The status quo of money transfers across ASEAN

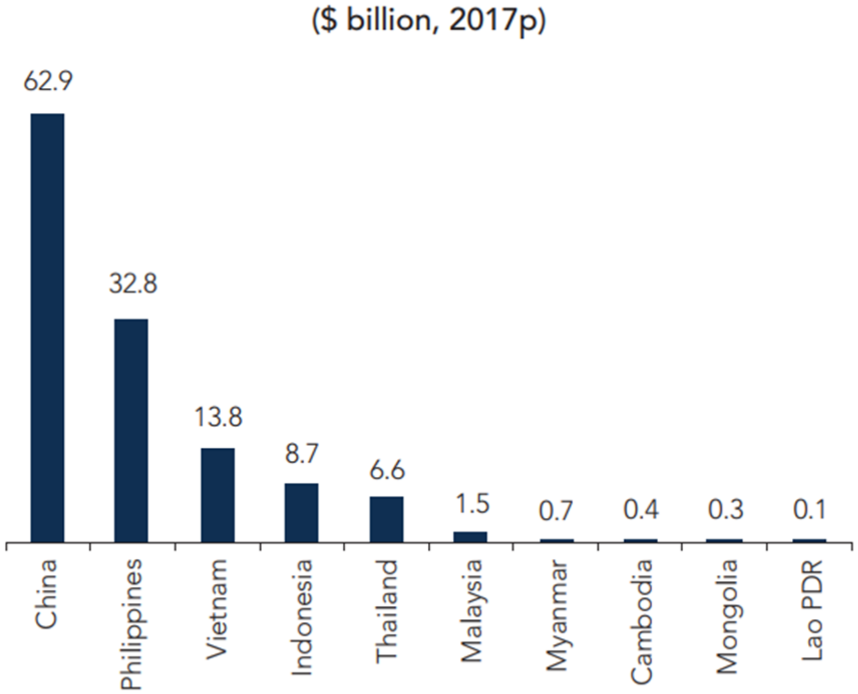
This piece has been written together by TransferTo and The Singapore Fintech Association

A region with huge remittance receipts

Sending money and making payments is not a new feat – the global population have been accustomed to this for millennia. Just as currency used once comprised of cattle or land, what is perceived to be money today is changing as technology and digitisation becomes commonplace in our society.

Every year, 6.77 million ASEAN migrants send money back to their home nations. They are the driving force behind the large volume of international money transfers in Asia and the world. So much so, that in 2015 the total remitted amount was equivalent to the GDP of Myanmar. Studies conducted by the World Bank show that even within ASEAN, there is significant flow of money sent from Thailand and Malaysia to Cambodia, Indonesia and The Philippines - Indonesia saw an influx of $2.15 billion from Malaysia alone – over and above what was received from USA, which is the main remittance sender country in the world.

FIGURE 1. ASEAN countries like Philippines, Vietnam and Indonesia are amongst the world's top recipients of remittances.



Source: Migration and Development Brief 28, World Bank Group
Note: e = estimate

Challenges associated with diaspora remittances

At the moment, for these migrants, sending money home isn't the easiest or most cost effective, particularly, when sending back to rural destinations. Only 27% of ASEAN's 600 million population currently have access to formal banking services, making it a less favourable method. The lack of infrastructure in certain nations makes it blindingly apparent that yesterday's legacy brick-and-mortar services are inadequate to reach all beneficiaries in the region.

Various process related, educational and geographical shortcomings also hinder the ability to support money transfers effectively. Brick and mortar agents are expensive to run and not always convenient to reach, particularly in rural areas, whilst a lack of basic official documentation prevents many individuals to access formal financial services. Whilst the infrastructural amenities and demand varies on a country-by-country level, every ASEAN member country has something in common: they rely upon remittances from their family members based overseas.

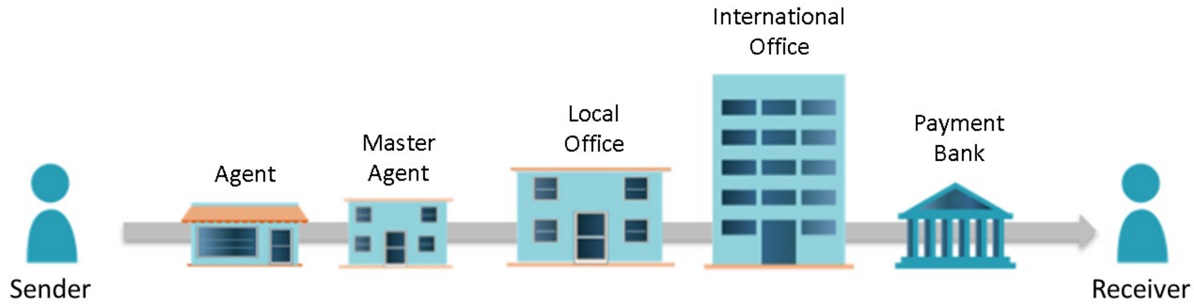
Players in the current remittance market

An evaluation of how funds are being sent would give a better picture of today's situation. The Philippines, for example, is one of the top three recipients of remittances worldwide, owing to a large diaspora community of over 2 million overseas workers. However, 40% of all money transfers are made without the use of formal bank accounts.

If that's the case, then, what other methods are available to Filipinos working internationally?

Traditional Money Transfer Operators (MTO), whilst being perfectly legitimate and secure, can often prove inconvenient for beneficiaries who live far away from MTO agent locations, requiring spending both their time and money just to collect the funds. Those who cannot travel have no choice but to trust bus drivers, community members, etc. to deliver their money to them.

FIGURE 2. Overview of traditional money transfer processes. Adapted from Cision.



Illegal senders, on the other hand, offer to bypass this inconvenience for beneficiaries, as well as offering other perks like real-time transfers, by pushing costs onto the sender. The risks associated with sending money through informal channels are worrisome yet seems to be a common route taken in attempts to send money back to loved ones at home.

Something needs to change, and today, there is a tool which can alleviate the pain-points of sending money to and within the region.

The smartphone craze and transforming money to mobile

Over the last few years, the adoption of smartphones across the region has risen dramatically. A fantastic example of this can be found in Myanmar where SIM card prices tumbled from 2000 USD down to a mere 1.50 USD. Furthermore, the cost of smartphones took a similar downward turn. As a result, for the first time, owning a smartphone became feasible.

In recent years, the ASEAN population have jumped on the smartphone bandwagon with countries such as The Philippines and Indonesia seeing remarkable adoption, along with better mobile data coverage. In Cambodia, over two fifths of the rural population own a smartphone, whilst 96% of the population own some sort of mobile device.

FIGURE 3. Smartphone adoption is on the rise in Southeast Asia, with adoption increasing 15 and 11 percentage points for Philippines and Indonesia (indicated in red)

Country	Smartphone adoption rate %		Change
	Q42016	Q42015	% points
Singapore	83	82.5	0.5
Hong Kong	81	75	6
South Korea	80	77	3
Australia	80	79	1
Taiwan	76	70	6
China	71	68	3
Myanmar	70	66	4
Malaysia	69	63	6
Thailand	65	58	7
New Zealand	63	53	10
Philippines	57	42	15
Indonesia	50	39	11
Japan	46	43	3
Sri Lanka	41	29	12
Vietnam	34	28	6
India	31	24	7
Pakistan	23	17	5
Bangladesh	28	22	6
Asia	**51**	**45**	**6**

Source: GSMA Intelligence

With so many people across ASEAN connected by mobile, what issues are stopping the ecosystem from leveraging the mobile phones to connect customers to their money?

It is only logical that the striking demand for low cost money transfer services, which needs to reach every locational nook and corner, and the extensive mobile phone coverage, could potentially go hand-in-hand. Mobile phones are the ubiquitous tools prepared to relieve this need and FinTech is the catalyst to slashing transfer fees.

Merging "Fin" with "Tech"

Fintech players are constantly offering new and innovative ways to bring mobile money transfer services to the market to better serve the underbanked. Digital financial services, comprising of mobile wallets and money transfer services, are emerging in popularity across the region, particularly in countries like Vietnam and Thailand.

Looking ahead, the successful synergy between smartphones and money transfers is set to follow an upward trajectory, as digital and financial literacy advances and connectivity improves. Encouraging digital international money transfers will sincerely aid beneficiaries in the region quickly and securely - particularly women, who typically are the more frequent recipients of money transfers yet lack the direct access to digital financial services.

An ideal 2018

As 2018 begins, there are some aspirations that members of the money transfer industry hope to see across ASEAN – the most fundamental being the curtailment of informal channels to displace them as a viable method to send money. Take Indonesia as an example: whilst the banked population is only a mere 36%, bank channels comprises 90% of formal remittances, leading to the increased dependency upon informal methods to get around the barriers of sending money. The fundamental way to accomplish such a shift is to offer a substitute, which, in the foreseeable future is digital financial services hosted on mobile devices to fill the gap. As more individuals in emerging markets are becoming more comfortable and trusting of mobile money, the need to use informal senders should be phased out.

To make sending money using mobile devices a little easier, the digital financial ecosystem across ASEAN must be well connected between all industry stakeholders to cope with the anticipated scale up of usage. With plenty of money moving intra-ASEAN, following typical migration trends, it would be advantageous to create a single licensed harmonised money transfer infrastructure similar to the Single Euro Payments Area (SEPA), an initiative which facilities electronic payments across over 30 nations, both in the European Union and out.

The beauty of SEPA boils down to the standardisation of all user accounts with an International Bank Account Number (IBAN). A similar initiative could be introduced across ASEAN nations regardless of location and regional regulations to fast-track money transfers and increase efficiency in the process. A single money transfer framework encompassing ASEAN would reduce transactional errors whilst making real-time transfers more efficient and convenient.

FIGURE 4. The SEPA Instant Credit Transfer Scheme enables pan-European credit transfers in less than ten seconds.

Source: European Payments Council

Building upon this initiative, a secondary pain-point necessary to address when constructing such a framework is the current inefficiencies experienced during account validation and collecting return beneficiary information when implementing cross-border money transfers in ASEAN – which usually results in more transaction failures and causing an unsatisfactory user experience. Looking ahead, it would be advantageous to confront to the issue of invalid transactions and refunds having to be made through establishing a standardised input process and sound verification system, i.e. matching account holder name with mobile phone number, to cross-check and confirm end-user identification, increasing the probability of successful transactions and reducing human error.

In essence, better connected mobile financial services would bring forth true disruptive fintech innovation to the industry. Whilst these seem like ambitious changes, it doesn't go amiss to be determined to improve the money transfer landscape across ASEAN in gradual, incremental steps. Implementing such developments requires regulators and remittance service providers to work synergistically to build a mutual comprehension and maintain a positive dialogue to capture the industry's best practices, as presented by GSMA. Favourably reshaping policies and regulation would be a beneficial measure to lift barriers to entry and scale in the money transfer ecosystem, in addition to technically and cost-effectively expanding the means to improve formal remittances across ASEAN as the industry matures.