Financial technology will help lower remittance costs for Asia

Fintech or, more fully, financial technology, is the buzz word in the startup world. But while the winners in this revolution are entrepreneurs and investors, there are clear benefits for the developing world.

A new book from the Asian Development Bank Institute*, Labor Migration in Asia: Increasing the Development Impact of Migration through Finance and Technology,* lowering the cost of remittances for Asian workers employed in other parts of the world will improve the overall socioeconomic outcomes of their countries of origin.

The research on the benefits of remittances is clear.

The United Nations Conference on Trade and Development says a 10% rise in remittances—that is, money sent home to the region by its expatriate workers—could lead to a 3.5% fall in the number of people living in poverty.

The development impact of remittances has long been undermined by high costs, which are now being reduced thanks to new fintech entrants to the remittance market and their use of new technologies.

Costly remittances not only reduce migrants' earnings substantially but also prevent their efficient flow.

Disrupting industries that are costly due to high fees, often unnecessarily high due to the dominant market position of a handful of entrenched players, is staple fare for fintech companies.

And while remittance costs have decreased in all developing regions, they remain substantial at 14%–20% in some parts of the globe.

In Asia, remittance costs have fallen to 8% but are still above the global average and the target set by the United Nations' Sustainable Development Goals of 3% by 2030.

It's not just customers from the developing world who are being clipped for high fees when sending money overseas.

Australian bank customers, for example, are often charged 5% as a standard foreign exchange conversion fee, while the official money changers at airports around the world will take 10% or more.

Between 2000 and 2016, the total sum of Asian remittances multiplied sevenfold to $254 billion per annum.

This increase is explained largely by the growth in the number of Asian migrants after 2000, notably through movement to OECD areas, where high-skilled, high wage-earning migrants send higher remittances.

But growth wasn't steady or consistent during this period, since numbers are greatly affected by exchange rates and economic cycles.

Remittance amounts in US-dollar terms dropped during the 2008 global financial crisis due to layoffs.

This was offset slightly by weakness in the currencies of developing economies such as the Philippines, Indonesia, and India, which meant some workers were able to take advantage of exchange rates.

Among countries receiving capital inflows from their overseas workers, India and the People's Republic of China accounted for half of all Asian remittances in 2016, with India receiving $63 billion and China $61 billion.

India was the biggest on the receiving end since 2000, when China's share was much lower before surging 80-fold between 2000 and 2016.

Among Asian countries, India and China had the highest numbers of high-skilled migrant populations in OECD countries, also contributing to the high remittance volume.

The Philippines is the third main recipient in Asia, accounting for 12% or $30 billion of all Asian remittances in 2016.

Remittances are one of the driving factors behind labor migration, especially within Asia.

Of the $593 billion of global remittances in 2017, around 75% went to developing countries, particularly in East Asia, the Pacific, and South Asia.

Such inflows are significant not only because of their size but also because of their development impact.

Remittances increase household income that can be spent for social services such as education and health, and they can also help expand financial services and inclusive finance.

That episode was based on the Seventh Roundtable of Labor Migration in Asia, Finance and Technology to Increase the Positive Impact of Migration on Home Countries. Participants included Jean-Christophe Dumont and Jonathan Chaloff from the Organization for Economic Co-operation and Development; Nilim Baruah, of the International Labour Organization; and Aladdin Rillo, then of ADBI, who organized the event and produced the report.

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