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Open networks can help stop remittance leaks

The power of an interconnected payment network where value can be exchanged as seamlessly as information today can only be imagined of. It would unlock a legion of innovative financial applications and have a profound impact on financial inclusion, writes **Ambar Sur**

IN Bangladesh, the value of remittances to the economy is enormous. The regular small sums of money sent by migrants collectively add up to a significant US$15 billion annually. This makes international transfers the second largest source of foreign exchange earnings which are three times more lucrative than the country's aid budget. With a third of the country's households reliant on remittance income, the transfers positively impact consumption, savings and deposits. Studies conducted by the World Bank on the developmental impact of remittances, estimated international transfers have helped alleviate poverty by 6.0 per cent in Bangladesh.

Given the wider economic impact, strengthening of remittance inflows through formal institutions is critical. Over the past decade, Bangladesh has made substantive efforts along multiple dimensions to smoothen cross-border person-to-person transfers. These include:

- Strengthening marketing efforts via network widening and improving accessibility of overseas branches. The Bangladesh Bank has simplified the approval process for commercial banks to build drawing arrangements with licensed non-bank remittance intermediaries in countries with a large expatriate population,
- Modernising inter-bank payment systems by implementing the Bangladesh Electronic Funds Transfer Network, for automating distribution and settlement of electronic credit and debit transactions among all participants,
- Strengthening the legal framework by enacting the Prevention of Money Laundering Act, 2012, prohibiting sending of remittance through illegal channels such as hundi,
- Undertaking literacy programmes among remitters and beneficiary households and
- Promoting innovative use of low-cost digital channels. Bangladesh was the first country in South Asia to launch mobile-powered international remittances in 2010.

Collectively these measures have lowered remittance costs and catalysed inflows. Bangladesh is now among the five least expensive corridors to send remittances globally. The proportion of remittances flowing over formal channels has also diminished from 70 per cent in 2000 to 30 per cent in 2015.

Yet, as per estimates, the Bangladesh economy loses between US$5 billion and US$8 billion annually, vital funds that can be redeployed for development. A study conducted by the International Labour Organisation among overseas and returning migrants in 2013 indicated the need to improve coverage, speed and lower costs to promote greater use of formal channels.

Re-imagining and optimising the use of mobile infrastructure for international payments can address these challenges. Bangladesh today accounts for 5 per cent of total global registered mobile money accounts. Mobile financial services have gained rapid, widespread adoption, especially among poorer segment of the population, previously excluded from the financial mainstream. However, there is a clear variance between services efficiency levels of in-border and cross-border payment markets. At present, international transfer networks are founded on a handful of bilateral partnerships, which offer limited economies of scale and restrict services availability. As in the case of domestic transactions, low-income customers would benefit if they are able to use their mobile phones to transfer funds with ease and reliability from any part of the world to Bangladesh.

An open payment network can fix remittance leaks and improve inflows by offering the same benefits as informal networks in terms of scale, speed and costs, albeit within a regulated and secure framework. A conservative estimate by TerraPay Research indicates opening of payment networks could help Bangladesh attract an additional US$20 billion-US$30 billion in foreign exchange by 2020. The network integrates discrete mobile wallet systems to create a globally available service where money flows freely and easily. In essence, service providers, dependent on multiple bilateral agreements to expand geographic coverage, gain immediate global scale via a single point of integration to the network. Every new partner on board the network multiplies the number of possible interconnections between customers, creating a virtuous cycle of services adoption. Migrant segments, compelled to use cash for transfers to their families in villages, can now use their mobile phones to send and receive money in real time regardless of their location or service provider.

Informal channels enjoy wide popularity among migrant communities on account of the speed at which money moves. In hundi transactions, money is delivered within a few minutes. Agents in the sending country make a call to instruct their Bangladeshi counterparts to hand over funds to the beneficiary. In contrast, financial systems are fragmented and a key challenge is to abstract key areas of complexity and create a simple, universal framework for quick transfers. In an open payments model, the network assumes responsibility for mediating disparate technologies, settlement practices, currencies and regulations adopted by different countries, streamlining communication between partner systems. Standardised processes enable service providers to process transactions as quickly, within 60 seconds and with greater security, as informal players, lowering their appeal among transacting customers.

Another reason for embracing an open network model is substantively lower operating costs, which translate into more attractive pricing for customers. A small percentage change in remittal costs can make a substantive difference to price-sensitive migrant segments. An annual saving of US$ 5, for instance, could pay a month's school fee back home. When remittance service providers operate their own services infrastructure, they incur up-front distribution costs that need to be recouped. Now, with every mobile phone functioning as a point of presence, remittance service providers no longer have to build up expensive pay-in and pay-out infrastructure. In addition, critical costs -- related to services set-up and licensing, fraud and risk management, reporting and compliance and settlement --- are either outsourced to the network operator or shared between participants.

An open payment network would have a transformative impact similar to uniting computer networks into a single internet in the '90s. The power of an interconnected payment network where value can be exchanged as seamlessly as information today can only be imagined of. It would unlock a legion of innovative financial applications and have a profound impact on financial inclusion as well as velocity and efficiency of payments. Bangladesh has been a global pioneer in going digital to improve access to finance. And it's time to lead the way again.

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