

IV. The Marketplace of Money Transfers: Rules, Players, and Competition

Intermediation of money transfers is essential to an effective and efficient marketplace. Such a marketplace operates as a function of prevailing regulatory frameworks, which establish rules on how money is sent and through which institutions. The remittance transfer marketplace also functions in relationship to the number and type of players, demand, size, real and expected volumes, and the structure of competition. Each of these elements defines the health of such markets.

Within the context of the countries studied, intermediation for money transfers occurs under a strict regulations; more so in countries like Japan and Malaysia, and less so in places like Hong Kong, China, and Singapore. In most cases, intermediation occurs within a framework of licensed and/or regulated institutions, with exceptions among immigrants in Malaysia remitting to Indonesia or the Philippines.

Moreover, competition is concentrated among no more than 20 players, with the exception of Singapore where the availability of providers serving many Asian countries, including Indonesia, Malaysia, and Philippines, is greater. Transaction costs vary from country to country and may be more a function of regulatory environments restricting nonbanking financial institutions, than a response to demand size.

This section of the report analyzes each of these issues, highlighting the main trends and patterns in each country studied.

A. Regulatory Environment

Regulatory frameworks help define and structure the ways in which private transactions take place. Countries regulate the kind of institution allowed to make international money transfers, and the conditions in which foreign currency transfers are allowed. Critical issues concerning regulatory environments refer to the number of regulatory bodies, the rules they establish, and their concerns regarding financial transfers and enforcement. This report interviewed regulators at central banks, bank superintendencies, finance ministries, and other currency regulatory bodies about who is allowed to make transfers, what restrictions exist and why, what role exists for banking financial institutions, how reporting is regulated, when transfers fall outside the legal framework, and what other rules and enforcement mechanisms are in place that affect money transfers.

One concern shared by all regulators in the countries studied is the use of money transfers for illicit activities. This section summarizes findings from interviews conducted at remittance regulatory bodies in Hong Kong, China, Indonesia, Japan, Malaysia, the Philippines, and Singapore. The issues addressed in these interviews dealt with five main themes, namely: (i) Regulatory Framework, (ii) Remitting Country – Receiving Country Relations, (iii) Enforcement, (iv) Anti-Money Laundering Law Compliance, and (v) Information and Data Gathering.

1. Regulatory Bodies

Not all countries in Southeast Asia have uniform regulations or institutional bodies that oversee money transfers. In Hong Kong, China, Indonesia, Malaysia, and Singapore, the central banks (or monetary authority as in Singapore) have jurisdiction over the banking sector; where allowed to operate, several companies, outfits, and agents are involved in the

business of remittances. These institutions are the Bank Negara Malaysia (BNM), the Hong Kong Monetary Authority (HKMA), the Bank of Indonesia and the Monetary Authority of Singapore.¹⁹ In the case of Malaysia, the Finance Minister is also the country's Prime Minister. When it comes to money transfer outfits (MTOs) in Hong Kong, China, the police assumes registration responsibility.

In the Philippines, the Charter of the Central Bank (Bangko Sentral ng Pilipinas BSP) provides some independence in reporting lines to the Finance Secretary; however, under the New Bank Act, the Finance Secretary sits as one of the members of the Monetary Board (BSP's policy-making body). This change indicates the Government's desire to have close coordination between the two government bodies. Chaired by the BSP Governor, the other five members of the Board come from the private sector.²⁰ Qualified persons and nonbank institutions desiring to act as foreign exchange dealers, money changers, and/or remittance agents are now also required to register under BSP (Circular No. 471). Other regulators include the Securities and Exchange Commission (SEC), which requires banks, remittance companies, and foreign exchange corporations to also register with it (ADB 2004).

In Japan, the Ministry of Finance (MOF) was the main banking regulator until 1998, when the Financial Supervisory Agency (FSA) was established to serve as one of the external organs of the Prime Minister's Office. FSA assumed from MOF the functions of inspecting, supervising, and surveying securities transactions by the private sector and financial institutions. In July 2000, the name of FSA was changed to Financial Services Agency under the Financial Reconstruction Commission (FRC), and the department assumed from MOF the additional task of planning Japan's financial system. In July 2001, FRC was abolished and FSA became the primary finance body of the Cabinet Office, with expanded responsibilities over the liquidation and resolution of failing banks, including correction actions relating to bank reconstruction.²¹

Japan's MOF retains power on the overall coordination and adjustment of MOF accounts; the investigation, planning, and drafting of the Government's financial system; financial crisis management; and funding supervision along with FSA of the Deposit Insurance Corporation.²² The Bank of Japan, on the other hand, has responsibility over price stability (i.e., to maintain an economic environment in which there is neither inflation nor deflation), the overall volume of money in the economy, and interest rates on a daily basis through money market operations.²³

2. Authorized Remittance Licensed Players

Not all countries have similar policies as to which businesses are allowed to have a remittance license to legally operate their businesses. In Indonesia, Japan, and Malaysia only banks are allowed to do wire transfers, whereas in the Hong Kong, China, Philippines, and Singapore there is greater room for participation. Under special provisions in each country, post offices are also allowed to effect transfers directly through their branches and with corresponding offices.

¹⁹ MAS is also the sole regulator of finance companies, insurance companies, securities firms, and moneychangers.

²⁰ Interview with former Philippine Minister of Finance Anita Amatong, 1 May 2005.

²¹ Refer to Japan FSA homepage www.fsa.go.jp

²² Refer to Japan MOF homepage www.mof.go.jp.

²³ Refer to BOJ homepage www.boj.or.jp.

Japan requires a full banking license of all remittance transfer businesses, even if a company would like to engage only in remittance transfers and no other financial matters. This is because remittances fall under the category of “exchange transactions,” a core function permitted only to authorized, licensed foreign financial institutions. Under the Postal Transaction Law, the post office may also engage in the funds transfer business as part of its postal savings operations.

Indonesia and Malaysia also limit permission to engage in the remittance transfer business to the banking sector, but Post Office Malaysia (POS Malaysia) and Indonesia’s Post Office are also allowed to engage in the business. Money transfer companies, such as Western Union (WU) or MoneyGram (MG), seeking to establish a presence in Indonesia or Malaysia, must partner with licensed banks. In Malaysia, BNM is currently handling the granting of remittance business permission on a case-by-case basis. POS Malaysia, for example, is not a licensed bank; however, BNM has allowed WU to partner with them to provide remittance transfer services.

Both domestic and foreign banks may forge partnership agreements in Malaysia. Furthermore, Malaysian authorities have allowed a private Nepalese company called IME Impex Sdn Bhd, under a special arrangement between the Government of Malaysia and the Government of Nepal, to service Nepalese remittances, in the form of a private commercial venture, between IME and designated licensed local Malaysian banks. In Indonesia, however, partnerships with money transfer outfits are limited to domestic banks.

Hong Kong, China, the Philippines, and Singapore do not restrict remittance business permits to banking institutions. Hong Kong, China, and Singapore appear to have the most liberal remittance environment with interested parties able to secure permits as remittance agents (RAs). No minimum capital is required of RAs in these countries. Singapore allows already licensed banks to open limited purpose branches (LPBs) through a simple application procedure that is secured within a month or so, and carries a minimum licensing expense of only S\$1,000 (US\$611) per year.²⁴ Through LPBs, Singapore appears to have encouraged more foreign bank branches with large migrant populations to establish remittance businesses, thereby making their presence more visible and more easily accessed by their country’s migrant workers. The move may be indicative of the Government’s desire to have banks with presumably lower status and operational risks to become more active players in the business.

3. Capital Requirements

As an insurance precaution, governments require banking and nonbanking financial institutions to back their operations with minimum capital thresholds, which often may be significantly high. This procedure may preclude small businesses from entering the market. Japan is the only one of the four remittance sending countries where no minimum capital requirement is imposed on foreign bank branches. One reason is that these banking institutions are expected to be financially strong. Local banks, however, are required Japanese yen (¥)2.0 billion (US\$19,020,447),²⁵ an amount that is still much lower than those imposed by other sending countries.

In Malaysia RM2 billion is required for domestic banking groups, which comprises commercial bank, merchant bank, and finance companies, and RM300 million for locally

²⁴ Interview with Alex Milan, General Manager, Philippine National Bank, Singapore Branch. PNB Singapore opened its first LPB on 24 April 2005.

²⁵ ¥105.15 = US\$1.00 (value as of closing price, 28 April 2005).

incorporated foreign banks.²⁶ Indonesia's capital required for banks seeking to open business is rupiah (Rp)3.00 trillion (US\$333.33 million).²⁷ Additionally, Indonesia requires banks to maintain a capital adequacy ratio of at least 8% from the start of the bank's operations. Past problems experienced with many small banks may have influenced the thinking of the regulators that only the bigger and, by association, more stable banks be allowed to enter the market. Much smaller capital requirements are required of banks wishing to establish and/or convert their operations to business operations based on Sharia principles, from Rp1.00 billion, to Rp2.00 billion (US\$104,515–209,030), depending on which area they hope to set up Sharia branch offices.²⁸

Singapore expects the head offices of foreign banks to be in good financial standing to set up business, requiring them to have capital of not less than S\$200 million (US\$122.25 million), while their foreign branches are required to have a minimum of S\$10 million (US\$6.11 million).²⁹ In addition, yearly licensing fees are paid varying from S\$75,000–125,000 (US\$45,844–76,406), depending on license type. Worth noting is the ease with which nonbanks like MTOs can set up business in the city state. No capital is required of MTOs, and only an S\$100,000 (US\$61,125) security deposit, is required which must be furnished to the MAS for each branch of the remittance company.

Hong Kong, China, requires Hong Kong dollars (HK\$)300 million (US\$38.48 million) for banks to set up business. For restricted licensed banks, HK\$100 million (US\$12.83 million) is required, and for deposit-taking companies HK\$25 million (US\$3.21 million).³⁰ There is no capital requirement for RAs. The minimum capital requirement for banks in the Philippines depends on the type of banking license the institution seeks to operate.³¹ Universal banks are required Philippine peso (P)4.95 million (US\$91,413); commercial banks P2.4 million (US\$44,321); thrift banks with head offices in Metropolitan Manila P325 million (US\$6 million), and head offices outside Metropolitan Manila P52 million (US\$960,206); and rural banks varying capital depending on the location of the office. Remittance companies and other entities are required a minimum capital depending on the type of business entity (sole proprietorship, partnership, or corporation).³²

4. Identification Documents for Banking Transactions

One issue addressed in this report refers to who, on the demand side, is allowed to conduct remittance transfers. Identity is a common minimum threshold that permits an individual to send money. The kind of identity required, however, varies across countries and thus may set limitations as to who is effectively allowed to remit through licensed businesses.

In all the countries studied, in addition to government issued identification documents, a valid passport for nonnationals of the host countries is an acceptable form of identification for opening accounts and remitting money overseas. However, some countries may require additional supporting documentation for account opening, such as a national identity card. For those remitting, additional documents include work permits, or national identity card in

²⁶ Comments by officials at the Bank Negara Malaysia. It is important to qualify that this requirement applies to open banking operations, not remittance operations.

²⁷ Rp9,568 = US\$1.00 (value as of closing price, 28 April 2005).

²⁸ Article 56, Bank of Indonesia Regulation No. 2/27/2000 concerning commercial banks.

²⁹ S\$1.6360 = US\$1.00 (value as of closing price, 28 April 2005).

³⁰ HK\$7.7948 = US\$1.00 (value as of closing price, 28 April 2005).

³¹ http://www.bsp.gov.ph/regulations/guidelines/guidelines_b.htm

³² P54.155 = US\$1.00 (value as of closing price, 28 April 2005).

Singapore, a permanent resident card in Indonesia; a valid worker’s permit or a letter from the employer in Malaysia; an alien registration card for nonnationals in Japan; and the Hong Kong Identity Card in Hong Kong, China. In the Philippines, identification (ID) documentation varies from institution to institution with the alien certificate of registration and the passport as minimum requirements.

5. Regulations on Pricing and Other Transaction Costs

In the countries studied, remittance charges can be freely set and are therefore unregulated. However, in the Philippines there exist various charges, additional to the remittance charge already paid by the remitter, borne by the recipient. Below are examples of the documentary stamp tax levied in the Philippines by the Philippine National Bank. While the documentary stamp tax is standard for all banks, other charges can vary from bank to bank.³³

Table 4.1: Examples of Amounts of Documentary Stamps Levied in the Philippines by the Philippine National Bank

Item	Amount of Documentary Stamp
Non-PNB Peso Account	P0.30 documentary stamp tax for every P200.00 + P100.00 + charges of the other bank
Non-PNB US\$ Account	¼ of 1% of proceeds or minimum of P100.00 for first US\$100T, additional 1/8 of 1% on next US\$400T, additional 1/16 of 1% on excess over US\$500T, + P100.00
Advice and Pay	P0.30 documentary stamp tax for every P200.00 + P100.00
Door-to-Door Delivery	P0.30 documentary stamp tax for every P200.00 + P40.00 delivery cost

6. Regulation on Bulk Remittances

Bulk remittances are conducted by so-called “consolidators” who collect remittances from individuals and then perform the money transfer singularly or in bulk, using formal remittance channels for credit to a single beneficiary account. The receiving country farms out the remittances to the individual accounts of the various beneficiaries (who normally also maintain accounts in the same bank as where the remittance “catching account” of the consolidator is maintained).

Japan, in keeping with “Know-Your-Customer” (KYC) policies that each and every remitter should be identified and each transaction individually processed, does not allow bulk remittances. Hong Kong, China, has no restrictions on bulk remittances; Singapore allows such remittances provided the person or business doing the bulk transfer is licensed and in compliance with its regulations (i.e., the consolidator must maintain proper records of his/her individual clients). Indonesia presently allows bulk remittances but has yet to institute policies and guidelines for processing such remittances.

In the Philippines, the members of the Association of Bank Remittance Officers, Inc. (ABROI) are key officers of various Philippine-based banks involved in the remittance business. The association would like to refrain from accommodating consolidators, many of which are not formally recognized in their host countries, and simply use bank facilities as

³³ Interview with Vivien Calamlam, First Vice President, International Transactions Processing Group, Philippine National Bank Head Office, Philippines.

outlets for bulk remittances sent from abroad. Some member banks nonetheless continue to allow consolidators to use their bank facilities for various reasons such as meeting their own target goals, etc.³⁴

Malaysia employs a modified form of remittances in bulk by allowing legitimate remittance transfers from one licensed bank to another with prior government-to-government arrangement and agreement. This modified form is used in the case of Nepalese remittances from Malaysia wherein a government-to-government arrangement made it possible. One locally incorporated remittance operator from Nepal, i.e., IME Impex Sdn. Bhd., is involved in the remittance business whereby the settlement of the remittance transactions is made through the banking system.³⁵ Individual Nepalese remitters credit the bank remittance catching account of IME Impex maintained in a Malaysian bank, bring proof of the credit to IME Impex, and fill out the necessary details on the sender and the recipient. IME Impex implements the remittance by first crediting its remittance catching account in bulk in its depository bank in Nepal, and then has the remittances delivered to the beneficiaries. In this arrangement, IME Impex incurs one remittance transfer cost, and is able to charge the individual clients much lower charges than an individual Nepalese who might directly transfer money using a Malaysian bank.

In Japan, a slight variation of the Malaysia–Nepal model may be studied in terms of its legality under current banking regulations in Japan. Such study assists the approximately 4,593 Nepalese on legal status in the country (Japan Immigration Association 2003), and discourages the use of the “Hundi” or “Hawala” system. If the Nepalese Government wants to ensure that the foreign currency earned is repatriated back to the country through banking channels, the following scheme involving three parties (a licensed bank in Japan, another licensed bank in Nepal, and a licensed Nepalese company acting on the approval of the Nepalese Central Bank) may be considered.

The licensed bank in Japan remits the money of Nepalese residents in Japan to a so-called “nonoperative” account, maintained by a licensed Nepalese company in a licensed bank in Nepal which is registered and pre-approved by the Nepal Central Bank. The nonoperative account, preregistered with the Nepal Central Bank by the Nepalese company, acts as the “remittance catching account” for incoming Nepalese remittances. The Nepalese company, acting pursuant to an arrangement forged with the bank in Nepal, ensures door-to-door delivery of the funds to beneficiaries in Nepal, most of who do not maintain bank accounts.³⁶

This slight variation of the Malaysia–Nepal model may pose some regulatory problems given that remitters sending money to a single catching account may classify the transactions as “suspicious” (with the “nonoperative” account potentially suspected of being a money laundering outlet), even though individual KYC checking is done by the bank in Japan for each and every Nepalese remitter. Furthermore, the model may not result in lower remittance fees for individual Nepalese remitters since the bank in Japan is not allowed, under current banking regulations, to send remittances in bulk to “nonoperative accounts” in Nepal.

³⁴ Interview with Articer Quebal, founding member, Association of Bank Remittance Officers, Inc., and full-time consultant and Executive Head, Remittance Marketing, Asia United Bank, Philippines.

³⁵ Comments by officials at Bank Negara Malaysia

³⁶ As described by Bigyan Pradhan, President and Chief Executive Officer of Sun and Company P., Ltd. of Nepal, on his visit to Japan in April 2005, talking with various banks in Japan proposing such a scheme.

7. Remitting Country–Receiving Country Relations

The countries studied engage in some form of dialogue with their counterparts and with various institutions, but these dialogues do not necessarily include matters specifically related to remittances. In practical terms there is little formal communication or agenda on international money transfers among specific corridors.

Japan, however, concluded a bilateral agreement with the Philippines and Malaysia to facilitate workers' remittance and improve access to financial institutions on 30 August 2004, and 28 October 2004,³⁷ respectively.

8. International Regulatory Standards: Anti-Money Laundering and Know-Your-Customer Policy

In the countries studied, government antimoney laundering rules are in place and efforts are made to enforce them upon businesses involved in international money transfers. Each country institutes and implements various programs to ensure antimoney laundering law compliance. However, in the majority of cases these guidelines are generally similar or standardized.

A similar standard is found on the KYC policy. The adoption of the standard KYC principle by the Basle Committee on Banking Regulations and Supervisory Practice in December 1998, and by the banking community worldwide, is a step toward preventing the use of the financial system for money laundering purposes.³⁸ The countries studied set minimum requirements to meet their KYC rules, the most basic of which are name, date of birth, address, and valid ID. In addition to basic KYC checking, players in the industry could also ask for additional information like nationality, details about occupation, telephone number, visa validity, etc.

Japan requires KYC principles be applied for remittance transfers from “zero yen” upward for all international transactions, while Singapore requires no minimum amount to trigger KYC. It should be noted, however, that despite having no prescribed dollar figure trigger there are quite strict KYC provisions in the antimoney laundering guidelines for remittance licensees. The guidelines state that “remittance licensees shall not conduct business transactions with customers who fail to provide evidence of their identity,” and “remittance licensees shall record relevant information from all prospective customers in the appropriate register in accordance with the conditions of the remittance license.” Based on these guidelines, Singapore effectively implements “zero dollar” policy for KYC. In Malaysia, Bank Negara Malaysia does not specify any threshold amount for conducting KYC. Banks are required by law to identify and verify all customers. Record keeping is required for all transactions for a period of not less than 6 years. Banks are required under the Anti-Money Laundering Act 2001 to report any suspicious transactions, irrespective of the amount.³⁹ Special forms are required to be filled out for RM50,000 (US\$13,158) and higher, and Hong Kong, China, strictly checks remittances of HK\$20,000 (US\$2,566) and higher.

Regarding remittance receiving countries, Indonesia does not require strict ID checking except for amounts exceeding Rp100 million (US\$10,452). Monitoring of incoming remittances of more than P500,000 (US\$9,233) is required in the Philippines. Malaysia, also a

³⁷ For more details (in Japanese only), see <http://www.mof.go.jp/jouhou/kokkin/japan-philippin.soukin.pdf>, and <http://www.mof.go.jp/jouhou/kokkin/japan-malaysia.soukin.htm>

³⁸ BNM/GP9 Guidelines on Money Laundering and “Know Your Customer Policy,” Bank Negara Malaysia.

³⁹ Comments provided by officials from Bank Negara Malaysia.

receiving country in this study, does not set a minimum level. Japan strictly monitors incoming and outgoing remittances of ¥2.0 million (US\$19,020) and over.

Threshold amounts required for reporting also vary from one country to another. Foreign Currency and Foreign Trade Law requires banks, based on the law on KYC, to apply these rules to transfers of more than ¥2.0 million (US\$19,020) by customers. Amounts over ¥30.0 million (US\$285,307) are reported to the Bank of Japan (BOJ) (for Balance of Payments Statistics compilation purposes). Singapore's MAS, on the other hand, considers setting a minimum threshold to be impractical since customer types and behavior vary widely. Indonesia also does not require a minimum amount, but transactions over Rp500 million (US\$52,258) are reported to the Center for Reporting and Analysis of Financial Institutions (PPATK). Hong Kong, China, requires no minimum amount for reporting purposes. In the Philippines, covered transaction amounts exceeding P500,000 (US\$9,233)⁴⁰ are reported to the Anti-Money Laundering Council (AMLC), and in Malaysia the amount is RM50,000 (US\$13,157) and higher.

The countries studied are required to file reports of suspicious transactions, regardless of the amount believed to be suspect.

9. Enforcement I: Conditions

The surveyed countries have different concerns. Hong Kong, China, seemingly does not encounter significant problems in the enforcement of regulating money transfers. Japan desires efficient enforcement of the Financial Action Task Force (FATF) requirements, and Singapore wants limited control of the smaller players in the remittance market.

Indonesia's regulators say that major challenges are posed in compliance, possible overlapping regulations, and the difficulty and cost involved in efficiently monitoring and implementing set objectives and regulations. Malaysia's concerns are basically on implementation and compliance. The Philippines may find it a daunting task to ensure that informal channels do not get involved at various points in the whole value chain of remittances involving many players.

In Hong Kong, China; Indonesia; Japan; Malaysia; and Singapore, the police are primarily responsible for watching out for unlicensed channels. In the Philippines, BSP is the main enforcement body of MTO, and the AMLC is responsible for investigation, examination, and auditing. Prevailing enforcement issues remain, however, regarding nonregistrants.

Authorized institutions (AIs) In Hong Kong, China, are subject to HKMA's supervision to ensure compliance. Remittance agents (RAs), on the other hand, are not subject to supervision; however, random watches, usually triggered by third party reports or criminal investigations, are conducted by the Hong Kong, China, police. For RAs and money changers (MCs), advice is given to employees concerning declarations and background checks. In Japan, the submission of transactions reports is made compulsory by the penal code. Fines, imprisonment, and lashes of the cane are given to those who engage in criminal activities involving money transfer in Singapore, and MAS may also revoke licenses and suspend business. Warnings are given by Bank Indonesia and administrative sanctions such as a cash penalty, a degraded bank ranking, and so forth, may be given. The police conduct enforcement when the violation is criminal in nature. BSP ensures compliance and may impose varying degrees of sanctions to offending institutions. Malaysia enforces laws such as

⁴⁰ Interview with the Compliance Office, Philippine National Bank Head Office, Philippines.

those set by the Banking and Financial Institutions Act (Bafia), the Criminal Procedure Code, Anti-Money Laundering Act, Exchange Control Act and Payment Systems Act, and other laws set by authorities such as Customs or Acts of Parliament.

10. Enforcement II: Case Examples

Citibank, N.A, Japan Branch: This branch office has a suspension date for 30 September 2005. Problems discovered in connection with compliance and governance systems of the branch were cause of the suspension. In particular, acts against public interests, serious violations of laws and regulations, and extremely inappropriate transactions were uncovered at the Private Bank Group. This included lack of a system of internal controls pertaining to foreign currency depository operations.

Banco do Brasil S.A. Japan Branch Office: The branch office has been suspended from operating since 24 December 2004. Problems with compliance and governance systems of the Japan Branch Office in connection with sound and proper management operations were cause of the suspension. Specifically, the suspension was associated with foreign exchange and remittance transactions with new corporate customers (with exception of operations that relate to transactions with existing corporate customers). The suspension order may be reviewed after 26 December 2005, when it is possible for the suspended business to be resumed based on progress made by the Japan Branch Office.

11. Information and Data Gathering by Regulators

BOP statistics in Japan are the primary formal source of data on workers' remittances. Data are mainly gathered from bank settlements on behalf of the banks and their customers. Hong Kong, China, does not require its AIs and RAs to report incoming and outgoing remittances; therefore, no statistics on remittances are available. Singapore strictly requires quarterly reports, specifically on remittance transactions from MTOs. Banks are not required to specifically report on remittance transaction, but have more general and more frequent reporting requirements with respect to their operations and financial health.

Indonesia requires general monthly bank reports, but does not specifically require information on remittances. In the Philippines, reports on remittances and the buying and selling of foreign exchange transaction, are required per BSP Circular No. 471. In Malaysia, the report on cross-border settlements by the banks are submitted online daily through the "International Transaction Information System" (ITIS). The nonbank reporting entities submit their monthly reports by hard copy.

None of the countries indicated the adoption of formal and efficient methods of data collection for incoming and outgoing remittances from informal channels.

B. Players in the Intermediation of Remittance Transfers

1. Formal and Informal Markets

The nature of formality or informality of the marketplace for remittances depends on different factors, including the demand for such services, which often operates as a function of income and education, as well as the supply side, particularly the prevailing technological and financial infrastructure, and laws that enables for an efficient international money transfer environment.

In Southeast Asia, particularly among those countries studied, informal money transfer markets are less prevalent than in other regions. Most clients use regulated institutions to send and/or receive remittances. The presence of informal networks for money transfers continues to be puzzling. As mentioned previously, some immigrants rely on informal transfers because the technological infrastructure is costly, prohibiting companies from providing affordable services to the customer, or because strict government regulations on how to send money lead immigrants to use less traceable mechanisms.

Immigrants interviewed in the four remittance countries (Hong Kong, China; Japan; Malaysia; and Singapore) suggested that, in the majority of cases, they used formal money transfer mechanisms, be this a bank or a money transfer operation. A typical case where remittances are predominantly handled with significant regulatory strength is Japan. There is use of unlicensed businesses; however, it seems to occur among certain immigrant groups over others. Filipinos in Japan predominantly use formal networks for money transfers (Table 4.2), and represent a remittance corridor with a significant degree of competition. Indonesians, on the other hand, which make up a smaller population group in Japan, tend to send remittances through unlicensed or unregulated operations, such as friends, acquaintances, or other travelers.

Table 4.2: Percent of Immigrants in Japan Using Sending Methods

Japan	Indonesia	Malaysia	Philippines	Total
MTO	15	4	9	11
Bank	26	57	70	56
Post office	9	30	9	11
Friend	67	4	17	31
Other	12	17	10	11

Source: Survey of migrant senders in Japan, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Reasons for choosing informal networks are still unclear. One reason argued is unattractive pricing—the more costly to send money, the more likely people will be to use informal transfers. Although sending money to the Philippines is cheaper than to Indonesia, less is known about the cost of sending through an informal network and this could answer our query. However, Indonesians expressed that of all the reasons why they choose to send money, fee and foreign exchange rate commissions were key factors (Table 4.3).

Table 4.3: Indonesians in Japan Use of Friends to Remit Money and Fee

	How did you choose this method? (Low) Fee			Total
		No	Yes	
Use of Friend to remit	No	55.8%	20.3%	33.3%
	Yes	44.2%	79.7%	66.7%
Total		100.0%	100.0%	100.0%

Source: Survey of migrant senders in Japan, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

Other factors such as income, education, age, or gender do not appear to play much of a role. Table 4.3 shows a statistical regression between using friends and demographic as well as other factors. Fee and exchange rate are the two most statistically significant predictors.

Table 4.4. Relationship between Choices of Using Friends to Remit to Indonesia from Japan

Item	Score	Sig.
Length of Time Sending	1.207	.272
Age	.302	.582
Gender	5.249	.022
Education	.063	.802
Income	.389	.533
Time Sending Money	.006	.940
Traveling Back Home	.273	.601
Fee of Transaction	9.540	.002
Recommendation of Business	.260	.610
Reputation of Business	2.334	.127
Speed of Sending	2.646	.104
Exchange Rate	3.757	.053
Convenience	.001	.971
Customer Support	.234	.628
Other Reasons	1.782	.182
	21.819	.113

Note: Logistic regression: dependent dummy variable is use of informal methods regressed against demographic variables and reasons for choice of sending method.

Source: Survey of migrant senders in Japan, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Are these trends suggestive of the other countries studied? Data from Hong Kong, China, and Singapore does not show that immigrants rely on informal networks. Tables 4.5 and 4.6 demonstrate the choice of sending method to these countries. As the results suggest, most transfers taking place from Hong Kong, China, and Singapore occur through formal transfer mechanisms.

Table 4.5: Sending Methods from Hong Kong, China

	Indonesia	Philippines
MTO	66	75
Bank	21	13
Post Office	7	1.4
Credit Card	1.5	7
Friend	1.2	2
Other	3.3	1.6

Source: Survey of migrant senders in Hong Kong, China, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Table 4.6: Sending Methods from Singapore

	How do you generally remit money?			
	Singapore	Indonesia	Malaysia	Philippines
MTO	45	54	21	
Bank	40	25	74	
Post Office	7	NA	2	
Credit Card	NA	1	13	
Friend	3	3	0	
Other	3	4	2	

MTO = money transfer outfit, NA = not available
 Source: Survey of Southeast Asian immigrants in Singapore, April 2005, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

In the Singapore remittance marketplace found that informal money transfers occur only in certain corridors, where there is a historically entrenched network of businesses operating in that context. This applies in particular to corridors remitting to India, Bangladesh, and Sri Lanka, where an estimated 70% of total remittances go through channels commonly known as “Hawala” and “Hundi”.⁴¹

In Malaysia, Indonesians and Filipinos use both informal transfers as much as licensed methods to remit back home. Formally established businesses exist offering money transfers without money transfer licenses. This is particularly evident among freight or cargo companies, which offer a similar fee to that offered by licensed remitters, and are still a primary choice for customers.⁴²

Table 4.7: Sending Methods from Malaysia

Malaysia	Indonesia	Philippines
MTO	NA	NA
Bank	38	45
Post office	25	9
Friend	1	2
Other	36	45

MTO= money transfer outfit; NA= not available

Source: survey of migrant senders in Malaysia, Regional Technical Assistance No. 6212: Southeast Asia Workers’ Remittance Study, Asian Development Bank.

Applying a similar statistical procedure to Malaysia (as described above), regression results show that foreign exchange and the reputation of the remittance transfer business are two key determining factors in the use of informal transfers. Neither income, age, education, nor gender plays a role in explaining the use of informal networks.

Table 4.8: Malaysia Variables in the Equation

Variables	B	Sig.	Exp(B)
Age	.033	.909	1.033
Gender	(.286)	.488	.752
Education	.141	.382	1.152
Annual Income	(.374)	.191	.688
Fee	(.084)	.826	.919
Recommendation	(1.139)	.010	.320
Reputation	.299	.504	1.348
Speed	.564	.147	1.758
Foreign Exchange	(1.977)	.000	.138
Easy Access	(.151)	.684	.859
Other	.113	.788	1.120
Constant	4.113	.014	61.117

Note: Logistic regression. Dependent dummy variable is use for informal methods regressed against demographic and reasons of choice of method.

Source: Survey of migrant senders in Malaysia, Regional Technical Assistance No. 6212: Southeast Asia Workers Remittance Study, Asian Development Bank.

⁴¹ Field country report on Singapore.

⁴² Field country report on Malaysia.

When comparing these trends with the remittance downstream in receiving countries, the study found that the distribution of transfers may be less informal, possibly suggesting that the regulatory environment in receiving countries may be less stringent on monitoring transfers. In the case of the Philippines, however, most transactions are handled by legally accepted intermediaries.

Table 4.9: Methods of Receiving Money among Filipinos

Method of Receiving	Indonesia	Philippines
Bank	64%	70%
MTO	NA	30%
Other	NA	NA

MTO= money transfer outfit; NA= not available

Source: Survey of remittance recipients in the Philippines, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

The decision to send or receive money does not appear to be exclusively made by the sender, but that there may be a mutual agreement between the sender and recipient regarding how to send the money. Senders may know how best to send the money, factoring cost and convenience, whereas recipients may be factoring convenience overall and informing the relative abroad. Furthermore, a low percent of recipients expresses preference over informal transfers.

Table 4.10: Decides which Money Transfer Agency to Use when Transferring Money (%)

Decisionmaker	Indonesia	Philippines
Relative Abroad	47	50
Yourself	31	50
Others	17	

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Table 4.11: Preference of Informal Method among Recipients (%)

Method	Indonesia	Philippines
Informal	26	38

Source: Survey of immigrant senders, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Thus, although informality prevails in some corridors, overall its presence is smaller than that of formally licensed businesses. It would be important, however, to better identify ways to transform informal businesses into licensed ones, while encouraging remitters to use the regulated market. This is particularly relevant considering that customers prefer the use of formal mechanisms.

2. Key Players in Money Transfers

Given the volume of money that circulates along different corridors as a result of the demand for money transfers, intermediation is crucial to ensuring market efficiency. More

importantly, the players providing intermediation end up establishing an industry composed of a multiplicity of competitors, seeking to offer a range of services to customers. This industry acts through banking and financial nonbanking institutions, depending on the regulatory environment allowing or restricting certain businesses in the industry. What follows is a description of the range of players operating in the respective upstream corridors in Southeast Asia.

a. Japan

Remittance transfers from Japan are carried out by the post office, national and international banks, which either contract out with international remittance companies or set up their own money transfer operation. For example, Suruga Bank has an agreement with Western Union whereas Ogaki Kyoritu Bank has one with MoneyGram. Thus, these MTOs operate only through the banks and not as MTOs in Japan. International banks that operate in Japan to carry out money transfers are also varied. Philippine National Bank (PNB) carries a significant flow of the market for transfers to the Philippines.

In most cases, clients are not required to have a bank account to send money. However, there are certain minimal advantages in sending money when holding a bank account, such as the ability to mail the request for a transfer, or to transfer from account to account without visiting the branch by phone, fax, or online.⁴³

Another player in remittances from Japan to the countries studied is the post office. It facilitates transfers of money from post office to post office rather than door to door. However, the extent of their market share in the business is unknown. Finally, like in other parts of the world, technology-based systems, such as online transfers, card-based use, among others, are entering the market, although have a smaller presence.

An example is Travelex⁴⁴ who issues a reloadable prepaid remittance card. Travelex sells the card at a fixed amount of money that travelers wish to send and the money is generally withdrawn through automated teller machines (ATM) outlets. Remittance recipients receive a debit card with a Visa functionality. Another example is the use of mobile telephony to remit money. One case is “SMART Padala”. However, this system operates without a license in Japan, therefore is an informally operating MTO. Unlike Malaysia, informal transfers have a lesser presence. However those that exist are managed by ethnic stores, such as restaurants, shopkeepers.

Table 4.12: Examples of Institutions Offering Remittance Transfer Services

Philippines	Indonesia	Malaysia
PNB, UFJ Bank, Suruga Bank (Western Union), Travelex, Post Office, Ogaki Kyoritu Bank (MoneyGram)	BNI, Suruga Bank (Western Union); UFJ Bank	Bumiputra Commerce bank, UFJ Bank, Suruga Bank

BNI=Bank Negara Indonesia; UFJ= United Financial of Japan ; PNB= Philippine National Bank
 Note: there are over 130 banks, plus Shinkin-banks, and post offices that offer remittance transfers. The list provided here is only an illustration of the range of players.
 Source: Regional Technical Assistance No. 6212: Southeast Asia Workers’ Remittance Study, Asian Development Bank.

⁴³ It is necessary, though, to send a copy of original evidences or any other relevant certification in accordance with the requirement of the bank for identification. These advantages do not include the advantages of financial intermediation to the remittance sender.

⁴⁴ The headquarters of Travelex are in the United Kingdom.

Competition overall varies significantly with companies processing from 1,000 transactions a month to 40,000. In the Philippines, where annual flows are estimated to range at 200,000 transactions, competition is concentrated between local and foreign banks. Foreign banks, however, are the main processors in the business controlling over 40% of the market. The larger international money transfer companies like Western Union or MoneyGram, although very active, are not the major players, but important competitors in this market.

b. Singapore

Unlike in Japan, in Singapore remittance transfers are carried out by a larger and diverse pool of players that includes domestic banks, local branches of foreign banks, and licensed remittance companies.

Unlike in Japan, national banks are less involved in transfers. The larger commercial banks are not active in the business with the exception of the Development Bank of Singapore (DBS), which through its subsidiary, Post Office Savings Bank (POSB), targets the foreign worker remittance business. These banks have not entered this market due mostly to thin margins, high start-up and operating costs, and a perceived negative impact to its overall brand image.

Foreign banks with nationals working in Singapore, on the other hand, have significant remittance operations controlling as much as 30–60% of the market share of remittances to their respective home countries.

Remittance transfer companies, however, are the key players in this market. They dominate the industry with a presence of over 100 remittance companies. These companies comprise nearly 200 branch locations located throughout Singapore in neighborhood shopping centers, near work sites, factories, and shipyards. Many are concentrated in areas of ethnic congregation such as Lucky Plaza (Filipinos), Golden Mile Complex (Thais), Little India, and Chinatown. The vast majority of remittance companies are small one-branch operations catering to one to three niche corridors where they have specific competitive advantages. The largest private remittance company has 17 branch locations and services over 10 corridors.

Table 4.13: Players in Singapore’s Remittance Marketplace

Type	No. of Locations
Domestic Banks	
Post Office Savings Bank (POSB)	2
Foreign Banks ^a	15
Remittance Companies	197
Total	214

^a For NTS countries, Malaysia, Indonesia and PRC Source Regional Technical Assistance No. 6212: Southeast Asia Workers’ Remittance Study, Asian Development Bank.

With more than 200 companies, this market is saturated and highly competitive. Like in other corridors, companies compete mainly on price, speed, and service reliability. Many also have complementary money exchange businesses while others are linked with courier services. One interesting characteristic of this market is that supply and demand meet at specific locations. For example, the majority of remittances to South Asia are handled in Little India while to Philippine in Lucky Plaza.

Although Western Union is the major competitor, it still has an important position among the top companies. It has the largest branch and agent network in Singapore using remittance companies (3), American Express Foreign Exchange outlets (2), mailboxes etc. outlet (1), RHB bank branches (7), and Singapore post branches (39).

Singapore Post, or SingPost, offers remittance transfers through its 40 branch locations. Since starting operations in 2001 as a Western Union agent, and now holding its own money transfer brand, its large distribution network and brand quality have made it a key player in the market. In 2003, SingPost launched its low-price/high-speed service to Philippine-branded CasHome, a debit card service in partnership with Equitable PCI Bank of the Philippines. SingPost market position is yet to be known, but competitors are divided about its entrance in the market. Some believe SingPost will not likely make a significant impact. However, other players are more concerned given SingPost's large branch network and reputation.

c. Singapore Corridors

Remittances to the Philippines are predominantly handled by some 20 remittance companies and 2 banks located in Lucky Plaza. The PNB is considered the dominant player in this market and has an estimated 60% of the market. Other players in this corridor are I-Remit (owned by I-Bank), KC Dat, LBC Remittance, and MetroRemit (owned by MetroBank).

Unlike the Philippine corridor, competition to Indonesia is more fluid. Over 30 MTOs serve Indonesia, and BNI estimates it handles 20-30% of the total volume to Indonesia. There is no door-to-door delivery, debit card, or other technologically advanced services. Informal channels play a role in this corridor due in part to higher costs and poorer service of the formal channels, as well as to the constraints faced by the Indonesian domestic helpers. These informal channels are those that the domestic helper has normal contact with and include the employment agencies (first contact) and courier companies who offer remittance service as a familiar and trustworthy counterpart. Given that they do not have off-days to explore their own options and are generally younger and less sophisticated, these informal channels do present an attractive method for the Indonesian domestic helpers.

Finally, because of ease in border crossing between Singapore and Malaysia, worker remittances in this corridor are largely physical. Given the close proximity with Malaysia, Malaysian workers continue to carry back the money earned in Singapore. This is particularly true in the case of commuters who work in Singapore but continue to live more inexpensively in Malaysia.

d. Hong Kong, China

Like in Singapore, there exist different players in this industry, which include commercial banks (Filipino and Indonesian), international MTOs, local companies or ethnic stores specializing in money transfer (and possibly foreign exchange and other money services), and other businesses (such as travel agencies or cargo companies) offering remittances as an additional service.

Fourteen banks and money transfer companies were interviewed. Table 4.14 shows some of those interviewed as key players.

Table 4.14: Players in Hong Kong, China’s Remittance Marketplace

Organization	Type	Main Destination for Remittances	
		Philippines	Indonesia
Bank Mandiri	Bank		√
BCA Remittances	Bank subsidiary		√
BDO Remittances	Bank subsidiary	√	
Express “Padala” (Equitable PCI)	Bank subsidiary	√	
iRemit (iBank)	Bank subsidiary	√	
PNB Remittance Centre	Bank subsidiary	√	√
RCBC Telemoney	Bank subsidiary	√	
MoneyGram	International MTC	√	√
Franki Exchange	Local MTC	√	
“Pinoy” Express	Local MTC	√	
Rupiah Express	Local MTC		√
HongKong Post	Other	√	√
General Store	Other		√
Travel Agency	Other		√

BDO = Banco de Oro; MTC = money transfer channel

Source: Regional Technical Assistance No. 6212: Southeast Asia Workers’ Remittance Study, Asian Development Bank.

e. Hong Kong, China, Corridors

The two main corridors analyzed for the Hong Kong, China, market were Indonesia and the Philippines, countries from which there is a large labor migration to Hong Kong, China. In the Philippine market, remittance transfers are mostly handled by Filipino banks, which offer bank-to-bank transactions, cash pickup, or door-to-door delivery. An emerging feature in this corridor is remittance transfers via cell phone and debit cards. At least seven banks participate in the remittance transfer business, handling about 200,000 monthly transactions to the Philippines.

Table 4.15: Banks (or subsidiaries) in Hong Kong, China, Providing Remittance Transfers to the Philippines (a sample)

Bank of the Philippine Islands (BPI)
Banco De Oro Universal Bank (BDO)
Equitable PCI Bank
International Exchange Bank (iBank)
Metropolitan Bank and Trust Company (Metrobank)
Philippine National Bank (PNB)
Rizal Commercial Banking Corporation (RCBC)

For about the last 5–10 (1996-2005) years, these banks have targeted migrant workers as an emerging foreign labor market demanding services such as money transfers. Their aim has been to offer remittance transfers, while simultaneously encouraging the opening of savings accounts. These institutions operate through subsidiaries in Hong Kong, China, handling the remittance business to better cope with banking regulations. Competition

among these institutions is reflected in their pricing: most banks offer similar foreign exchange rates and fees to customers.

Global Nation reported recently that PNB accounts for more than 35% of the Filipino remittance business in Hong Kong, China, followed by the Metrobank Group, Rizal Commercial Banking Corporation and the Bank of the Philippine Islands.

International money transfer outfits, particularly, Western Union, Travelex, and MoneyGram are also active but compete against the banks. A similar situation is found among local money transfer companies, though on occasion they may act as agents of international companies or banks.

The downstream remittance corridor to Indonesia shows trends similar to sending money to the Philippines. Indonesian Bank branches dominate the market. Six Indonesian banks have a significant presence in Hong Kong, China: Bank Internasional Indonesia (BII), Bank Mandiri, Bank Negara Indonesia (BNI), Bank Niaga, Bank Rakyat Indonesia (BRI)

Although Indonesian banks have similar objectives to Philippine banks, some differences distinguish the latter. For example, door to door services appear not to be available for Indonesia, ATM use is less developed, and bank to bank transfers are less efficient and can take up to 4 days to effect transfer.

On the other hand, Indonesian shops can offer faster remittances than the banks. They maintain accounts at each bank in Indonesia and can issue transfer instructions for next-day payment.

f. Malaysia

In Malaysia, although there are some nonbank entities that are allowed to operate remittance services, banks are the major market players. The banks that are particularly active in providing remittance services for foreign workers are RHB Bank, Bumiputra-Commerce Bank, and Maybank. Bumiputra-Commerce has a licensing agreement with Western Union.

Other money transfer operations that exist are businesses working in other countries under government-sponsored programs. This is the case of IME Impex Sdn Bhd, formed as a result of a government-to-government agreement allowing IME Impex to facilitate remittances made by Nepalese nationals back to Nepal. Using any of the three major banks, remittance senders deposit the transfer into an escrow IME Impex account in Malaysia and provide IME Impex with details regarding the transaction. IME Impex then transfers the money into an IME remittance recipient account in Nepal. The transaction cost is RM15.00 for an allowed maximum of RM10,000.

As the earlier section showed, informal transfers are more frequent in Malaysia than the other corridors. For example, cargo companies in the business of sending parcels to the Philippines also often provide unlicensed remittance services. These businesses charge RM20 flat fee. The operation is typical of an informal business, meaning the money is deposited into an account owned by the business, and upon delivery notification, the receiving end disburses the money to the recipient's door. Some companies operate in the Kota Raya Shopping Complex in Malaysia.

C. Transaction Cost

Pricing and cost factors are found at the intersection between supply and demand of goods and services. In the remittance transfer industry it is said that people often resort to informal mechanisms to cope with high costs. This assumes that the costs to an immigrant to send money through regular companies are above their means.

In this section we analyze the cost of sending money to three downstream corridors under analysis, Philippines, Indonesia, and Malaysia, from four upstream countries: Hong Kong, China; Japan; Malaysia; and Singapore. The transaction cost is based on two prices, one the fee the person is charged to send the money and the commission on the exchange rate. In some countries fees are divided into different components, such as the stamp fee. Moreover, another consideration is that some businesses charge a flat fee up to a certain amount, whereas others charge a percent fee.

1. Sending Money from Japan

The cost of sending money from Japan depends on the corridor through which the money is being sent. However, overall minimum fees range from ¥2,000 to ¥25,000 (when the transaction uses Society of Worldwide Interbank Financial Telecommunication [SWIFT]). Western Union appears as an expensive provider. Generally the transaction cost in Japan includes a 5% lifting fee plus ¥2000 plus the commission on the exchange rate. The average cost (excluding the commission on the foreign exchange) to send an average of US\$500 from Japan to the four countries studied is 7.8%. Table 4.16 shows the transaction cost of sending different amounts.

As the table below shows, sending to the Philippines is less costly than to Indonesia or Malaysia probably due to the volume of transfers. The total cost including the commission may add to 2% more. Unfortunately data were unreliable to measure exchange rate markups.

Table 4.16: Remittance Transfer Costs in Japan to Indonesia, Malaysia, and the Philippines

Country Sent	Amount	Fee		Total Charge ^a	
	Sent (US\$)	Amount	(%)	Amount	(%)
Indonesia	75	35.1	46.8	35.1	46.8
	150	35.9	23.9	35.9	23.9
	250	36.9	14.8	36.9	14.8
	600	47.1	7.8	47.1	7.8
Malaysia	75	45.3	60.3	45.2	60.3
	150	45.5	30.3	45.5	30.3
	250	45.8	18.3	45.8	18.3
	600	50.7	8.5	50.7	8.5
Philippines	75	28.2	37.6	28.2	37.6
	150	31.3	20.9	31.3	20.9
	250	34.5	13.8	34.5	13.8
	600	41.7	6.9	41.7	6.9

^a Information about exchange rate commission was difficult to obtain during the data collection. Further contacts with some institutions suggest that an estimate of such commission may range from 1–2% of the amount sent.

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

2. Sending Money from Hong Kong, China

Sending remittances from Hong Kong, China, is among the least expensive corridors. Looking at 26 companies operating in World Wide House, Central, Hong Kong, China, sending to the Philippines costs 1.3% in foreign exchange rate commission as a percentage of

the average sent (HK\$2,000) and an average of HK\$25.5 fee to send HK\$1,000 or more, which means about 1.3–2.7%. For an average amount sent of HK\$2,000 the total cost is 2.6% the value of the principal.

In some cases, a slightly more favorable rate was available for regular customers or personal account transfers. The fee on the other hand varied depending on the method employed. If door to door the cost was higher. The tables below show the transaction cost in the commission on foreign exchange and fees.

Table 4.17: Commission on Foreign Exchange and Fees to Remit from Hong Kong, China, to the Philippines

Item	7 April 2005 (Thursday)	11 April 2005 (Monday)	20 April 2005 (Wednesday)
Markup (average)	0.0020 (1.43%)	0.0018 (1.27%)	0.0021 (1.41%)
Cost for \$1,000 remittance (average)	HK\$14.3	HK\$12.7	HK\$14.1

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Table 4.18: Transfer Costs to Remit from Hong Kong, China, to the Philippines (HK\$)

Item	Highest	Lowest	Median
Bank to bank—Metro Manila	25	10	20
Bank to bank—Provinces	30	10	25
Cash pickup—Metro Manila	30	15	20
Cash pickup—Provinces	40	15	25
Door to door—Metro Manila	30	20	28
Door to door—Provinces ^a	40	30	35

^a Higher fees (up to HK\$70) may be charged for the most remote barangays.

Source: Survey of remittance transfer agencies, Regional Technical Assistance No.6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Similar to the Philippines, the cost of sending to Indonesia is relatively low. In this corridor, the commission on the exchange rate is less than 1% and the average fee is HK\$25 or 1.75%. Table 4.19 shows that fees are generally higher on Sunday, which is also the most popular day for remittances by Indonesians, as it is their normal day off. However, foreign exchange rates are more competitive on Sundays.

Table 4.19: Commission on Foreign Exchange and Fees to Remit from Hong Kong, China, to Indonesia

Item	10 May 2005 (Tuesday)	15 May 2005 (Sunday)
Markup (average)	9 (0.73%)	3 (0.25%)
Cost for \$1,000 Remittance (average)	HK\$7.3	HK\$2.5

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Table 4.20: Transfer Costs to Remit from Hong Kong, China, to Indonesia (HK\$)

Type	Highest	Lowest	Median
Sunday rate—(1 hour) ^a	70	50	50
Sunday rate—(1-day)	50	30	30
Sunday rate—(standard)	30	20	25
Weekday rate—(1-day)	50	40	45
Weekday rate—(1-day)	40	20	30
Weekday rate—(standard)	30	15	30

^a The precise nature of the advertised service is not always clear. For example, 'express' service can mean 1 hour or next day. 'Standard' service can take 2–5 days, depending on the bank.

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Putting the foreign exchange spread and the fees together, the average cost of remitting funds to Indonesia is 2.75% for a HK\$2,000 remittance, depending on the company and method used. These charges are borne by the remitter. Additional charges may be payable by the receiver, depending on the method and bank used.

It is important to note however that destination banks in Indonesia also deduct charges from the remittance. The deduction ranges from Rp6,000 (HK\$5) to Rp30,000 (HK\$24), depending on the bank used and the distance from Jakarta. This practice is not atypical as it happens in other countries with the argument that the transfer costs to the institution increase when the money goes to areas outside the capital. The rationale of such arguments is not clear, however, and the recipient is often not told the reasons.

3. Sending Money from Singapore

Remittance transfers from Singapore are competitive because of multiple providers and players. Such environment translates in pricing, too. Looking at a sample of 10–23 companies, the transaction cost to an immigrant ranges from 2–4.5% depending on the receiving country (Table 4.21).

Table 4.21: Remittance Price Comparison

Remittance Amount	Philippines			Indonesia			Malaysia		
	Service Fee	FX Markup	Total Cost	Service Fee	FX Markup	Total Cost	Service Fee	FX Markup	Total Cost
S\$500	1.06%	2.50%	3.56%	2.59%	2.04%	4.63%	2.16%	1.39%	3.55%
S\$1,000	0.53%	2.50%	3.03%	1.30%	2.04%	3.33%	1.08%	1.39%	2.47%
S\$2,000	0.27%	2.50%	2.77%	0.65%	2.04%	2.68%	0.54%	1.39%	1.93%
Number of Companies Sampled	13			23			10		

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

Malaysia offered the lowest overall cost, averaging 2.47% for a S\$1,000 remittance, while Indonesia had the highest, averaging 3.33%, for the same remittance amount.

Moreover, although with the lowest fee, the Philippine corridor had the highest average mark-up of foreign exchange rates. Because of this, it actually had the highest overall

cost for sending larger amounts of money. The practical implications, however, are minimal because worker remittances are usually under S\$500.

4. Sending Money from Malaysia

Bumiputra-Commerce Bank is an important player in remittance transfers. With its agreement with Western Union, Bumiputra makes over 12,000 transactions a month to the Philippines and a similar number to Viet Nam. In less busier corridors like Nepal, India, or Bangladesh the transaction volume is below 3,000.

Depending on the country, Western Union competes by dropping prices and seeks to make up in the commission from the exchange rate. Table 4.22 offers Western Union fees to send remittances to selected countries in Southeast Asia. Because immigrants from either Indonesia or Philippines send an average of RM500, the cost of sending money is 6% plus the commission on the exchange rate. This commission generally ranges to 2%.

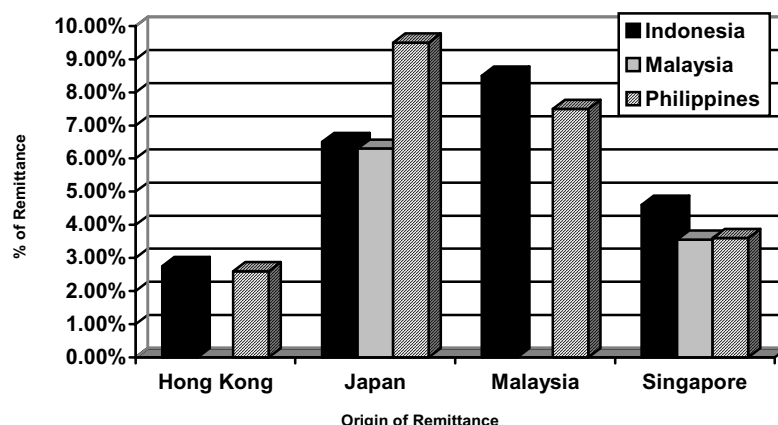
Table 4.22: Western Union Charges in Malaysia

Amount Sent (RM)		Destination (RM)				Duration
From	To	Indonesia and Philippines	Bangladesh, India, Nepal, and Pakistan	Viet Nam	Others	
0.00	1,900.00	20.00	30.00	42.00	54.00	1 day
1,900.01	3,800.00	30.00	40.00	42.00	54.00	1 day
3,800.01	5,700.00	40.00	50.00	42.00	54.00	1 day
5,700.01	7,600.00	50.00	60.00	42.00	54.00	1 day
7,600.01	9,500.00	60.00	70.00	45.00	54.00	1 day
9,500.01	11,400.00	70.00	80.00	45.00	54.00	1 day

Source: Survey of remittance transfer agencies, Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

When comparing transaction costs from various corridors, the average amount paid varies from 7% from Japan to 2.5% from Hong Kong, China. These costs are far lower than in other corridors in Latin America and the Caribbean, where there is significant competition among companies and corridors. Figure 4.2 before shows the transaction cost within the Southeast Asian corridor.

Figure 4.1: Transaction Cost to Send Average Amount to Selected Southeast Asian Countries



Source: Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

What factors explain the differences in transaction costs? There exist endogenous and exogenous reasons. Endogenous reasons refer to the internal cost structure of transfers, such as operating costs embedded in running the business (personnel, advertising), data transmission and processing and compliance with regulations or negotiated commissions. Exogenous factors may relate to the conditions of the transfer infrastructure in the sending and/or receiving side, the effect of informality on competition (higher informal practices reduce expected volumes among formal businesses and increase costs), regulatory frameworks that restrict the number and or kinds of players, or the volume remitted into a given corridor.

Using available data the report tested whether or not exogenous factors influence remittance transfer costs. Three variables are used to analyze such factors—extent of regulatory controls in the upstream and downstream corridors, extent of informality in the respective corridors, and volume sent. Thus, the equation,

$$\text{Cost} = \text{Regulat}(\text{upstream}) + \text{Regulat}(\text{downstream}) + \text{Informality}(ij) + \text{Volume}(ij)$$

Table 4.23: Exogenous Factors on Transaction Cost in Southeast Asia

	Standardized Beta	Statistical Significance
Extent of Regulatory Environment in Sending Corridor	0.809398	***
Extent of Regulatory Environment in Receiving Corridor	0.050647	
Informal Sector	(0.12225)	*
Total Remittance Volume (millions)	(0.15596)	***

Adjusted R2 = 0.54

Source: Regional Technical Assistance No. 6212: Southeast Asia Workers' Remittance Study, Asian Development Bank.

These results suggest that strict regulatory environments, informality, and volume are statistically correlated to pricing. More regulations, greater informality, and lower volumes imply higher costs. These results may highlight the relevance of reviewing the costs and