

# **JOINT CONFERENCE ON REMITTANCES**

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## **Presentation**

### **EXCHANGE COMPANIES – AN IMPORTANT LINK IN NATIONAL REMITTANCES**

**TAWFIQ A. HUSAIN**  
**Deputy Governor**  
**State Bank of Pakistan**

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# **EXCHANGE COMPANIES – AN IMPORTANT LINK IN NATIONAL REMITTANCES**

By:

**Tawfiq A. Husain  
Deputy Governor  
State Bank of Pakistan**

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# Workers Remittances : National Context

- **Overseas workers estimated at 4.0 million or 2.6% of the population (based on registration by BIOE)**
- **Concentration in Saudi Arabia, UAE, Kuwait, UK and USA**
- **Remittance volume estimates range between US\$ 7-10 billion**

# Pre 2000 Scenario

## ➤ **Traditional Remittance Flows :**

- **Formal Value Transfers : Small**
- **Informal Value Transfers : Predominant**

## ➤ **Formal Remittances Flow**

## ➤ **Reasons :**

- **Inefficiency of the formal delivery channels**
- **Exchange rate differential**
- **Reliability**
- **Undocumented**

# Informal Value Transfers - Characteristics

- **Consisted of Money Changers & Hundi/ Hawala Agents**
- **Virtually no transaction costs**
- **Low processing time to destination**
- **Substantial amounts remitted through this mechanism**
- **Efforts to regulate these un-documented transfer channels**



# Regulatory Response

## ➤ Inefficiency of Formal Delivery Channels:

- Banks asked to improve their efficiency
- Centralized home remittances cells established
- Complain tracking systems introduced
- Expansion of delivery channels

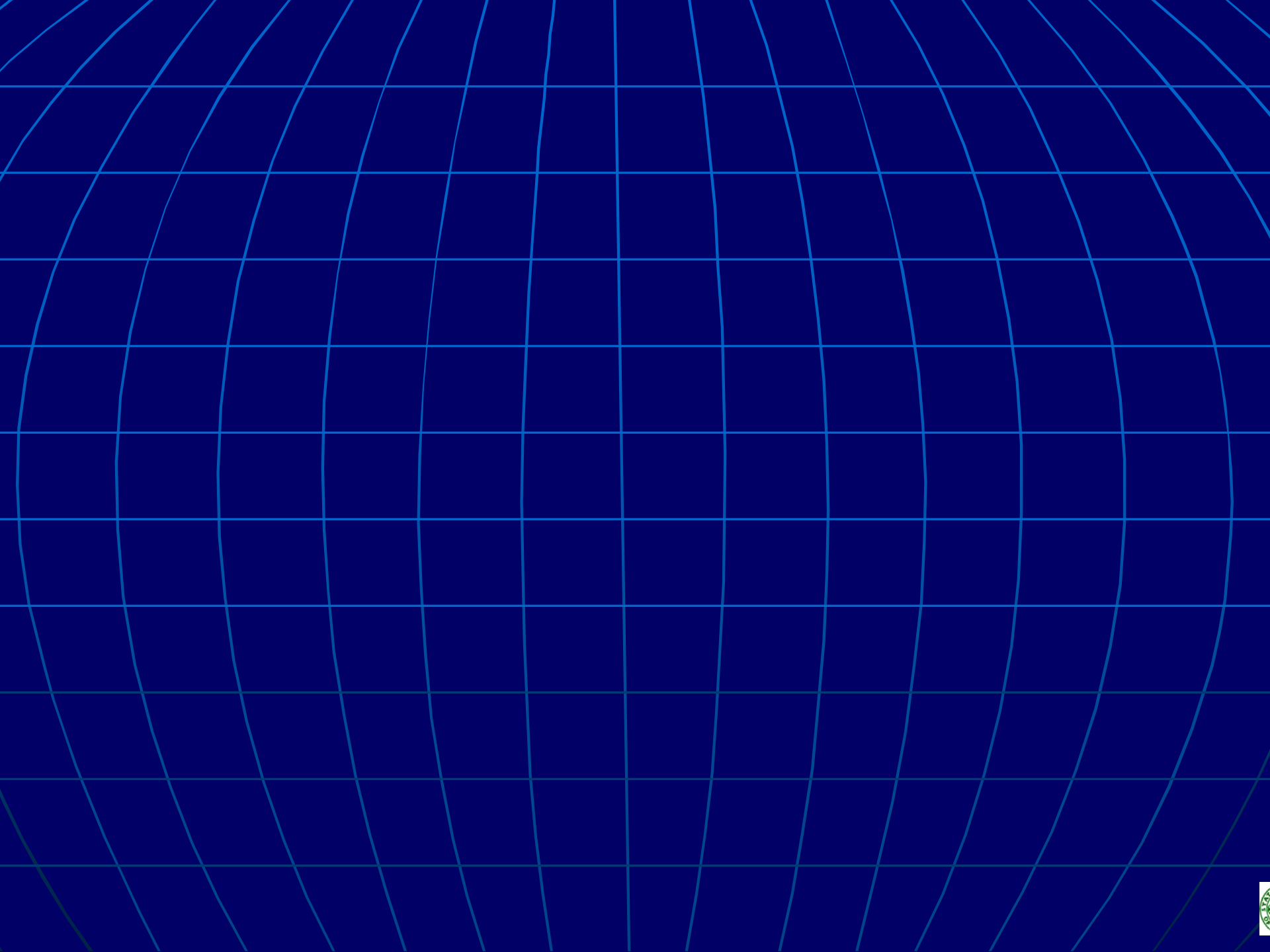
# Regulatory Response

## ➤ Exchange Rate Differential :

- Lowering of transaction cost
- Skilful handling of FX flows and rates
- Incentives like liberal/ duty free imports, special treatment at the airports, etc.

# Policy Response Transition of MCs to ECs

- **Formation of committee: public/ private representation**
- **Formulation of rules/ regulations for Exchange Companies**
- **Exchange Companies Ordinance promulgated 2002**



# Transition Process

- **Deadline of 30-06-2004 fixed for existing MCs**
- **Capital Requirement for ECs (initial PKR 100M, to be doubled within 3 years)**
- **LR requirement (25% of Capital)**
- **Exposure limit (50% of Capital)**
- **Permissible areas of business**
- **Verification of bonafides of the sponsors**



# Transition Process (Cont.)

- **Background of directors/ CEOs**
- **Registration as a company with SECP**
- **Minimum criteria for IT base and systems**
- **Physical inspection of premises**
- **Issuance of license and permission to commence business**



# Exchange Companies Network

- 26 Exchange companies formed with branch network of 90
- 215 franchise agreements (for restricted /full fledged activities)
- Agency arrangements of exchange companies with remitting agencies (Western Union, Money Gram etc) encouraged for mobilizing remittance
- Coverage remained restricted to commercially viable cities/ towns
- A large number of smaller operators (MCs) remained outside the system
- 150 specialized payment booth locations allowed to ECs for efficient delivery of remittances
- Policy response was required

# Formation of 'B' Category Exchange Companies

- Exchange companies of 'B' category permitted
- Exchange companies 'B' allowed to deal only in buying/ selling of FCY
- Lower capital/ liquidity requirement (Rs. 20m to be increased to Rs. 25 m within one year/ 10% of capital)
- Most of the remaining MCs availed this option
- MCs adhered to the 30.06.2004 deadline

# Formation of 'B' Category Exchange Companies (Results)

- **33 'B' category exchange companies formed with over 230 branches**
- **90 MCs obtained franchises**
- **All remaining MCs ceased to exist after the deadline**
- **Money changing business formalized at the grass root level**
- **Law enforcement agencies advised the parameters of the exchange business & authorized/ licensed businesses**

# ECs Systems and Procedures

(Progressively implemented)

- **Internal controls**
- **Internal audit**
- **External audit**
- **MIS**
- **Submission of returns/ reporting requirement**
- **Periodical/ regular inspection by SBP**

# System Wide Implications

- **Documentation**
- **Professional management/ standard accounting practices**
- **Supervised by State Bank: off-site monitoring/ on-site inspection**
- **Movement of foreign currencies structured/ documented**
- **AML/ KYC requirements institutionalized**
- **Informal value transfer channels marginalized**


# Exchange Companies - An Important Link in the National Remittances

- **Mobilization of workers remittances becoming core business of ECs**
- **Cash based transfers brought into the formal net**

# Visible Impact on Workers Remittances

■	<b>1999-00</b>	<b>\$ 913 M</b>
■	<b>2000-01</b>	<b>\$ 1,022 M</b>
■	<b>2001-02</b>	<b>\$ 2,341 M</b>
■	<b>2002-03</b>	<b>\$ 4,191 M</b>
■	<b>2003-04</b>	<b>\$ 3,826 M</b>
■	<b>2004-05</b>	<b>\$ 4,169 M</b>
■	<b>2005-06 (Projected)</b>	<b>\$ 4,020 M</b>

# Next Challenges

- **Enhancing workers access to FVT channel at points of origination**
- **Extending network of domestic delivery channels** 
- **Promoting technology based transfer mechanisms**
- **Building domestic data base of remittance flow**

***THANK YOU***



