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# **Promoting Greater Use of Formal Remittance Channels by Overseas Filipino Workers**



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and the International Monetary Fund  
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# Increased interest in remittances

World Bank study on remittances :

- US\$70 billion in 2001 higher than official flows
- Stable than private capital flows
- Countercyclical in nature
- Source of funds for alleviating poverty





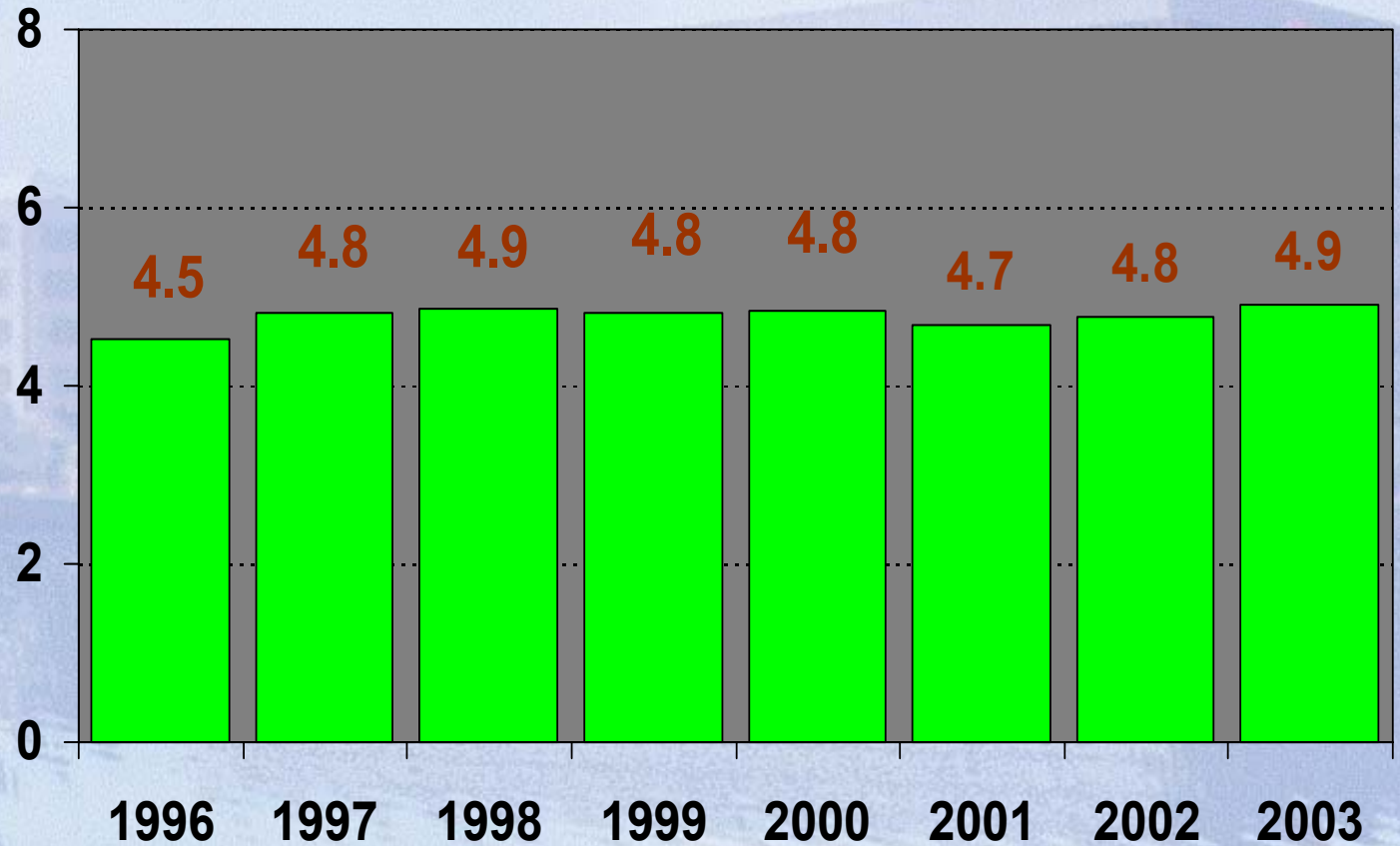
The background of the slide features a photograph of a modern, multi-story building with a glass facade, situated behind a body of water. The image is slightly faded and has a blue tint, serving as a backdrop for the title text.

# **Profile of Overseas Filipino Workers (OFWs)**

# Stock of OFWs

in million

- Stock of OFWs averaged 4.8 million over the last eight years.



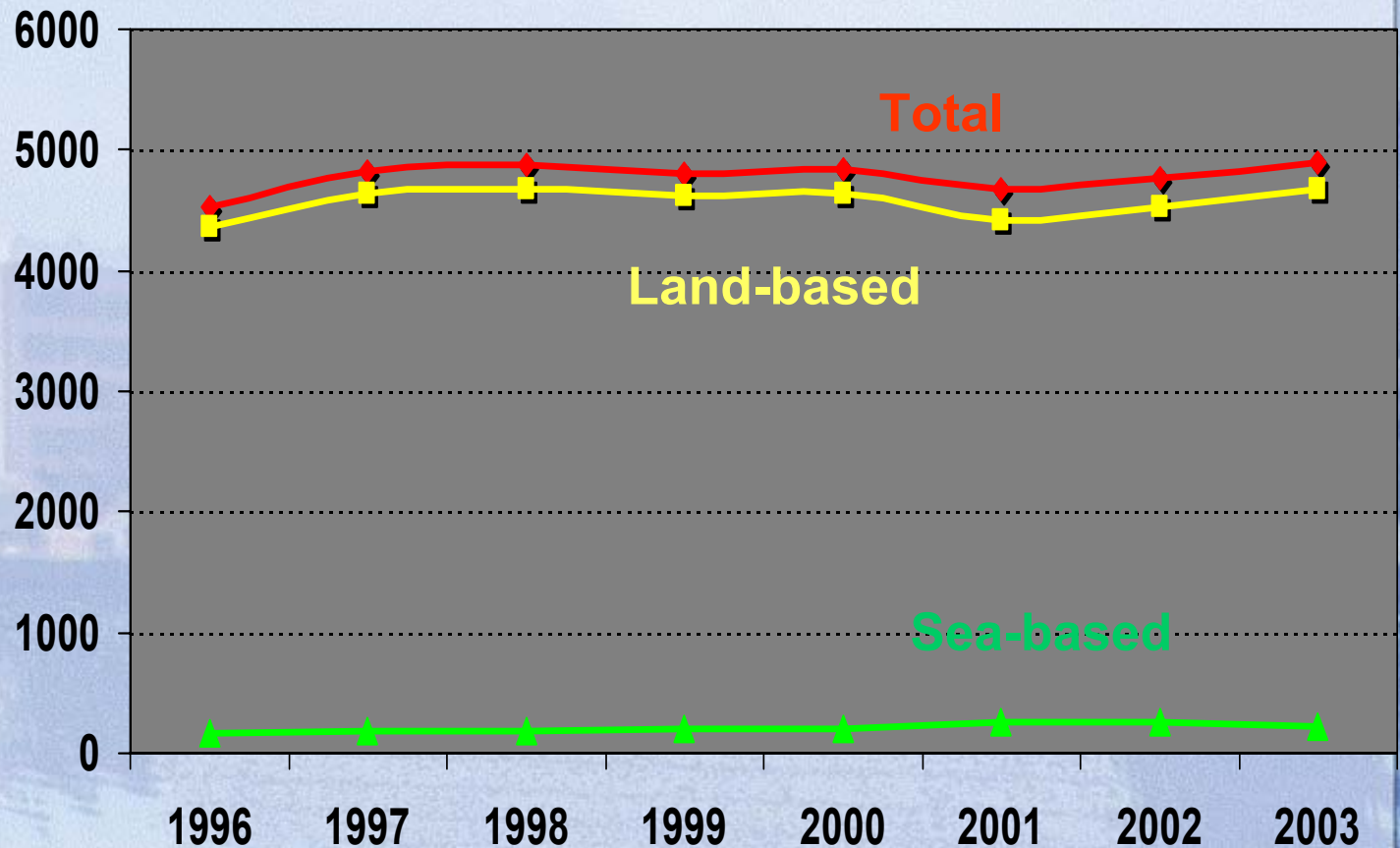
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# Stock of OFWs

in '000

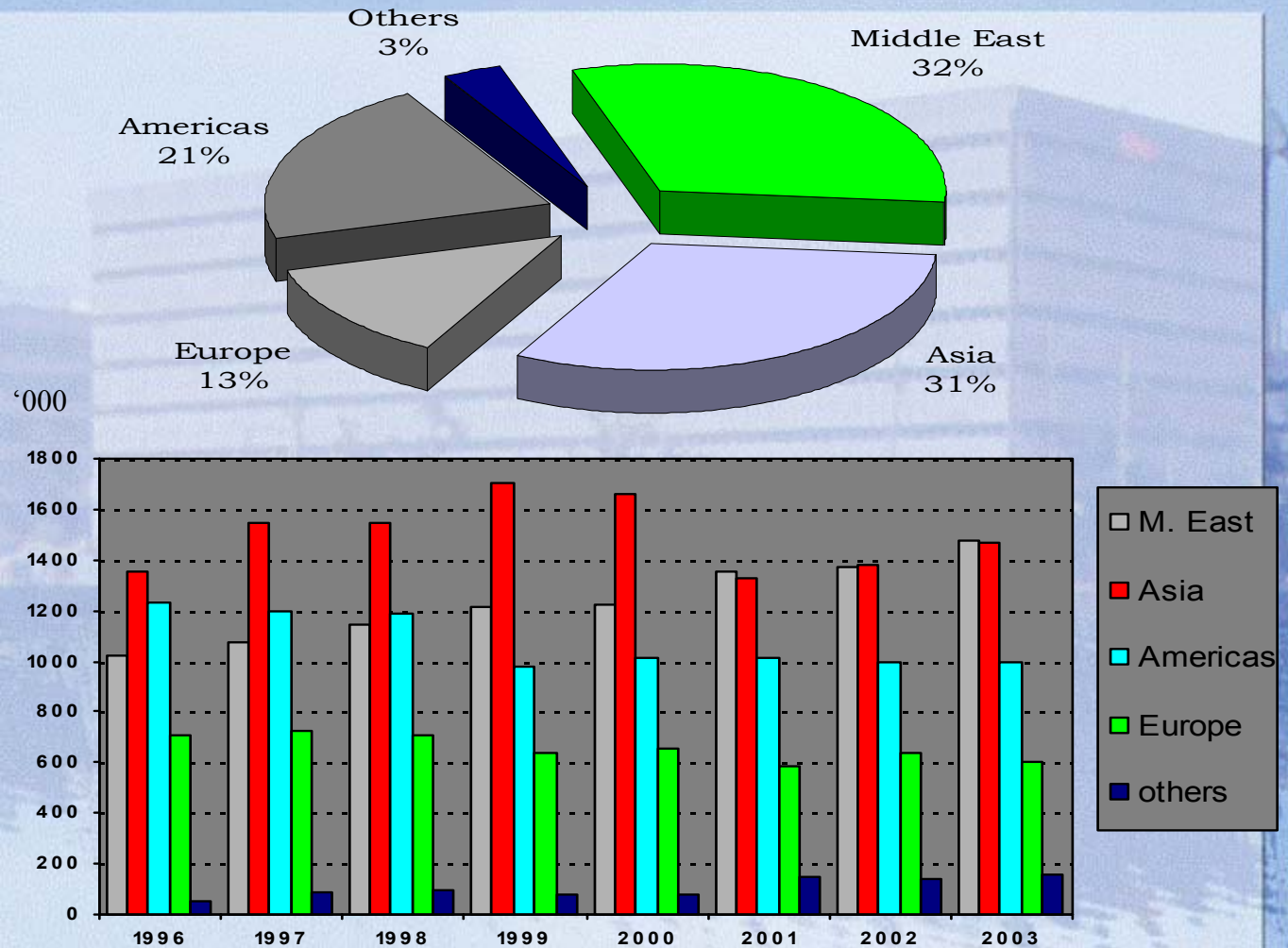
- About 96% of OFWs are land-based workers.



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# OFW Deployment by Destination

- Asia and the Middle East account for the top destination of deployed land-based workers.



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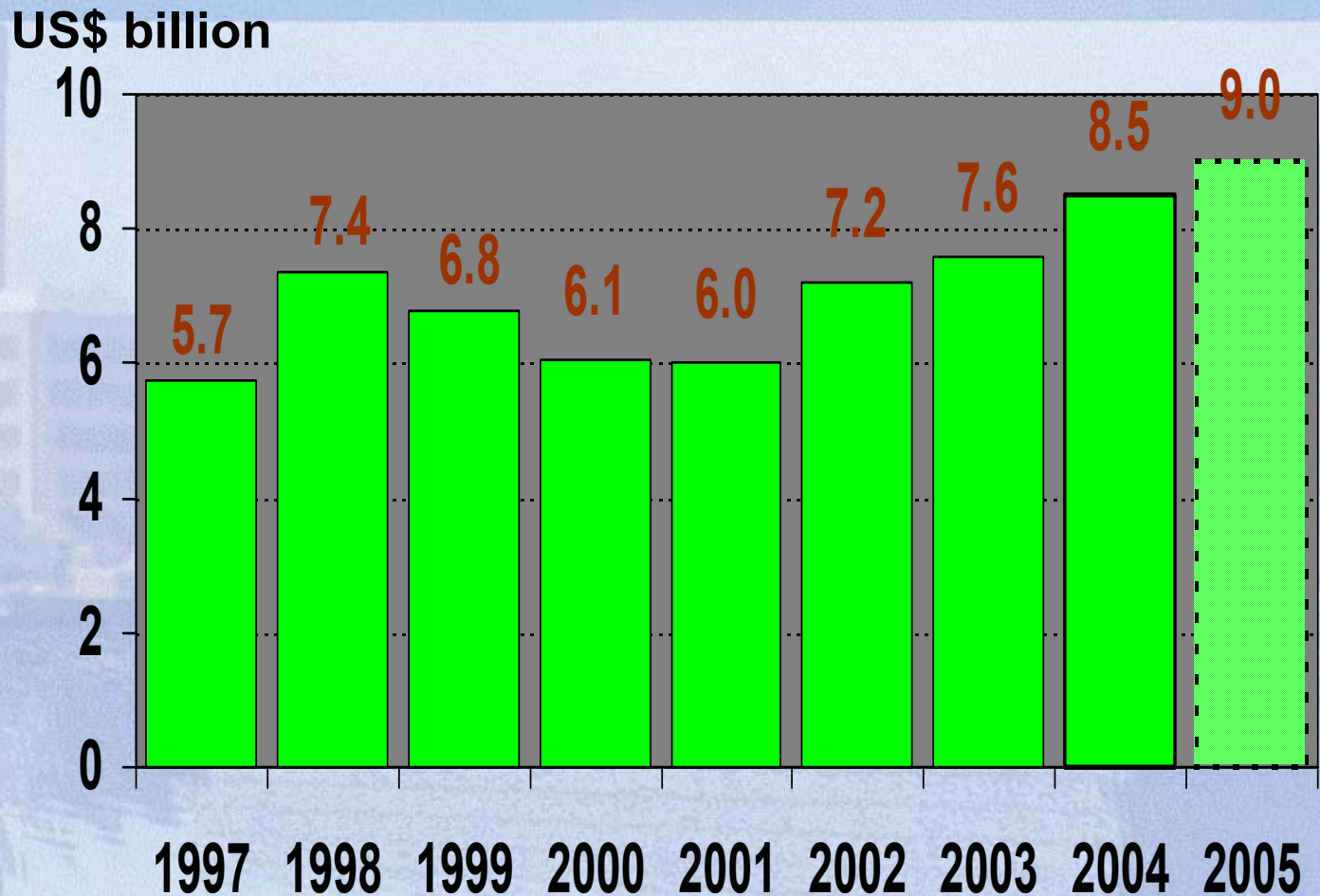
# **Overview of OFW Remittances Market in the Philippines**



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# OFW Remittances: Level and Prospects

- OFW remittances expected to grow by 6% 2005

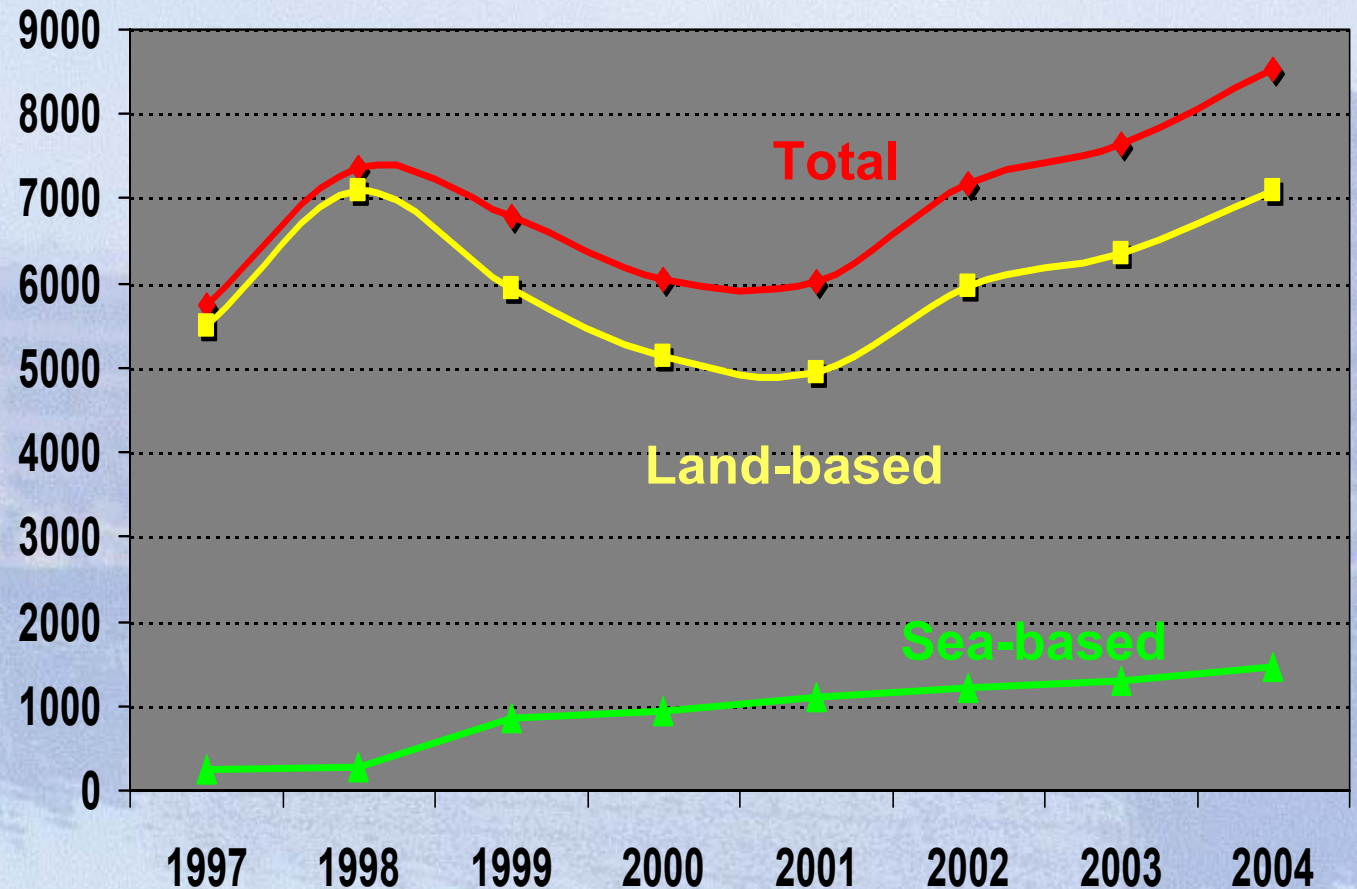




# OFW Remittances

US\$ million

- Over 80 percent of these remittances came from land-based Filipino workers.



# Importance of OFW Remittances

Year	(\$ mil)	<u>Remittances as % of</u>				
		Exports	Gross FDI	GIR	GDP	Debt Service
1990	1,203	14.70	218.73	58.73	2.71	33.92
1995	3,869	22.18	183.19	49.84	5.22	76.89
2000	6,050	15.89	449.81	40.28	7.97	99.64
2004	8,544	21.58	3390.48	53.30	9.89	116.42





# Remittance Channels

- transfer funds from one geographical location to another

## Formal

- within regulated financial sector
- in general, includes banks, credit unions, money transfer operators, postal services

## Informal

- outside regulated financial sector
- includes ethnic stores, courier services, hand delivery





# Mode of Remittance

percent share

Period	Cash Sent	Cash Brought Home	In Kind
1995	71.7	15.7	12.6
2000	67.5	25.0	7.5
2001	69.6	23.6	6.8
2002	68.5	25.1	6.4
Average (95-02)	70.9	20.7	8.4

Source: NSO Survey of Overseas Filipinos





# Cash Sent

## By mode of remittance

percent share

Period	Banks	Agency	Friends	Door-to-Door	Others
1995	64.5	4.1	3.3	24.9	3.1
2000	72.5	2.1	0.8	24.1	0.4
2001	71.5	4.2	1.2	22.7	0.5
2002	75.9	3.7	0.9	19.3	0.1
Avg (95-02)	69.3	4.0	1.9	23.8	0.9

Source: NSO Survey of Overseas Filipinos





# Remittance Channels

In percent

Channel	Philippines	Singapore	US
Bank-to-bank	65	75	42
Door-to-door (bank)	15	8	5
Door-to-door (agency)	7	8	31
Money Transfer Agency	6	9	17
Padala (sent through friends)	2	0	4
Others (e.g., inserted in mail or cargo boxes)	4	1	2
<b>Total</b>	<b>99</b>	<b>101</b>	<b>101</b>

Source: ADB (2004)



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# Key Attributes Considered in the Selection of Remittance Channels

Rank	Philippines	Singapore	US
1	Speed and Trustworthy	Trustworthy	Speed
2	Reliability	Good Service	Reliability
3	Good Service	Reliability	Trustworthy

Source: ADB (2004)



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# Key Attributes in which Remittance Channels Need Improvement

Rank	Philippines	Singapore	US
1	Best exchange rate	Low or no maintaining balance	Trustworthy
2	Accessibility by remitter, speed, reasonable charges	Speed, trustworthy	Reliability
3	Accessibility by beneficiary, good service	Good service	Accessibility by beneficiary

Source: ADB (2004)



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# **Key Regulations on the Remittance Industry**





# Regulations

## 1. BSP rules on establishment of bank offices abroad

- Prequalification requirements  
-e.g. capitalization, accounting systems
- Approval by host country





# Regulations

## 2. Anti-Money laundering Act

- Customer identification
- Keep records of transactions
- Report suspicious and covered transactions





# Regulations

## 3. Recent regulation on money changers and remittance agents

- Required registration with the BSP
- Compliance with AMLA regulations





# Issues in Channeling Remittances Thru Banks





# Issues

## 1. Constraints in Overseas Market Access

- regulatory constraints in setting-up remittance centers/branches abroad
- cost of licensing, bonds, minimum capital requirement





# Issues

## 2. Competition from alternative channels

- unregulated remittance institutions
- new technology-based products





# **SMS-based remittance service**

## **Players:**

- 1. Telecommunications firm**
- 2. Electronic-value card issuer**
- 3. Partner remittance centers, encashment centers**
- 4. Clearing and settlement entity**





# SMS-based remittance service





# Issues

## 3. Lack of access to banking institutions

- Restrictions on the opening of bank accounts
- Identification and other documentary requirements





# Initiatives





# Private sector initiatives

## ***A. Innovation***

- Door-to-door cash delivery
- Payments/contributions to SSS, Philhealth, schools
- Lower initial deposit and maintaining balance of deposit accounts
- “sweeteners” – insurance, overseas phone calls





## Private sector initiatives

### ***B. Proposals by the Association of Bank Remittance Officers***

- Open remittance windows for Philippine banks in the Middle East
- Allow OFWs to open an account through remittance centers abroad
- Simplify documentary requirements
- Issue identification card patterned after the Mexican “Matricula Consular”





# Public sector initiatives

## ***A. Inter-Agency Committee on OFWs***

- Cabinet-level body
- Will coordinate the various programs on OFWs
- Technical Working Group will have both public and private sector representatives





# Public sector initiatives

## ***B. Bilateral agreements***

### ***RP-US Memorandum of Intent (MOI)***

- Link Philippines with a direct system of automated payments and clearing house in the US;
- Launch consumer outreach / financial literacy event;
- Interconnect Philippine credit unions & cooperatives to WOCCU's International Remittance Network system.
- Use of the US and Philippine postal systems as remittance channels.





# Public sector initiatives

## ***C. Asian Development Bank (ADB) Technical Assistance (TA)***

### **On legal, regulatory and infrastructural barriers**

- Further study remittance environment to identify barriers
- Bilateral agreements on relaxation of some regulations/requirements on establishment of remittance centers and account opening
- Improvement interconnectivity; explore use of US Federal ACH





# Public sector initiatives

## ***D. Government programs for OFWs***

- ***PAG-IBIG Overseas Program***
- ***OFW Electron Card***





# International initiatives

- ***Singapore initiative***
- ***APEC Alternative Remittance Systems initiatives***
- ***Task Force on General Principles for International Remittances***





# Concluding Remarks

- Balance between government regulation and cost reduction efforts
- Financial literacy important
- Bilateral and international cooperation should be pursued
- Bridge gaps in understanding the remittance market





**T h a n k   Y o u !!!**



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