bank or MTO charges

Receiving bank or MTO charges

FX spread and timing ("float")

Additional services (door to door)

Size of transaction

versus

Bank costs: World Bank estimates all-in cost per transaction at less than 1%

- ❖ Net result: that bank remittance charges are regressive-higher percentage for the smaller amounts

PHIL. Consumer Behavior

- ❖ 80% use banking channels
- ❖ 80% remit monthly
- ❖ 80% of low paid OFWs in Singapore save
- ❖ Consumer demands are universal
 - Trustworthy
 - Speed
 - Good service
 - Cost and accessibility
- ❖ REMEMBER: "It's their Money"

Summary of Economist argument:

- ❖ Mobile phone is technology with greatest impact on development
- ❖ 77% of world's population lives within range of a mobile network
- ❖ The private sector invested \$230 billion in developing countries telecommunications infrastructure 1993-2003
- ❖ Cites study that an increase of ten mobile phones per 100 people boasts GDP growth by 0.6 %
- ❖ The private sector preferably with competition is the best provider of mobile phone operations

Mobile phones are facts of life in Phils.:

- 84 mm population
- 25 mm mobile phones equals 30% plus penetration
- projected to grow to 50% in 2005

versus

- 12067 Bank offices and ATMs

The Philippine experience

Existing domestic factors:

- ❖ High usage of cell phones, especially text messaging
- ❖ Load phones with value or “cyber cash” that can be used to acquire goods and services or to transfer to another cell phone user - stores, children, any user of the same phone system
- ❖ Three mobile system operators related to major telecom companies compete for customers by additional services to avoid “churning”

Logical extension to OFWs

60-70% of OFWs have cell phones

- ❖ Cash In: OFW in Singapore “loads” her cell phone by paying cash to agent of Phil. mobile phone operator - banks, MTOs, operator
- ❖ OFW sends text message to beneficiary in PHIL. with amount, code and designated point of cash out- bank, McDonald’s.
- ❖ Cash out: Beneficiary in PHIL. goes to designated outlet and gets cash **or** transfers “load” and information to another user

How the money moves

- ❖ Cash in agent in Singapore deposits cash in account with designated bank
- ❖ Cash is aggregated and transferred to PHIL. bank
- ❖ Cash out agent has account at same bank which settles the cash positions of both parties
- ❖ One operator claims cash-in capacity in eight countries including Bahrain
- ❖ National mobile systems being interconnected for greater access

Legal and Regulatory Aspects

- ❖ Good banking: “Know your customer”
- ❖ AML requirements: record keeping report and act on irregular or illegal transactions
- ❖ Mobile phone operators are “transfer agents” and therefore subject to central bank supervision
- ❖ Operators and banks have joint responsibility for regulatory compliance

PHIL. Central Bank

❖ Requirements:

- Sender and receiver must identify themselves both initially when acquiring card and for each transaction
- Limits on values:

Maximum Load: P100,000 (US\$1852)

Maximum Transfer: P50,000 (US\$ 924)

Maximum number of beneficiaries: 2

Implications

- ❖ Satisfies consumer demands for remittance transfers using popular technology increasingly available
- ❖ Banks, MTOs and mobile phone operators can team up to provide low cost, easily available transfers to low income overseas workers

Asian Development Bank role

- ❖ Disseminate information and encourage “best practices”
- ❖ Assist governments in developing workable regulatory and industrial framework for international cell phone remittances
- ❖ Support feasibility studies in given instances
- ❖ Support securitization of remittance flows for development purposes

Leveraging Remittance Flows

- ❖ Securitization of future remittances FX flows done elsewhere- Brazil, Turkey, Mexico
- ❖ Commercial bank issues term debt to international investors secured by the future remittance cash flows
- ❖ ADB would guarantee a portion of the debt to achieve lower costs for the bank in return for bank's commitment to use the proceeds for productive/development purposes
- ❖ Legal question of who owns remittance flows: national government or commercial banks

- The complete report and market study including survey questionnaires can be accessed on ADB website

<http://www.adb.org/documents/TARs/PHI/tar-phi-4185.asp>

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