

ADB's role in encouraging and facilitating the Securitization of Worker Remittances

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Important foreign exchange earning

- **US\$ 95 billion global remittance market**
- **US\$ 7.9 billion in the Philippines in 2003**
- **13.4% of Total Foreign Exchange Earnings¹**

¹ United Nations Report, International Migration Policies, 1995

Remittance flows have intrinsic value

- **Worker remittances are often among the few reasonably steady sources of foreign exchange for countries undergoing severe balance-of-payments difficulties**
- **Banks in Turkey and Latin America have successfully tapped into this investment market through securitization**

What is remittance securitization?

- **Way for banks in emerging markets to borrow hard currencies by issuing bonds**
- **Bonds are collateralized by the future flow of remittances (and other electronic payment flows) originating in other countries**
- **Securitization mitigates emerging market country and currency risk by establishing an offshore collection account for foreign currency receipts**

Remittance securitization monetizes future flows

- A future flow transaction is a securitization of a company's future and existing payment right receivables that are due from offshore obligors (e.g. export receivables, airline receivables, telephone receivables)
- Well established asset class in emerging markets
- Often receive higher ratings than sovereign bonds issued from the same countries

Advantages of Worker Remittance Securitization

- **Enhance development impact of remittances**
 - Proceeds of securitization used to extend loans by the local banks for productive purposes
 - Banks could pass on interest savings from the remittance securitization to its customers as well as offer longer term loans or new products (such as mortgage loans)
- **Greater focus by local banks on remittances as a viable and attractive product**
 - Banks realizing the funding advantages inherent in packaging securitized remittance flows, will become more competitive in terms of fees charges for remittance transfers

Advantages of Worker Remittance Securitization (cont.)

- **Access increase to international capital markets for non-investment grade countries**
- **Improve financial conditions of local banks**
 - **Securitization helps improve asset / liability management of local banks through access to longer term / lower rate funding**
 - **Banks can replace its short-term borrowings in hard currencies with longer term loan with securitization**

Who owns Worker Remittances ?

- **Remittance payments relating to electronic payment orders are owned by the local bank and not the named beneficiary**
- **When the bank receives the remittance funds from another bank or money transfer agent, it receives cash (an asset) and has a corresponding obligation to pay the beneficiary (the matching liability)**
- **The steady flow of cash assets is what is actually being securitized and is the basis for the whole asset class of future flow securitizations**

Who owns Worker Remittances ? (cont.)

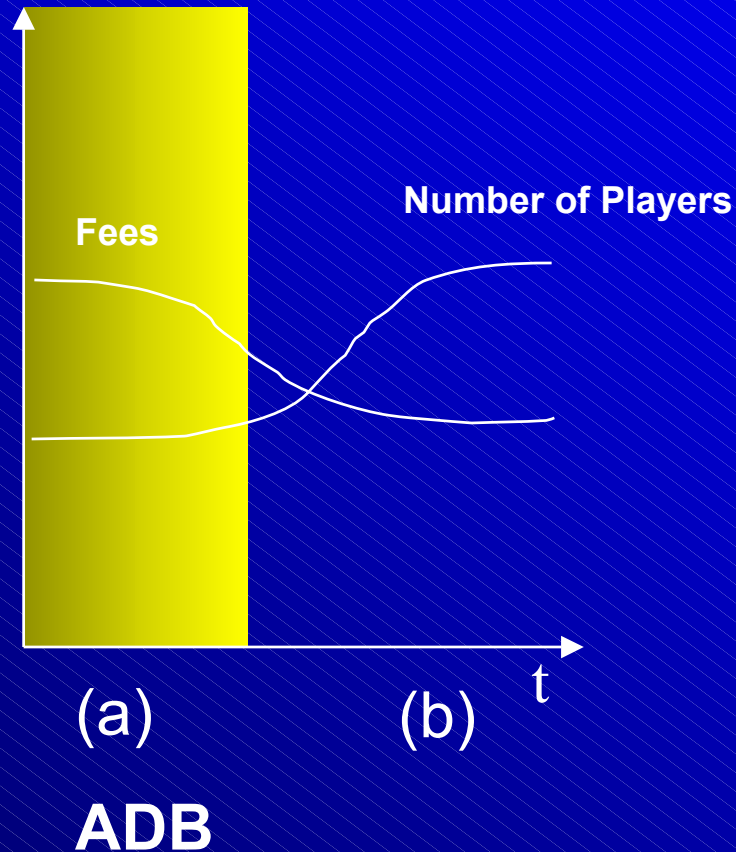
- **Bank has legal right to assign the OFW flow**
 - **While the Bank will have an obligation to pay the Philippine recipient an equivalent of money (in the stipulated currency), the Bank does not have the obligation to deliver the exact same funds received from the OFW**
 - **The Bank can assign the foreign currency funds received to the SPV and source the money to be delivered to the recipient elsewhere, and when the Bank pays the recipient the stipulated amount, it will have performed its contractual remittance obligation**

Could securitization cause remittance not reaching recipient?

- The securitization in itself does not increase the likelihood that the beneficiary will not receive his or her remittance funds because the obligation of the receiving bank to pay the beneficiary is not changed in any way
- The bond issuance actually increases the immediate liquidity of the bank and is typically structured to a relatively small amount of outstanding liabilities, so that the leverage of the issuing bank is not significantly changed

ADB's Involvement: early stage

Securitization
Market
Development



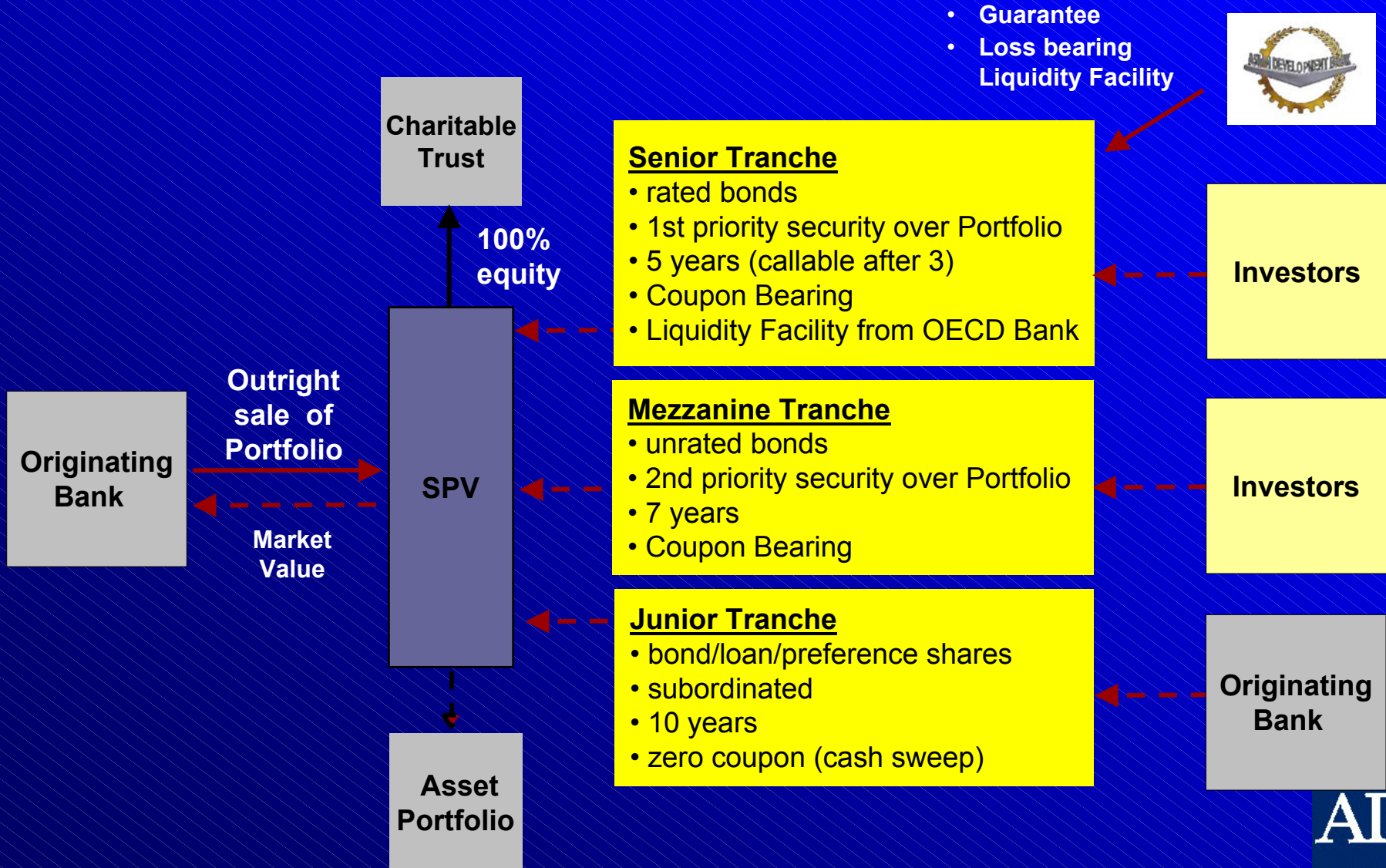
ADB: Participating at early stage

- **Public Sector:** Advising policy and framework dialogue, coordination and relationship management with Governments
- **Private Sector:** Debt and Equity funding / Guarantees at early, riskier stage

ADB securitization products

- **ADB Partial Credit Guarantee (PCG)**
 - Timely payment of interest and ultimate payment of principal
 - Up to 100% of one or more senior tranches
 - 2 shadow ratings by acceptable rating agency
 - Investment in mezzanine tranche
- **Liquidity Facility**
- **General Comfort as a multilateral partner**

Example: Conventional Securitization



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