REDUCING THE COST OF INTERNATIONAL REMITTANCE THROUGH TECHNOLOGY

THE CASE OF THE PHILIPPINES

A Presentation by

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Presentation Outline

- Remittance Highlights and Statistics
- Technological Developments
- Government Policy Initiatives and Strategies
- Challenges
Workers’ Remittance and Compensation of Employees Received

Source: World Development Indicators 2006, World Bank

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VOLUME OF OFW REMITTANCES
in the Philippines

Source: Bangko Sentral ng Pilipinas
Modes of Remittances

- **Formal Channels**
  - Banks
  - Non-banks money transfer agencies/remittance companies (REMCO)
    - Western Union, Money Gram
    - Telephone companies (Smart Padala, G-Cash)

- **Informal Channels**
  - Courier services (“Padala” system)
    - Door-to-door
  - Handcarry by friends or relatives
Technological Developments in the Remittance Business
Technological Developments

- Introduction of Wireless ATMs to the rural areas
- Increase of Rural Banks/Coop Banks with E-banking Licenses
- Lower Costs of Internet Subscription
Technological Developments

- Mobile commerce (M-commerce)
  - Smart Padala
  - Globe G-Cash
- Internet-Based Transfers
  - Wire transfers
  - ACH transfers
  - Cheque transfers
SMART Padala – Transaction Flow

1. OFW(Sender) goes to REMCO to remit via Smart Padala. He fills-out an information sheet.

2. REMCO submits to BDO/Smart pertinent information.

3. REMCO initiates request for assignment of the Smart Money number of the beneficiary.

4. Beneficiary activates the Smart Money on his cellphone (or gets a physical card).

5. REMCO instructs and authorizes the debit of funds from its smart money mother card for credit to the beneficiary’s smart money card.

Note: Customer Care confirms information submitted by REMCO before beneficiary can activate the Smart Money on his cellphone.

Beneficiary can now get cash from Cash Servicing Centers or ATMs (if with Card).

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G-Cash Remittance

**OFW/ Sender**
OFW goes to REMCO to send G-cash to beneficiary

**REMCO**
REMCO instructs G-Xchange via webtool or SMS to transfer G-cash from its own “wallet” to the target number’s wallet

**Philippines**
G-Xchange carries out the transfer (debit REMCO wallet; credit beneficiary wallet) and gives confirmation to REMCO of successful transaction
Beneficiary is informed via SMS of the G-Cash remittance

**Beneficiary**
Beneficiary receives an SMS that he/she has received the G-cash
Beneficiary can do the ff:

**Subscribers**
Transfer G-cash to other subscribers

**Merchant**
Buy goods/services in partner establishments

**Accredited outlet**
Convert G-cash to cash
Internet-based remittance system

OFW/Sender

internet

1

E-banking server

Core banking server

ATMs

SMS server

Beneficiary

Debit card

ATM

Over the counter

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## Comparative Remittance Fees

<table>
<thead>
<tr>
<th>Country</th>
<th>Credit to bank Account</th>
<th>Door-to-Door</th>
<th>Pick-up</th>
<th>G-Cash (Globe)</th>
<th>Smart Padala</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>USD 7 - 14</td>
<td>USD 12 - 16</td>
<td>USD 10 - 12</td>
<td>NA</td>
<td>USD 6 - 8</td>
</tr>
<tr>
<td>Singapore</td>
<td>SGD 2.5 - 5</td>
<td>SGD 7 - 15</td>
<td>SGD 10 - 20</td>
<td>SGD 2.45 - 3</td>
<td>SGD 8</td>
</tr>
<tr>
<td>Hongkong</td>
<td>HKD 18 - 25</td>
<td>HKD 25 - 35</td>
<td>HKD 30 - 40</td>
<td>HKD 14 - 20</td>
<td>HKD 15.20</td>
</tr>
<tr>
<td>Taiwan</td>
<td>NT 200 - 250</td>
<td>NT 250 - 300</td>
<td>NT 300 - 350</td>
<td>NT 150</td>
<td>NA</td>
</tr>
</tbody>
</table>

### Average cost of remittance

- **Today:** 13.5%
- **Less than a decade ago:** 20%
Executive Order No. 446
- DOLE to coordinate and oversee various initiatives for OFWs
- Seeks to synchronize different government agencies’ programs for OFWs to serve the current development objectives of the government
- Creates a Technical Working Group and Sub-groups
Incentives and Strategies to Reduce Remittance Fees

- Proposed Philippine-Japan Initiatives
  - Allow money transfer companies (MTCs) to partner with Japanese banks in providing remittance services
- Interconnection of commercial and rural banks
- Installation of G-cash services in rural banks
BSP INITIATIVES

- M.B. Resolution No. 1389 dated 27 October 2005
  - Creation of four (4) Working Groups (WGs) to facilitate initiatives on improving the environment for OFW remittance flows
  - Executive Committee shall steer the work of the WGs
Executive Committee Objectives:

- To reduce remittance costs to facilitate remittances through formal channels.
- To channel foreign exchange savings to micro-enterprise activities and other alternative financial instruments.
BSP INITIATIVES

- Working Groups:
  - On Payments and Settlements System
  - On Promoting Financial Savings and Investment
  - On International Relations
  - On Advocacy Campaign
WG on Payments and Settlements System Objectives:

- Formulate recommendations on how to improve the interconnectivity of remittance service providers in the Philippines with those abroad
- Explore domestic issues on payments and clearing systems
- Review existing banking regulations that affect the payments and clearing systems as well as the country’s overall remittance environment
Challenges
Potential Obstacle to higher OFW Remittances

R.A. No. 9160, as amended by R.A. No. 9194 (Anti Money Laundering Law)

- Covered institutions should report to the AMLC all covered and suspicious transactions within five (5) working days from occurrence thereof, unless the Supervising Authority prescribes a longer period not exceeding ten (10) working days.

- Covered transaction - a transaction in cash or other equivalent monetary instrument involving a total amount in excess of Five hundred thousand pesos (P500,000.00) within one (1) banking day.
Conditions imposed on M-commerce service providers

- Service provider to engage only licensed remittance companies supervised by the regulatory authorities
- Adopt a lower transaction cap of P100 thousand per month
  - Transactions refer to electronic payment, ATM withdrawal, encashment through cash service outlets, transfer of funds and other similar type of transactions
Conditions imposed on M-commerce service providers

- “Know your customer” (KYC) procedures undertaken by m-commerce accredited establishments should satisfy the requirements of AML regulations
- Service provider to have access to all records and database of participating outlets
- Allow BSP to review the m-commerce system
- Give Anti-Money Laundering Council access to customer records
Thank You