The time is ripe for 'finteching' remittances in paradise

By Tientip Subhanij
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Over the last few years, we have seen a remarkable trend in remittance flows, with money sent by people living abroad to their home countries increasing significantly. Today, remittances remain the most important source of external financing for low- and middle-income countries worldwide. Despite a severe global recession and the COVID-19 pandemic, remittances to these countries are projected to have grown a robust 7.3% to reach US$589 billion in 2021.

Remittances are also showing resilience in the Asia-Pacific region. Inflows are expected to grow 6.7% in 2021 and 5.9% in 2022, and are estimated to account for as much as 63.4% of the total increase in global remittances in 2021 and 2022.

The region is also home to the most remittance-dependent countries globally – Tonga, Kyrgyzstan and Tajikistan – whose economies received remittances on average exceeding 30% of their GDP.

Remittances generally flow directly to households instead of governments or businesses. They play a crucial role in financing the development of local communities, alleviating poverty and ensuring better access to healthcare and education. They also contribute to economic growth by boosting private consumption and stabilising economic output in times of crisis.

Moreover, remittances can encourage entrepreneurship by providing the funds to support small businesses. They are essential to achieving the Sustainable Development Goals (SDGs), including by reducing poverty, promoting gender equality, and supporting decent work and economic growth.

Unfortunately, remittances are still far from an efficient mechanism for prosperity and inclusiveness. This is due to their unsustainably high transaction costs.

In the first quarter of 2021, the cost of sending $200 across international borders continued to be too high, averaging 6.4% of the amount transferred, according to the World Bank's Remittance Prices Database.

The costs of sending remittances to Pacific small island developing states (SIDS), in particular, are among the highest in the world at 9.75% of the transaction value, or more than three times the SDG target of 3%. Tackling this issue is crucial for economic and social development and improving financial inclusion.

By tracking the evolution of remittance costs and listing operating firms and their characteristics, innovative online platforms have emerged as helpful tools to stimulate market competition and bring down prices. Migrant workers can now consult and compare the services provided by remittance companies regarding the cost, transfer method and speed of the transaction.

Our recent article on fintech and remittances in the Pacific published in *Asia & the Pacific Policy Studies* explores this critical issue and finds that fintech companies significantly and systematically charge fewer fees than conventional money transfer operators and banks. This can be explained by their distinct business model, which does not rely on brick-and-mortar agents but operates exclusively through the internet or mobile phones. Examples include peer-to-peer online platforms and cross-border mobile money providers.

Pacific SIDS can benefit the most from these fintech-based remittance services. The difference in fees that traditional remittance service providers charge compared to fintech companies is the biggest for that subregion. This means that remittance-dependent households could further increase their savings by reducing transaction costs. Savings could be as significant as $960 per year for just one Tongan family.

Surveys show that 72% of Fijians and 92% of Samoans receive money from abroad through conventional money transfer operators. Western Union's services alone are used in Tonga by about 83% of the individuals who receive international remittances.

An important question is why do migrant workers still use traditional remittance services when more affordable ones are already available?

One reason discussed in detail in our article is that even when low-cost services are already present in a country, other barriers impede people from using them: accessibility, awareness, literacy and trust. Lack of these resources could explain why migrants still primarily use traditional remittance providers over fintech companies.

Pacific SIDS are at various stages of digital development and face different challenges, ranging from poor information and communications infrastructure to a robust cash culture.

These diverse challenges require policy responses that are tailored to each country-specific context.

Papua New Guinea, for instance, needs to invest in universal access to electricity. Samoa and Tonga, on the other hand, should implement a digital government-to-person system of transfers. Effective policy action can only be achieved by raising awareness of countries' particular needs.

Today, remittances not only represent the largest source of external finance for many developing countries, but also significantly complement government cash support to families facing hard times. Given the enormous volume of remittances transferred to the Pacific from its overseas workers, savings from reduced remittance costs could be recycled into the local economy and spur greater growth.

Facilitating the flow of remittances and reducing their cost should be a key component of Pacific government policies. The time is now ripe to leverage fintech in remittances and make this type of finance cheaper for developing nations, especially the Pacific SIDS.

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