Fintech adoption in remittance services

The path to financial inclusion and sustainable development

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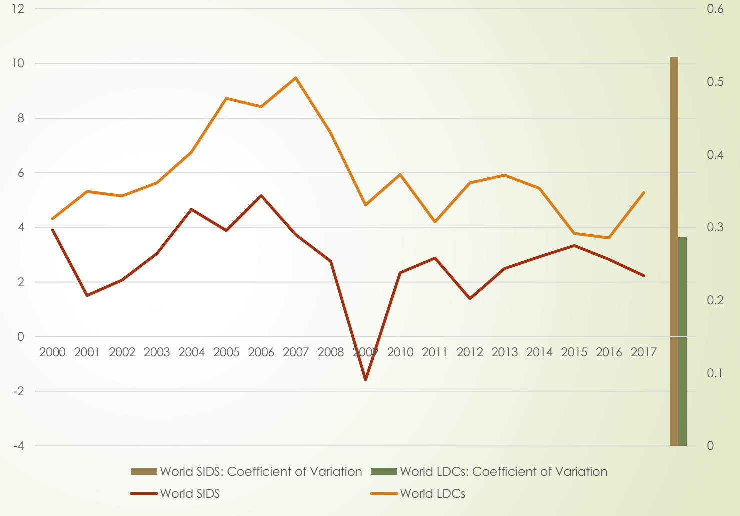
Small island developing states (SIDS): countries with special needs

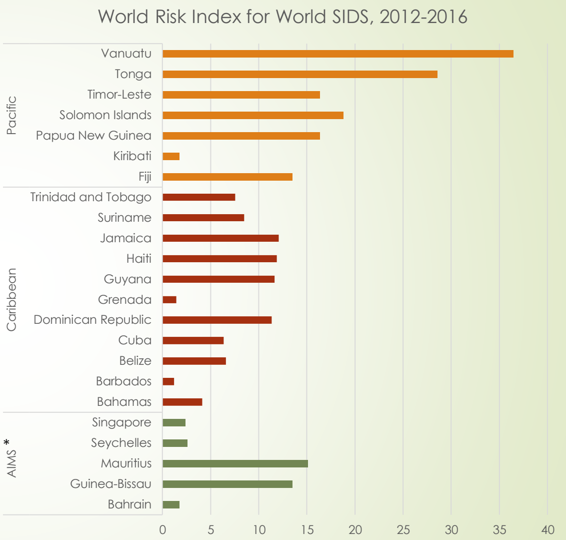
- Small domestic markets
- Great dependence on imports
- High vulnerability to external shocks
- Lower and more volatile rates of economic growth



Source: World Development Indicators, World Bank

Pacific SIDS: countries with even more special needs

- More than one-third of the Pacific SIDS are also LDCs
- Remoteness and geographical dispersion
- Natural disasters

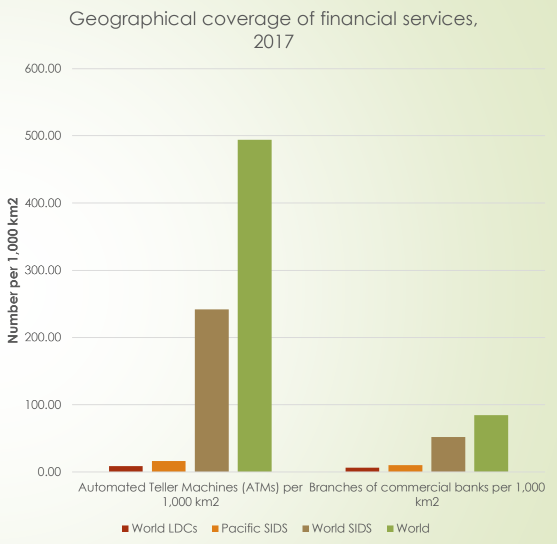


Source: UN University Institute for Environment and Human Security

*AIMS: Atlantic, Indian Ocean, Mediterranean and South China Sea

Issue 1: P-SIDS and the coverage of financial services

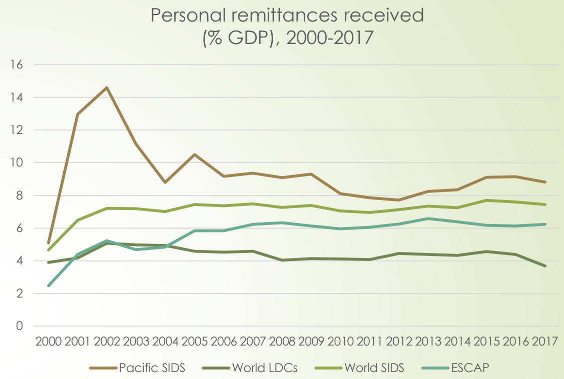
- The delivery of financial services is expensive for the private sector
  - This accrues from the fact that these countries are widely dispersed and sparsely populated
- This results in a relatively low geographical coverage of financial services
  - In the Solomon Islands, unbanked adults live an average of 6.2 hours from the closest bank branch



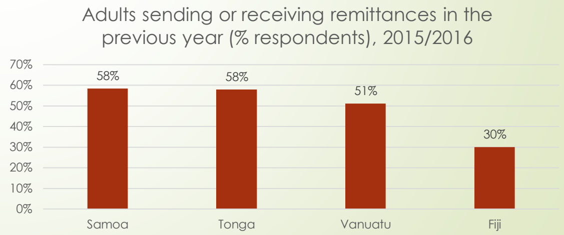
Source: Financial Access Survey, IMF

Issue 2: P-SIDS and remittances

- Pacific SIDS are highly dependent on remittance inflows
  - Macro level
    - Personal remittances received by the P-SIDS are consistently higher than any other group country
    - In 2017, personal remittances represented almost 35 percent of Tonga's GDP
  - Household level
    - More than half of the population sends or receives remittances
- The large amount of remittances is explained by the great levels of migration
  - Australia and New Zealand are the main destinations
  - Their prosper economic situation, geographic proximity and common language are key motives



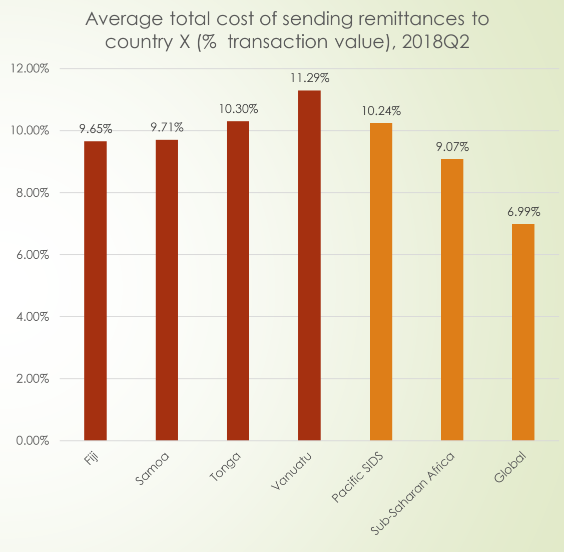
Source: World Development Indicators, World Bank



Source: Financial Services Demand Side Survey, Pacific Financial Inclusion Programme

Issue 2: P-SIDS and remittances

- On average, per every 100 USD remitted to a P-SIDS, the sender has to pay about 10 USD extra in transaction costs
- According to the World Bank, the most expensive region to send money to is Sub-Saharan Africa
  - Group-specific analysis shows that remittance corridors to the P-SIDS are even more expensive
- The Sustainable Development Goal 10 – Reduced Inequalities – advocates the reduction of these transaction costs to less than 3%



Source: Remittance Prices Worldwide, World Bank

Solution: finteching remittances tackles both issues

Obstacles
- Issue 1: low coverage of physical financial services
- Issue 2: high costs of sending remittances

Finteching remittances

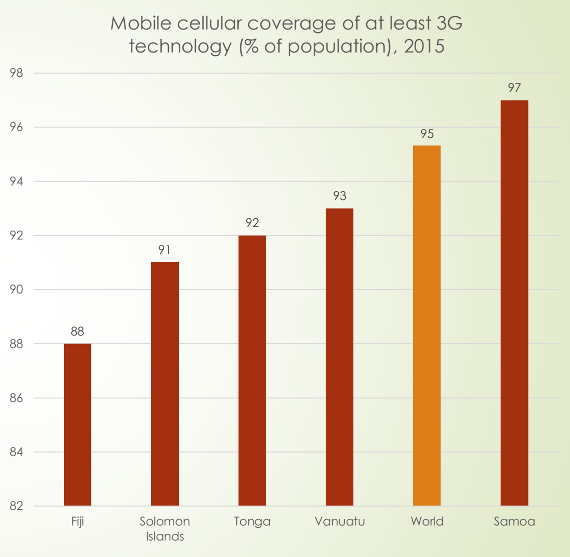
Advantages
- Advantage 1: high coverage of digital financial services
- Advantage 2: low costs of sending remittances

- Finteching remittances ⇒ adoption of alternative digital payment methods in transferring money domestically or overseas

Types of remittance fintech services
- Branchless banking
- Mobile Money
- Online platforms
- Cryptocurrencies

Finteching remittances tackles issue 1: coverage

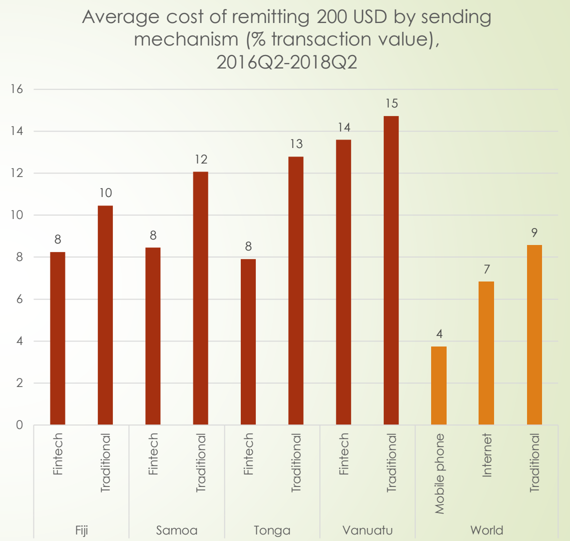
- Network coverage in the Pacific is quite good, reaching the majority of the population
  - There is increased potential to include a bigger portion of the population in financial services
- Nevertheless, there is still room for improvement, as most of the Pacific SIDS are still below the world average



Source: ESCAP Online Statistical Database based on data from the ITU

Finteching remittances tackles issue 2: costs

- The sending mechanism can either be "fintech services" or "traditional services"
  - The access points of "fintech services" are Mobile Phone or Internet
  - The access points of "traditional services" are the remaining ones (agents, bank branches, post offices, etc.)
- In the P-SIDS, sending remittances using fintech is about 3 percentage points cheaper than using the traditional mechanisms
- The cheapest way of sending remittances in the world is through mobile money.



Source: Remittance Prices Worldwide, World Bank

Consequences of finteching remittances: Increased financial inclusion

Access to account ownership (either formal bank account or e-wallet)	Usage of account ownership	Access to credit
• Digital transfers are often the first entry point into the financial system for individuals, providing an opportunity to offer accounts to the unbanked for savings or payments • Increased incentives to save	• Remittances are regular transfers, and can hence increase people's trust in the digital economy	• By formalizing money transfers through an account, banks have more information on the credit seeker's income sources, facilitating the process of being allowed a loan

Consequences of finteching remittances: Increased amount of transfers

- By lowering the costs of sending remittances, fintech could help increasing the amount of transfers
  - Families will receive more money in the amount of the transaction costs saved by the senders
  - By reducing average costs to below 3 per cent globally, remittance families would save an additional US$20 billion annually (IFAD, 2017)
- An increased amount of remittances contributes to the achievement of the Sustainable Development Goals

- Research shows that a 10% increase in per capita remittances leads to a 3.5% decline in the share of poor people in the population
- The improved speed of digital remittances is particularly convenient in emergency situations such as natural disasters

- The majority of remittance receivers are women, hence additional remittances increase their economic power
- Electronic payment might give recipients greater agency and control with regard to how the money will be used, particularly if the payment is tied to a formal account or e-wallet, which makes it harder for family and friends to access the funds without consent

- Research shows that higher remittance levels have a positive impact in P-SIDS' real GDP pc growth
- Remittances are associated with higher levels of investment in SIDS and contribute to a less volatile economic environment

Consequences of finteching remittances: Fewer informal remittances

Increased transparency

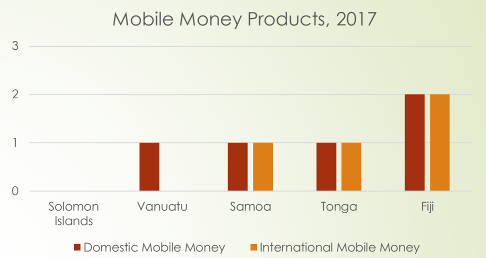
- More reliable national accounts
- Increased efficiency of regulation and supervision

Increased security

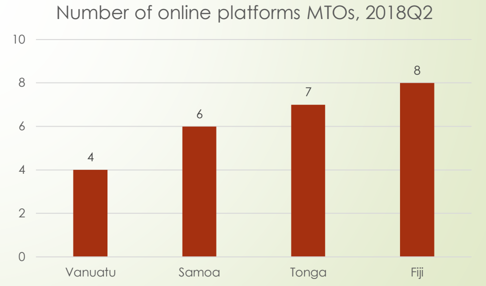
- Usually, recipients of cash payments often have to travel considerable distances to receive their payments, becoming particularly vulnerable to street crime once they carry the cash
- Recipients of digital remittances have the opportunity to store their money in accounts, cashing out smaller amounts at their convenience

Supply of fintech remittance services in P-SIDS

- Branchless banking
  - Widespread in the region
  - Fiji, Samoa, Solomon Islands, Tonga and Vanuatu all have at least two banks providing this service (main banks: ANZ, BSP and Westpac)
- Mobile money
  - Domestic Mobile Money providers: Digicel and Vodafone
  - International Mobile Money providers: KlickEx and Rocket Remit
- Online platforms
  - Main companies in the region: WorldRemit, Compass Global Markets, OFX
- Cryptocurrencies
  - No companies are operating



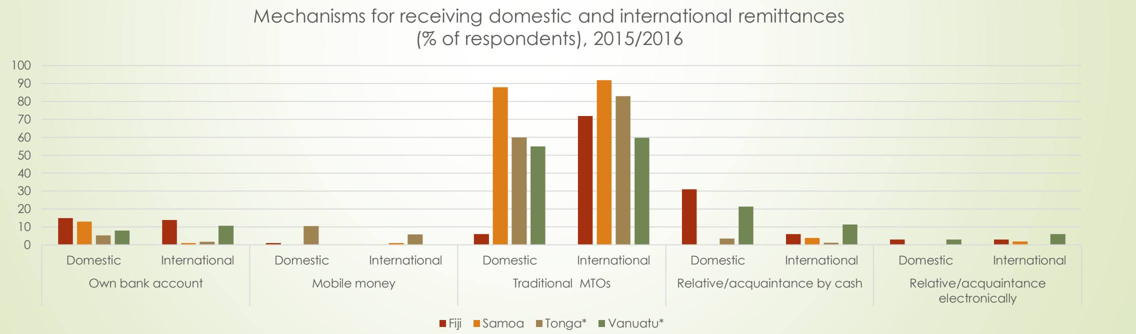
Source: Financial Inclusion Country Profiles, PFIP



Source: Remittance Prices Worldwide, World Bank

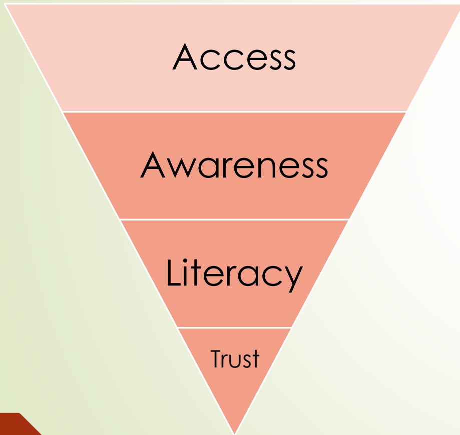
Demand for fintech remittance services in P-SIDS

- The predominant way to receive domestic or international remittances is through traditional Money Transfer Operators (MTOs) like Western Union
- Informal remittances play a relatively significant role in how individuals receive remittances, especially domestic ones
- The low usage of the mechanism "own bank account" can be explained by the small proportion of banked individuals in the studied countries
- Among banked respondents in Fiji and Samoa, the rates of usage of mobile/internet banking are below the 10%
- "Mobile money" is hardly ever chosen as a means for remitting money

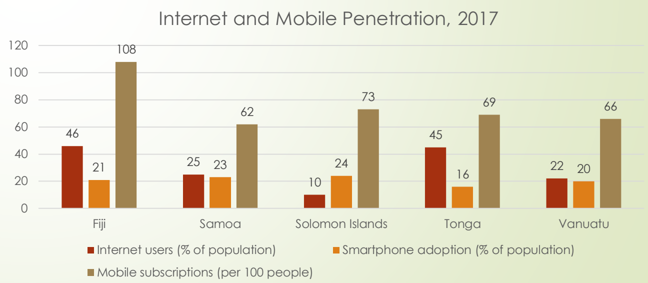


Source: Financial Services Demand Side Survey, PFIP
*For Tonga and Vanuatu, "Traditional MTOs" refers to the services of Western Union only

Demand for fintech remittance services in P-SIDS: assessment strategy



- Regular usage of the Internet is still not widespread in the Pacific, maybe due to the lack of devices with that functionality
  - Less than one quarter of the population owns a smartphone (mobile phone with access to the Internet)
  - This might justify the low adherence to online remittance services
- On the other hand, mobile subscriptions are fairly common in these economies
  - The potential demand for mobile money services is bigger



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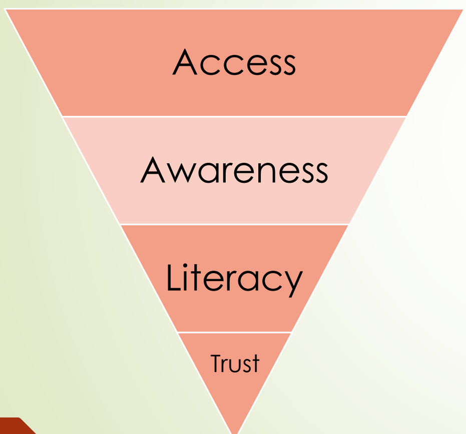
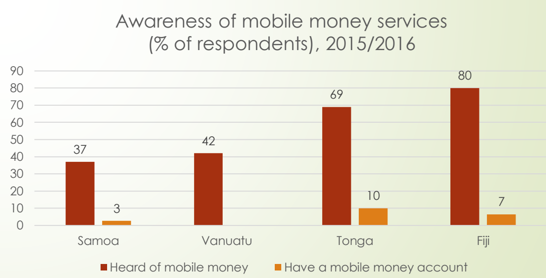
Demand for fintech remittance services in P-SIDS: assessment strategy

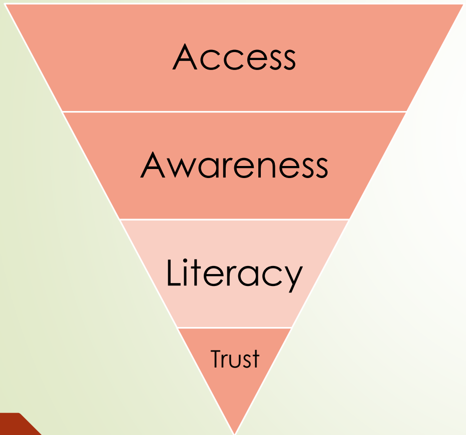


- Mobile money services were introduced in the P-SIDS between 2010 and 2011
- In Samoa and Vanuatu, the concern lies with lack of general knowledge of mobile money
- In Tonga and Fiji, the challenge is to move beyond awareness, given that the majority of the respondents were familiar with these services, even though only a small proportion of them actually were registered



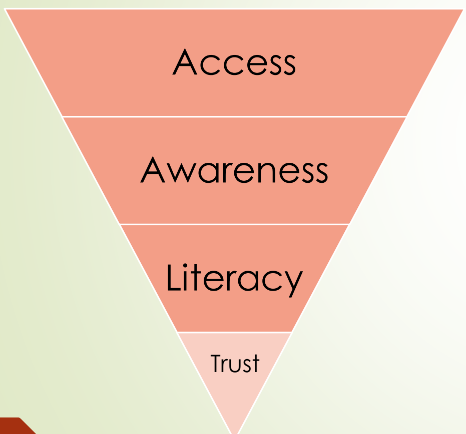
Source: Financial Services Demand Side Survey, PFIP

Demand for fintech remittance services in P-SIDS: assessment strategy



- Efforts should be done to disseminate information on the operability of these services, in order to:
- Increase usage
  - In Samoa, 36% of respondents who have heard of mobile money reported that they don't know how to use it
- Achieve universal understanding of their benefits
  - Especially in what concerns cost advantages
- Avoid misconceptions
  - In Samoa, respondents admitted they would not try mobile money services because they were afraid of losing their phones and thus their money
  - In reality, this is not the case because there is a personal access code and readily available customer support services

Demand for fintech remittance services in P-SIDS: assessment strategy



- The lack of trust can be explained by a number of factors:
- Culture of cash
  - 88.8% of Fijian adults prefer to use cash instead of electronic money for all payments
  - 96% and 70% of agricultural and private income in Tonga, respectively, are received in cash
- Network reliability
  - 17% of Ni-Vanuatu adults that use a phone said that network reliability was infrequent and/or they had to move in order to obtain service
- Unfamiliarity with the providers
  - When asked whether they would like to try mobile money, a typical answer among Samoans would be "My concern is the dishonesty of people or agents to whom the money is sent to."

The Way Forward

Supply-side policy recommendations

- Build a supportive regulatory environment and encourage competition
- Foster the development of innovative business models
- Support the private sector investment in infrastructure

Demand-side policy recommendations

- Promote awareness and product understanding
- Establish an appropriate consumer protection framework
- "Know-Your-Customer" requirements

Conclusion

- Pacific SIDS are a group of countries particularly remote and geographically dispersed
- Moreover, they face two major challenges that are preventing the successful achievement of a sustainable development
  - Low levels of financial inclusion
  - High remittance costs
- Fintech remittance services emerge as a viable solution to these issues
- Policymakers should focus on promoting a dynamic environment for the supply of such services
- Given the enormous demand for remittance services (especially in the P-SIDS), the potential for fintech usage must be explored
- The role of government, regulators and central banks?