

MicroSave Policy Brief #16

Unleashing International Remittances – Technology Driven Solutions for Indonesia

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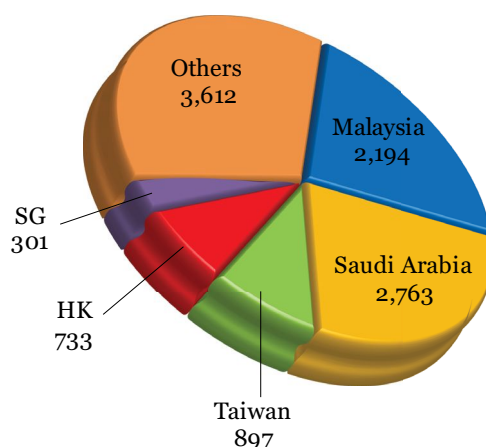
Key Points:

1. There are 3.6 million Indonesians working across the world. In 2015, they remitted USD 10.5 billion to their homes in Indonesia i.e., approximately 1% of the GDP
2. Cost remains the biggest barrier. It costs on an average 4.72% to send money to Indonesia. Time taken to transfer money and accessibility of cash-in/cash-out points are other key barriers.
3. Emerging technology-based models have the potential of addressing these barriers. If implemented well, these models can lead to annual savings of USD 230 million for Indonesian migrant workers. Clearly, a win-win proposition that requires unified effort from all stakeholders.

Introduction & Opportunities

There are 3.6 million Indonesians working across the world, a majority of them from Malaysia, Taiwan, Saudi Arabia, Singapore and Hong Kong. In 2015, international migrant workers remitted USD 10.5 billion to their homes in Indonesia i.e., approximately 1% of the GDP. This hard earned money greatly contributes towards the welfare of dependent family members and to the overall economic development of the communities besides offering a steady source of foreign exchange for the country.

Figure 1: Break-up of Inward Remittances (million USD)



Currently most inward remittance happen through MTOs, banks and informal channels. The major operators include [Western Union](#), [Ria Money Transfer](#), [MoneyGram](#), [Bank BNI](#), [Bank BRI](#) and [World Remit](#).

Despite the large amount of remittances, barriers persist at both the sending and receiving ends. From a customer's perspective, cost remains the biggest constraint for remitting money across international boundaries; the World Bank estimates that the average cost of sending money in East Asia and the Pacific (including Indonesia) is 7.60%. The following table indicates the average cost of sending money across major remittance corridors, to Indonesia.

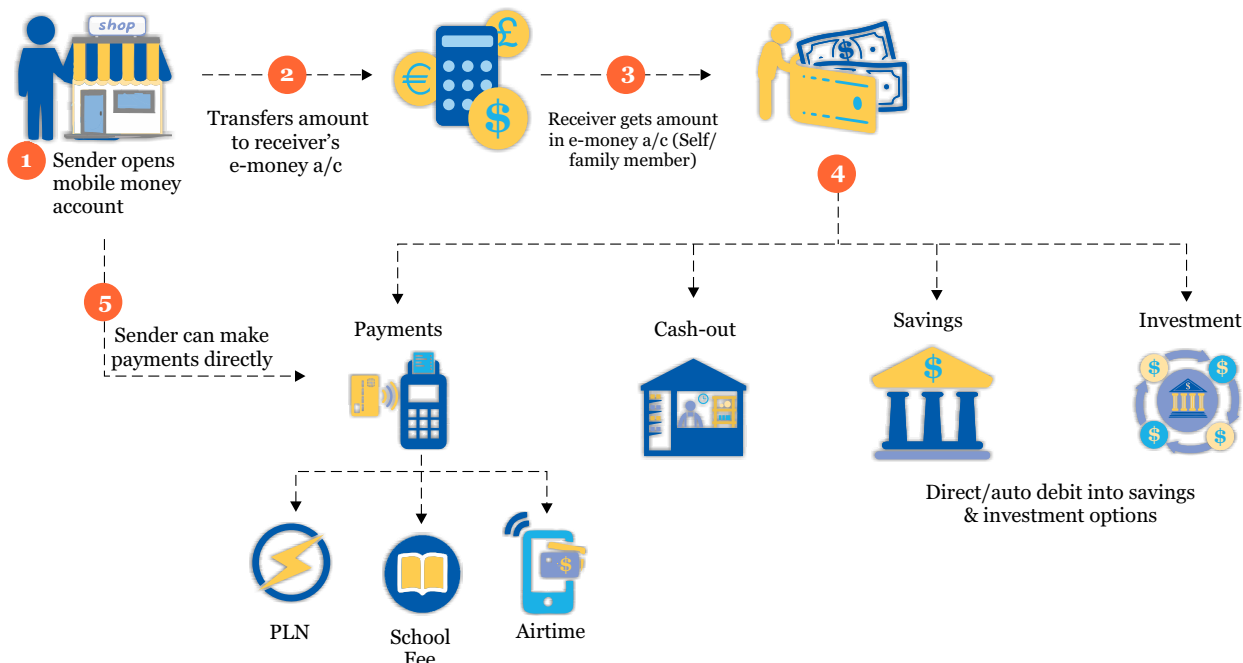
Country	Avg. Cost of Remittance
Malaysia	3.6%
Saudi Arabia	5%
Singapore	4.7%
Taiwan	5.01%
Hongkong	1.82%
Average	4.72%

Apart from cost, time taken to transfer money and accessibility of cash-in/cash-out points are the other key issues that customers face. It takes between 15 minutes to seven days to remit funds. Furthermore, last mile accessibility (cash-out agents) remains a key issue at the receiving end in Indonesia; low presence of bank branches and lower formal account ownership (only 36% Indonesians have a formal account) accentuate the problem.

Proposed Models for Remittances

Keeping the issues/barriers in mind, we propose four models that are tailored to cater to the Indonesian market and to the needs of the migrant communities both at the sending and the receiving end.

Model 1: Cross-Border Remittances Through e-Money



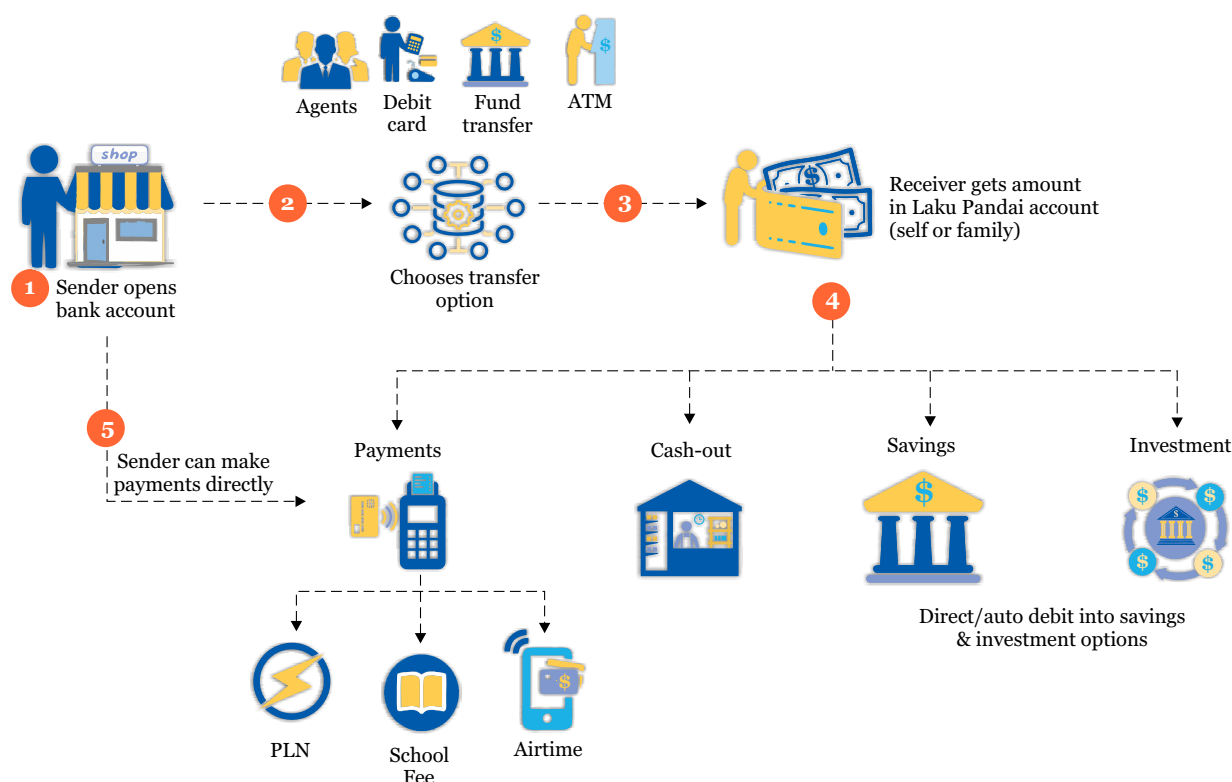
The first model enables the sender to remit money through mobile/e-money services. Both sender and receiver need to open a mobile/e-money account. Upon successful account opening, sender is able to remit money directly to receiver’s e-money account. This model requires bi-lateral agreements between the operators within the remittance corridors. Telecom operators in West Africa have successfully demonstrated this model. For example, [Orange Money](#) links Ivory Coast, Mali, and Senegal in West Africa, and 25% of all remittances happen through mobile money. This is because it is cheaper (2% as compared to MTOs that charge 5%) and faster (within 15 minutes). The following are the pros and cons of implementing a similar model in Indonesia.

Pros	Cons
<ul style="list-style-type: none"> • Cost¹ : This model is relatively cheaper. For example, transfer from Celcom Aircash (ML) to XL Tunai (ID) costs RM 5 (~ USD 1.25 or IDR 16,000) per transfer. At the receiving end, regular withdrawal fee is applicable (up to IDR 10,000 or USD 0.75) • Time: Transfer takes less than 15 minutes • Continuity: The same group holding companies operate in major remittance corridors. This makes it easier for cooperation. <ul style="list-style-type: none"> • Singapore – Indonesia: SingTel & Telkomsel; • Malaysia – Indonesia: Celcom– XL Axiata; • Value added services: E-wallet providers at the receiving end can offer additional services such as bill payment, wallet-linked savings/investment products etc. 	<ul style="list-style-type: none"> • Low awareness: Lower usage/awareness of e-money in Indonesia. Only 8%+ Indonesians are aware about mobile money • Lower account limits: Account limit for registered e-money wallets is IDR 5 million (USD 381)². However, transaction limit is IDR 20 million (USD 1,525) per month. • Limited cash-out options: Telcos are not allowed to partner with individual agents to cash-in/cash-out. This limits telco’s to provide last mile accessibility for cashing out remittance money.

1. Source: [Celcom](#) & [XL](#)

2. 1 USD = 13,110 IDR (Source: [XE](#))

Model 2: Bank-Based International Remittance Model



The second model requires the sender to open a bank account and the receiver to open a Laku Pandai account (branchless banking account) to facilitate the remittance activity. This model offers a degree of flexibility by proposing several channels for the transfer: agents, debit card, fund transfer, or ATM. For example, transfer can be done through an ATM in Singapore/Hong Kong. On the other hand, transfer can happen through self-initiated or agent-supported transactions in Malaysia, as it already has [agent/branchless banking](#) deployments in place. Hubs such as [TransferTo](#), [HomeSend](#), etc., can facilitate the cross-border transactions.

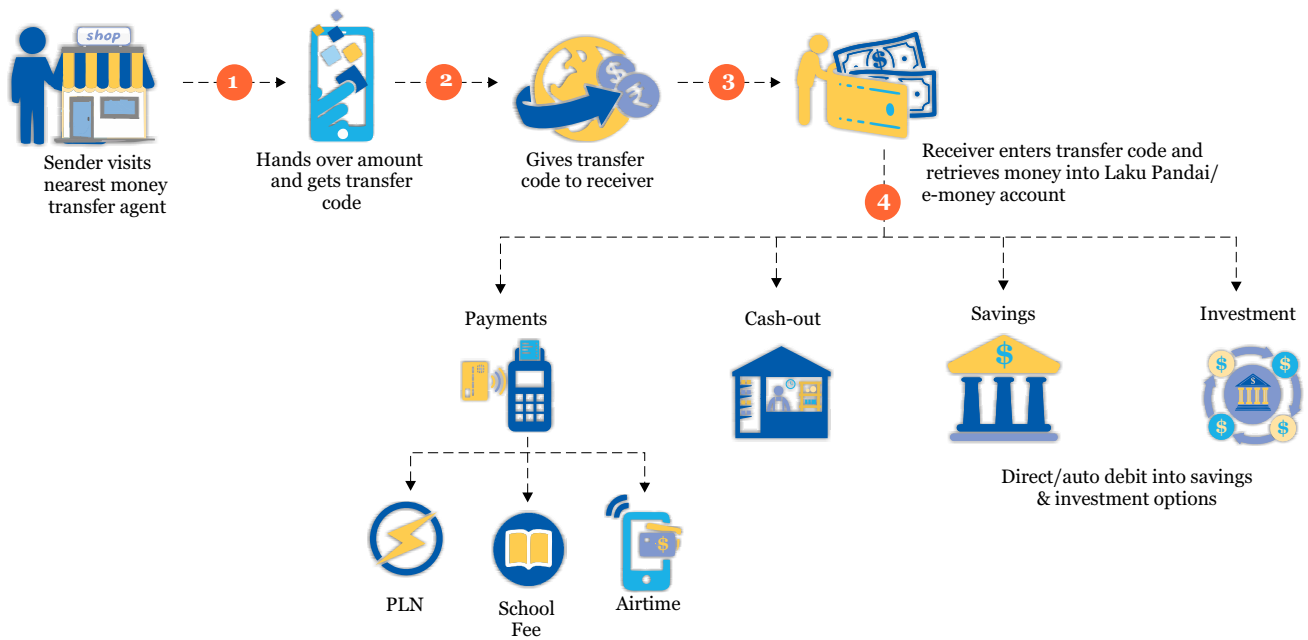
Pros

- **Cost:** Sender is charged [HKD 25](#) ~ IDR 42,650 or USD 3.25 (fixed cost for all mediums of transaction) per transaction to remit from Hong Kong to Indonesia. At the receiving end, regular withdrawal fee is applicable (up to IDR 10,000 or USD 0.75)
- **Flexibility:** Multiple access options that include bank branches, cards, ATM, agents
- **Ownership:** Growing smartphone usage and ownership ([43%](#)) with [88.1 m](#) Internet users, make self-initiated transactions easier.
- **Value added services:** Laku Pandai providers at the receiving end can offer savings and account-linked investment products. Further they can make payment services either themselves or in partnership with e-money wallet providers.
- **Risk management:** Cashless payments ensure better compliance and credit risk management.

Cons

- **Low awareness/usage of formal financial services:** Only [36%](#) Indonesians have a formal account); and awareness/usage of financial services through mobile phone or online channels is even lower. Only [0.3%](#) of the Indonesian population has a registered mobile money account according to Finclusion (2015).
- **Collaboration:** Bi-lateral agreements/ cooperation between sending and receiving banks can be complex and challenging.
- **Time:** Depending on the mode of transfer, the transaction time ranges from 15 minutes to 2-3 days.

Model 3: Cash Transfer to Laku Pandai Accounts/e-Money

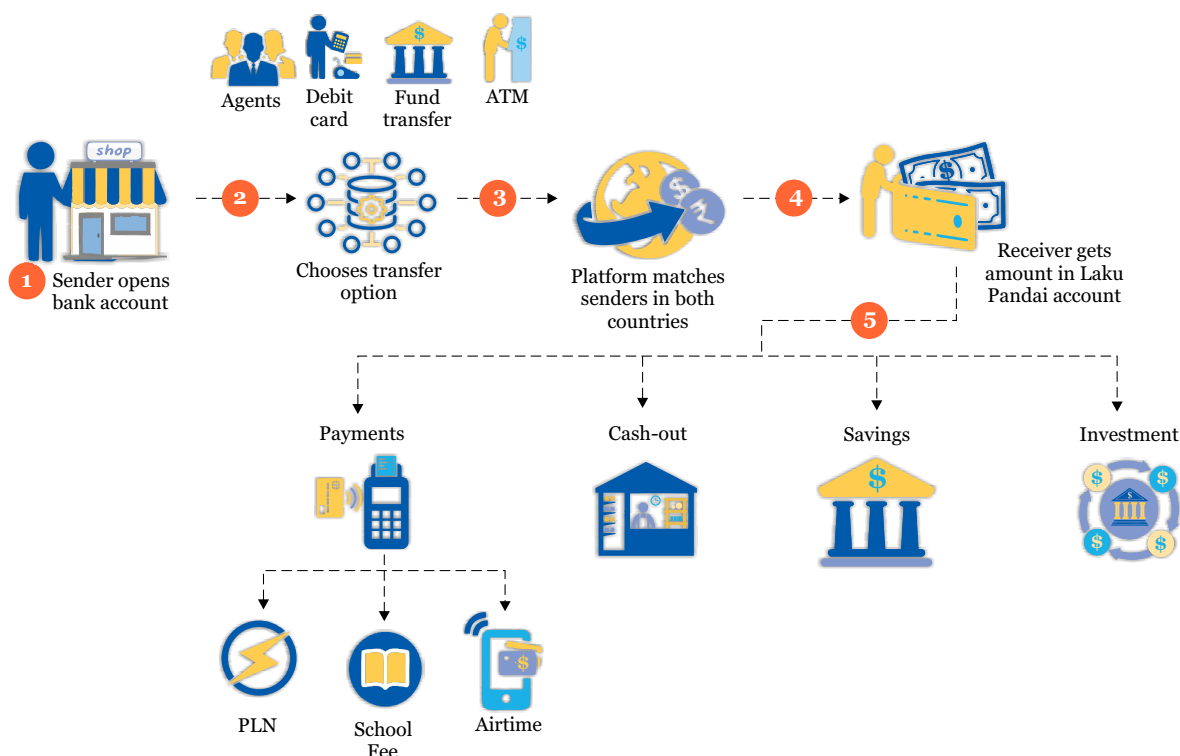


The third model involves money transfer operators, Laku Pandai providers and a hub to link these two entities. This model maximises synergies between providers in the remittance value chain. Unlike the first and second model, this model allows senders to remit cash through any of the existing agents of money transfer operator(s). Upon concluding the transfer, sender receives a money transfer code³ which is passed on to the receiver. Receiver in turn enters the code and pulls in money into his/her Laku Pandai account. [bKash](#), [Western Union](#) and [MasterCard](#) launched a similar product in Bangladesh in early 2016 – although Bangladeshi receivers typically cashed out at agents without the money going into a bank account.

Pros	Cons
<ul style="list-style-type: none"> • Time: It takes less than 15 minutes to remit money. Once the money transfer code is generated, the receiver can immediately use it to retrieve remittance funds. • Accessibility: This model provides highest last-mile connectivity both at the sending and receiving end. <ul style="list-style-type: none"> • Money transfer operators have a big presence, both in sending and receiving countries. For example, Western Union has 600,000 physical stores and kiosks worldwide. • The number of Laku Pandai agents is increasing significantly. There are more than 50,000 agents currently and expected to reach 300,000 in 2016. 	<ul style="list-style-type: none"> • Expensive: Total cost ranges from 5-6% of the amount transferred. • Cash intensive: One major reason this model is expensive is because remittance is cash-based, through a network of agents. • Low awareness/usage of formal financial services with only 36% Indonesians having a formal account). Awareness/usage of financial services through mobile phone or online channels is even lower. According to Finclusion (2015), only 0.3% of the Indonesian population has registered mobile money accounts.

3. For example, Western Union issues a money transfer control number (MTCN)

Model 4: Peer-to-Peer International Remittances



Lastly, the fourth model, a peer-to-peer international remittance model which requires senders to open a bank account and receivers to open a Laku Pandai account to enable the remittance facility. Just like model 2, sender has the freedom to choose medium of transfer through designated agents, debit card, fund transfer or ATM. [TransferWise](#) – a good example of this model–matches senders between two countries through its online remittance platform, without the need for money to cross borders. The company is moving US\$ 750 million each month, with one million people already sending or receiving money. The cost of transaction is the most appealing and competitive amongst all four models at a minimal 1.5-2% of the nominal of the transaction, with just 15 minutes for processing.

Pros	Cons
<ul style="list-style-type: none"> Cheapest of all the models. One reason for this is there is no cross- border movement of money involved, as funds are settled between senders of the respective countries at a market determined exchange rate. 	<ul style="list-style-type: none"> Low awareness/usage of formal financial services with only <u>36%</u> Indonesians having a formal account). Awareness/usage of financial services through mobile phone or online channels is even lower. According to Finclusion (2015), only <u>0.3%</u> of Indonesian population have registered mobile money accounts. This model may not be suitable for countries with one-way remittance flows. For example, the majority of the funds come in from Singapore to Indonesia and not the other way around.

Comparing the Models

The table below shows a comparison of all four models, based on variables such as time, cost, ease of implementation, accessibility, and the regulatory constraints.

	Model I	Model II	Model III	Model IV	Existing Model
Cost (Approximately)	1.5-2%	2-2.5%	6-7%	1.5-2%	5-5.5%
Time	<15 mins	2-3 days	<15 mins	<15 mins	15 mins-5 days
Access	High	Medium	High	Medium	High
Relative Ease of Implementation	Easy <i>Already existing model with business and technical cooperation between telcos</i>	Medium <i>Need for business and technical cooperation between banks</i>	Medium <i>Need for multi-party coordination for transfers & interconnection</i>	High <i>Current model does not exist between Indonesia-specific remittance corridors</i>	N.A.
Regulatory Constraints	Yes <i>Telcos cannot appoint individual agents</i>	No	Yes <i>If led by Telcos</i>	No	No

*Existing models = MTOs and conventional banks

Our analysis suggests that Model I (mobile/e-money based remittance) is the cheapest among all the models. This is because the cost of operations is relatively low because of the existing telecom and agent network infrastructure that can be leveraged to offer remittance services. Further, cost remains competitive (specifically in this case) as the same group holding company owns providers in both the corridors. For example, [Axiata Group](#) holds stake in [XL Axiata](#) (Indonesia) and [Celcom](#) (Malaysia).

In terms of accessibility, Model III & Model I are rated high. Model III has extensive network of agents (MTO agents at the sending country end & Laku Pandai agents at the receiving country end) providing last mile access to the senders and receivers respectively. For example, there are [2,700](#) Western Union agents in Saudi Arabia and [50,000](#) Laku Pandai agents in Indonesia. On the other hand, providers under Model I have an already existing airtime and e-money agent network. For example, Telkomsel has 440,000 airtime agents and more than 15,000 e-money agents across Indonesia.

Model I is relatively easy to implement. As a matter of fact, such a model already exists for Malaysia-Indonesia (led by Axiata) and Singapore-Indonesia corridor (led by [SingTel](#)). However, uptake remains limited and one key reason for this is regulations do not permit them to appoint individual agents who are key for last-mile connectivity.

Conclusion

Different models for international remittance to Indonesia, discussed in this note, address key issues that users face while sending and receiving money. Further, these models have the potential to stimulate economic development of migrant communities, which is one of the key objectives of the Government of Indonesia. The key recommendations for regulators and market players to enable and operationalise the business models for remittances are:

Regulators:

1. Create a level playing field by allowing telcos to partner with individual agents. This can be tried out on a pilot basis to understand any risks that may be associated with the model, and to develop necessary risk mitigation measures. Telecom operators already have experience in managing high volumes of small value cash transactions through a large network of airtime agents. For example, Telkomsel manages 440,000 and Indosat manages 198,000 airtime agents.
2. Increase the maximum e-wallet balance from the existing IDR 5 million (USD 381) to be on a par with Laku Pandai account limits (IDR 20 million or USD 1,525). Lower limits will restrict remittance inflows into the e-money accounts, and reduce opportunities to tap remittance inflows and convert them into long-term savings.
3. Single KYC for e-money and Laku Pandai account. This will enable user to open e-money and linked Laku Pandai account with a single KYC.

Market Players:

1. Gain trust and credibility of customers, as many of them are not aware or have not used new, technology based remittance services. For example, in addition to above-the-line advertisements, providers need to undertake targeted awareness and education initiatives through online (social media such as Facebook, Twitter etc.) and offline platforms (agent-based marketing and socialisation campaigns).
2. Providers need to adopt a “Remittance Plus” approach to understand the financial behaviour of migrant workers, in order to develop products tailored to their needs. For example, *MicroSave*'s research suggests that migrant workers invest in illiquid assets like land and property because they do not have or do not understand other savings/investment options.
3. Harness the potential of partnership with relevant industry stakeholders. For example, e-money providers can partner with Laku Pandai providers to offer savings and investment products, in addition to providing remittance services to the users.

With USD 10.5 billion in annual inflows, remittance is a big market in Indonesia. It provides opportunity for players who are willing to adopt new, technology-based models to offer “remittance plus” services. From a user perspective, addressing key pain points especially related to remittance cost can enable Indonesian migrant workers to save up to USD 230 million⁴ per year. Clearly, a win-win proposition that requires unified effort from all stakeholders.

4. *MicroSave* Analysis. The average cost of sending money to Indonesia as per *MicroSave* analysis is 4.72%. Reducing the cost to 2.5% will lead to annual savings of USD 232.94 million.