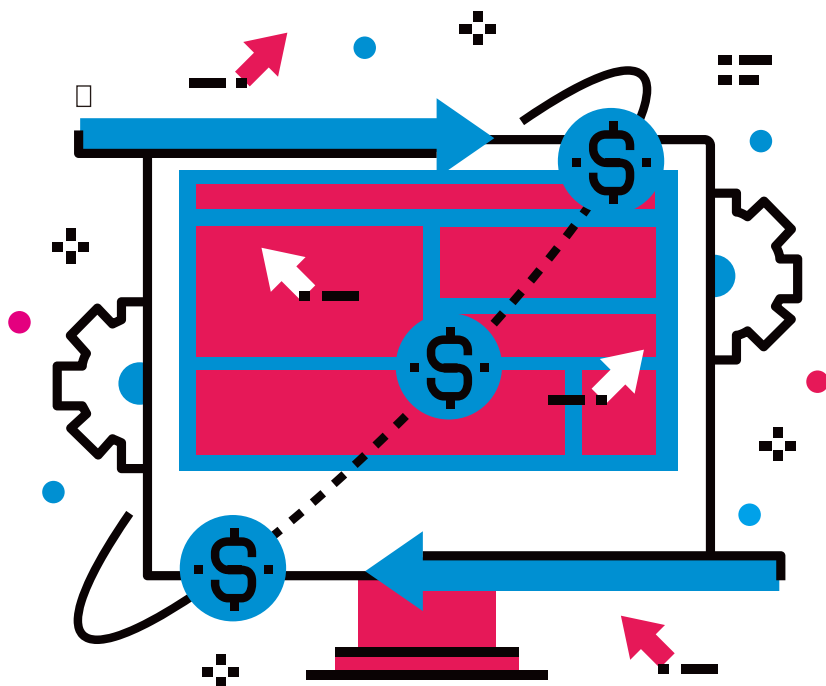




## Southeast Asia and The Case of International Remittance in The Midst of Digital World



## **CfDS Case Study Series #5**

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## Introduction

Today, the flow of remittance transfer decides economic proportion of some countries, especially in Asia, and that is the truth. Asia is the home of 70 million households as remittance recipients and the home of highest remittance flow compares to other continents (reaching division scale of 4.3 compares to Africa and Latin America with approximate scale of 1).<sup>1</sup> Remittance transfer is a business that we cannot deny since most of remittance has always escalated from year to year. The trend of migrant workers abroad of which is extreme in numbers, leads to the increasing money transfer flow from abroad to back home in Southeast Asia. Most remittances are being sent to improve quality of life back home for the purpose of education, business and life standard. According to Asian Development Bank, in the case of Southeast Asia, main remittance beneficiaries vary from parents to spouses.<sup>2</sup>

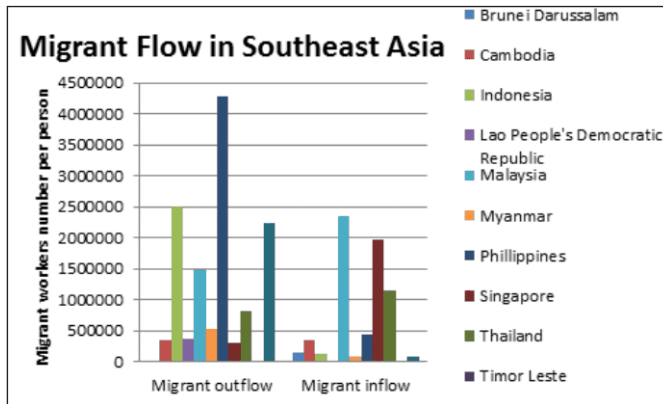
Meanwhile, parents are predominant beneficiaries in the case of Indonesia, Malaysia and Philippines. The anomaly is in the case of Indonesian migrant workers in Malaysia with 81% of the remittance are sent to spouses. Or another anomaly, where 60% of recipient beneficiaries are men, meanwhile the beneficiaries in Philippines and Malaysia reveal the average of three quarters to be women. The trends and anomalies on the correlation between migrant workers and the business of remittance are even at stake since we are embracing the digital era and the very flexible flow of workers in Southeast Asia. This is not the finale of a story. Instead, we should indeed elaborate on how the digitalization of international remittance may grow robust in Southeast Asia despite the existing hurdles.

## Characteristic of International Remittance and Migrant Flows in Southeast Asia

### A. High Number of Migrant Workers

The trend in Southeast Asia as the land of promise for economic growth has nourished the labors to be working for foreign companies that conduct outsourcing within the country. However, the definition of labors does not merely refer to those who work for multinational companies domestically. Those who are working as migrant workers abroad can be considered as labors as well and Southeast Asia is home to 13 million migrant workers living abroad, as portrayed on the table below.<sup>3</sup> As seen on the table, the outflow outweighs the inflow number.

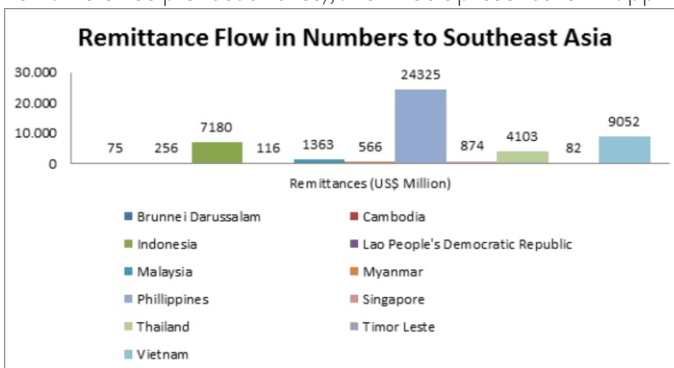
This happens in most cases of countries in Southeast Asia, except Brunei Darussalam, Singapore, Malaysia, and Thailand.<sup>4</sup> Meanwhile, the other countries remain unremitting on growing the migrant workers outside of countries.



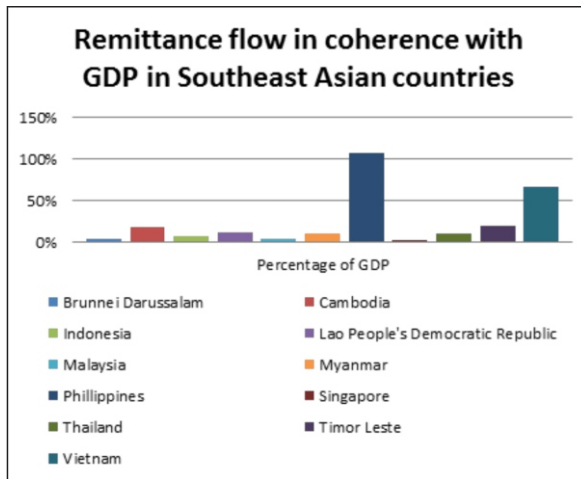
Source: World Bank, Bilateral Migration Matrix, 2010.<sup>5</sup>

## B. High Remittance Flow in Southeast Asia

Meanwhile, the remittance flow in Southeast Asia is also escalating in the same track like the migrant flow takes peak. According to World Bank, the migrant outflow before ASEAN Community was on the high approximation of remittance flow which reached the number of US\$ 47,992 million in 2010.<sup>6</sup> The sources of remittance in Southeast Asia are dominated by no other than Singapore, Japan and Taiwan.<sup>7</sup> In coherence with GDP, some country is actually benefitted by the existence of their migrant workers that send money back to the home countries in Southeast Asia. A worse case scenario persists when some countries can be heavily depending on migrant workers (both from the perspective of migrant workers' home countries and the migrant workers' recipient countries), like what is present the Philippines.



Source: World Bank, Bilateral Migration Matrix, 2010.<sup>8</sup>



Source: World Bank, Bilateral Migration Matrix, 2010.<sup>9</sup>

### C. The Rural – Urban Dilemma of Remittance Flow in Southeast Asia

Unfortunately, the problem of remittance flow in Southeast Asia is the recipients, where most of them live in the rural areas. They try to raise their living standards by receiving remittance from the family members abroad. This makes the market becomes full of opportunities and yet fragile in the state of benefits. Indeed, market is all about vagueness, and when we draw a parallel with the high number of remittance, the potentials are tangible without certainty of benefits. Not to mention, the need of society to be able to send and receive the money is increasing everyday. Meanwhile, “the majority (about two third) of payout locations in Asia (350,000) are in urban areas, alas the population who are supposedly destined as the remittance markets live in rural areas.”<sup>10</sup> People in rural areas are obviously out of the reach of economic incentives and preparedness, resulting in possible high amount of abundant remittance values not being monetized. The fact that remittance market in Southeast Asia is still being dominated by agents, banks, or other ways of remittance transfers (special remittance transfer networks, though manual, like MoneyGram or Western Union), coupled with huge unexplored market potential, there seems to be an opening gate for e-transfer apps to flourish.<sup>11</sup>

## Today's Facade of Remittance Transfer in SEA: From Toast to Ayannah

Today, everything is modernized and digitalized, so is the money and remittance transfer system. As good samples, we would separate between remittance outflow and inflow. Concomitantly, highest recipient country is Philippines, and on the other hand, one of the dominant sender country is Singapore. In a parallel fact; two of greatest innovations of cross border remittance in Southeast Asia are located in those two countries, Philippines and Singapore. Toast and Ayannah are two digital platforms in Southeast Asia under one umbrella of remittance transfer in today's era with initial idea to shrinken the distance and make remittance transfer feasible. Both are the complementary cases of how numbers of remittance can initiate fundamental vision of enhancing the remittance flow by minimizing the risk and cutting the heavy – duty process; adoption of digital solution. How big are these two startups?

### A. Ayannah

Encompassing the digitalization process of 'unbanked' Philippines, specifically related to the market of remittance, Ayannah shed the 'enlightenment' of digital transfer in Philippines. As stated before, Philippines' GDP is being highly influenced by remittance money as it received US\$ 28 billion in 2014<sup>12</sup> from the flow of remittance, and Ayannah understood this opportunity and managed to collect around \$5,5 million fundings from various capital ventures.<sup>13</sup> Ayannah is newly-assembled startup in financial service industry (FSI), especially in digital commerce and payment for Small Medium Enterprise (SME). Mikko Perez, the CEO even has extended Ayannah into different forms of sending remittance, domestically and globally. The feature is called Ayannah Sendah, where they focus on B2C (Business to Customers) and SaaS (Software as a Service) to connect Filipinos abroad with the ones in Philippines.<sup>14</sup> Connection here means platform to send gift, remittance and other services. Today, Ayannah has planned new maneuver in replicating the success in other countries in Southeast Asia using big data (Project COMPASS), transformed Ayannah into cloud-based and even continued to broaden the features of Ayannah to other sectors related to payment.



## B. Toast



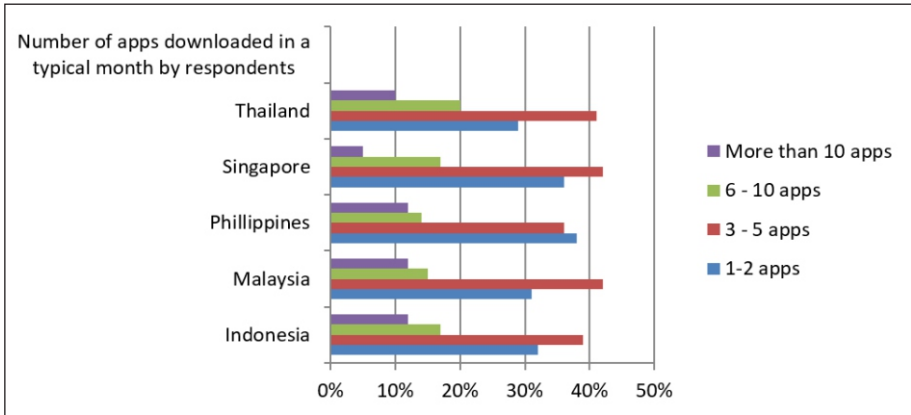
Moving on to the case of remittance sender country Singapore, Toast makes itself very visible to gain attention in a short period of time. In about two years, Toast, a P2P (People to People) remittance transfer application start up has successfully attracted other countries, such as Hongkong and Japan to license it as trustworthy application to transfer remittance money for migrants.<sup>15</sup> Initially and currently, Toast was meant to focus in the scope of Filipino as they take large proportion of migrant workers in Singapore and Hongkong. Meanwhile, the CEO of Toast, Aaron Siwoku has planned to enlarge Toast in other potential countries, like Indonesia, India, Pakistan and Bangladesh, so that unbanked destinations can be reached and migrant workers can be connected to them. Highlighting the practicality and reasonability on transferring remittance fast from anywhere with only gadget and inexorbitant fee, Toast has successfully proceeded payments that cover approximately US\$1 million per month. Gaining the total amount of US\$1.5 million for the seeds round and funding, Toast is looking forward to nurture the startup company into next serious business.

### ● Will Remittance Startups Continue to Go Massive in Southeast Asia beside in Singapore and Philippines?

The possibility remains high due to two following reasons:

#### A. Proportion of Gadget User in Southeast Asia

In the scenario of remittance flow to Southeast Asia or between Southeast Asian countries, the opportunity is defined by the proportion of gadget users in Southeast Asia that indicate tendency to use smart phone applications on daily basis. The evidence is shown below;

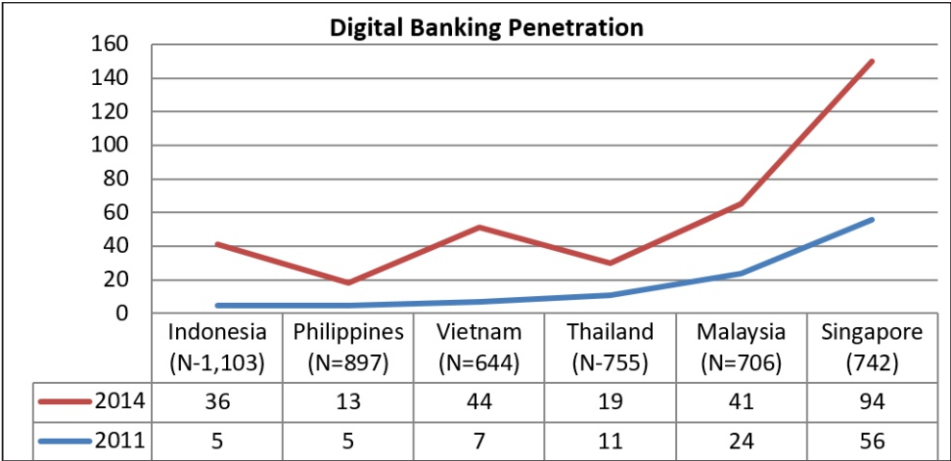


Source: Deloitte Global Mobile Consumer Survey, Southeast Asian Edition, December 2015<sup>16</sup>

Based on the graph above, we notice that even on weekly basis, countries in Southeast Asia portray the same level of downloading and at least giving a try-out on the downloaded apps. Most correspondents of the research are based on the surveys conducted by Deloitte from 5,000 correspondents based in Indonesia, Malaysia, Philippines, Singapore and Thailand with equal gender ratio from 3 different age groups.<sup>17</sup> In other words, propensity to get-to-know-better (understanding phase) is portrayed fundamentally between 5 Southeast Asian countries and thus; the same story can apply to the case of e-transfer applications.

## B. Constant Increase of Digital Banking Penetration

Furthermore, later evidence is based on the fact that digital banking has grown massively in the past few years (shown on the graph below). The growth relies on the increased trust of the users to utilize their gadgets and internet connection in the context of banking transaction. Digital banking transaction is thus no longer an 'infant' story and instead has shown readiness to ripen the concrete action by doing not only digital banking transaction on the larger context under institutional bank scheme (many optional features), but also smaller scope (geographical scope) with higher cost to reach outside of one country. Instead, the digital banking transaction can be rather specific (on the context of transfer), and at a larger scope (throughout the globe). Not to mention, another factor stands out; the lower cost.



Source: McKinsey and Company, Asia Consumer Insights Center, 2015.<sup>18</sup>

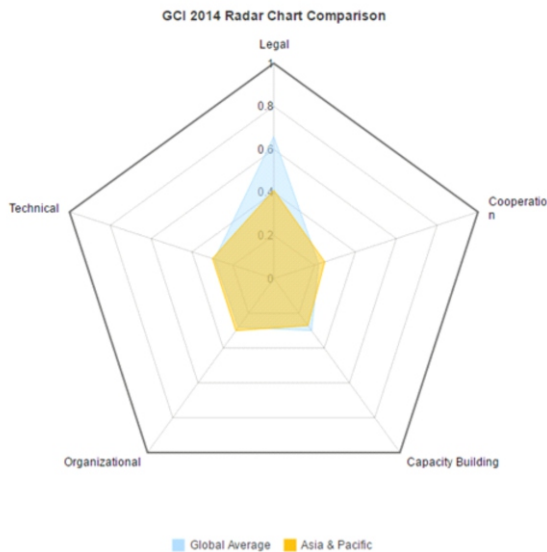
**The 'Howevers': International Remittance Transfer Weaknesses in Southeast Asia**

However, the potentials of e-transfer application and the pertinence of individual gadgets are afterwards being hesitated once more due to some weaknesses of it.

| Informal money and remittance transfer system                          | Conventional (Banking Transfer System) | e-Transfer Application                                              |
|------------------------------------------------------------------------|----------------------------------------|---------------------------------------------------------------------|
| a. Fraud and the threat of black market by using money transfer        | a. High cost                           | a. The security platform (money laundering, theft, terrorism prone) |
| b. The credential of identity                                          | b. The availability of bank accounts   | b. Area coverage of internet (accessibility)                        |
| c. Indirect tracking system                                            | c. Lack of access                      | c. Lack of trust from societal level                                |
| d. Very 'overwhelming' on the book-keeping matter (using paper method) | d. The bulk documents form             |                                                                     |

## A. Dealing with Distrust of Society

If the informal transfer system is too hackneyed, the conventional is very ubiquitous and yet inconvenient, then we must also take into account how e-transfer smart phone application has just departed to be more and more omnipresent. The following question is regarding the feasibility of e-transfer application on smart phone. The profound understanding about its feasibility would be due to the fact that there is an escalating number of smart phone users in the world. Is it enough? Bigger escalating number of smart phone users does not define whether or not the users are 'smart' in the context of grasping the innovation. Why so? The security platform still breeds 'distrusts' of any smart phone application that deals with money. People are accustomed with how money is guaranteed to be safe by using rigid institutions like banks or other financial institutions providers. Meanwhile, surpassing the momentum of banal trust of bank to be replaced with 'startup' that offers service has just started to begin. Hence, people will still be rather skeptical over the revolutionary e-transfer apps. However, the issue is not merely as facile as not trusting the applications due to lack of understanding. Instead, the security has congealed doubts.



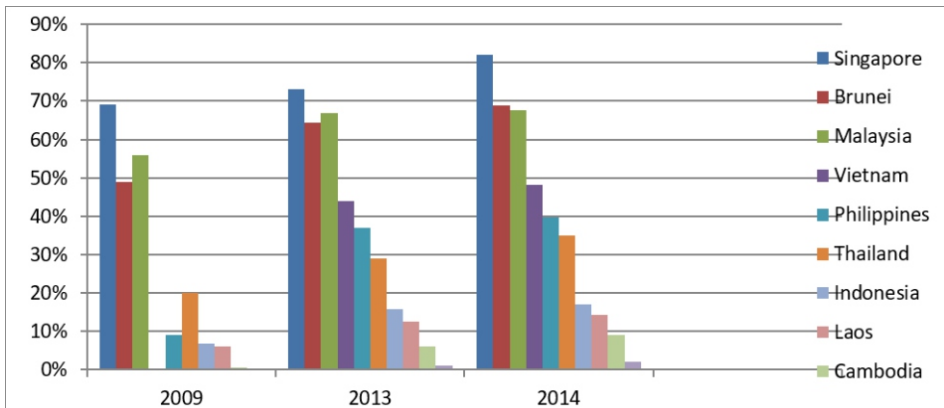
Source: Global Cybersecurity Index: A Comparison.<sup>26</sup>

KYC (Know Your Customers), Financial Actions Task Force (FATF) and AML (Anti-Money Laundering) exist as the standard of every money transfer operation.<sup>19</sup> In the scope of Know Your Customers (KYC) as being endorsed by Basel's Committee<sup>20</sup> for instance, the application of standardizing the procedure to identify the bona fide customers before conducting transfer or other transactions are efficient tools to eliminate the possibility of money laundering or illegal transactions.<sup>21</sup> The main purpose of KYC, FATF and AML is undoubtedly coherent to the case of money laundering, fraud, terrorism activities and other suspicious activities that might lead to danger or instability of an individual, institution and even a state.<sup>22</sup> Indonesia and Philippines immediately performed their amendments on anti-money-laundering right after they were accused of not meeting the standards of FATF.<sup>23</sup> In spite of the efforts of hindering security problem of international money transfer, the limit is present in the gap between the regulation and implementation. Institutions might be able to monitor or decide to discontinue such bizarre or suspicious transfer. On the other hand, the accurate level of efficiency to simply identify a customer based on the regular paperwork is still yet to be reconfirmed.<sup>24</sup> The accuracy is not present in the cybersecurity where in Southeast Asia, the legal (only 0.2 compares to the global average in the number of 0.4) and other sectors connected to cybersecurity are not a major concern.<sup>25</sup>

## B. The Irony of Connectivity

Second weakness is correlated with the condition in the field that can be scrutinized with the expectation gap analysis. Innovation is undoubtedly useful and yet in the other hand, requires stipulation that support it. This is similar to paradox of how we badly need electricity meanwhile most countries in the world use petroleum or natural resources that are limited to create electricity. In the case of smart phone application; we badly need the internet connection. We are all aware of internet connection, if we are living in either developed countries or developing countries but in the not very rural area.

Although, the internet users have doubled in Southeast Asia and the internet penetration has shown a rapid growth, though the balance between countries are varies and lags.<sup>27</sup> Countries in Southeast Asia depend on the domestic background that contribute to the final ratio of penetration. Some countries demonstrate good – standard of internet penetration process. Meanwhile, the others do not necessarily demonstrate the same standard. From the figure below, we may notice that discrepancy is still wide between Singapore and Myanmar. Albeit the discrepancy, high difference of domestic condition in Southeast Asia does not necessarily affect the level of internet penetration. Middle income countries like Indonesia and Thailand still rank below expectancy, compares to country like Malaysia that is also characterized with middle income country.



Source: World Telecommunication/ICT Development Report and Database 2014<sup>28</sup>  
and internet society Global Internet Report 2014.<sup>29</sup>

The irony is apparently many people in majority of developing countries, especially in Southeast Asia are not even alert or failed to comprehend with the internet things. They are exposed to the gadgets without even having the privilege to properly use them, simply because internet connection does not reach them or it does, but unstable. Or at the very basis, the internet connection is available, but they cannot afford to access the internet. This whole issue over accessibility is at stake and the crucial actor is nevertheless the government. The good news is, most international institutions and non-governmental institutions are both impelling on the national government to improve and expand the internet coverage throughout the country, especially in the context of developing countries. And we hope it will soon enhance amid the presence of pessimism.

We cannot draw a separation between all the new things that are being led by internet and the users. This is where everything is no longer solely about technological issue, instead about a 'human sapient', real major factor behind the endeavor and inertia of technology development and other myriad inventions. It has been examined on the very first point of e-transfer applications' imperfection that distrust of the gadget users highly influences the success level of such innovation. Digital society today tends to see the efficiency and benefits over an innovation, but the dimension of endorsement is very important. This is one of the main reasons why many e-transfer application startups decide to establish a framework of cooperation with banking institutions or other international money transfer authority to certify that their startups are trustworthy.

## C. Endorsing the Ideas

Second weakness is correlated with the condition in the field that can be scrutinized with the expectation gap analysis. Innovation is undoubtedly useful and yet in the other hand, requires stipulation that support it. This is similar to paradox of how we badly need electricity meanwhile most countries in the world use petroleum or natural resources that are limited to create electricity. In the case of smart phone application; we badly need the internet connection. We are all aware of internet connection, if we are living in either developed countries or developing countries but in the not very rural area.

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## ● Conclusion

E-Transfer smartphone application can be utilized as a tool to support the remittance transfer, especially in the case of migrant workers in Southeast Asia. However, this is not the meager solution without any side incentives. The trusts of customers who are referred to migrant workers are highly necessary. In other words, the prerequisite of their understanding towards remittance transfer is also significant. Trust can be earned and built starting from disseminating the knowledge to smart phone users that smart phone is not all about entertainment or connecting people socially. Instead, the smart part of Smartphone must be extended to smart users. Money is a very sensitive issue everywhere in the world, but moving it should be as easy as transcending ideas all over the globes.

Like the depiction of yin and yang, there is always a dark side adjacent to the luminous side. This concept applies to technology. Technology can be perceived as a boomerang act, since the usage can function properly; facilitating smart users or idea creators to develop, to connect and to solve problems. Or instead the less likely episode might occur, like deceit of security system of international money transfer. At glance, technology is being used to fill the gap of distance, accessibility and also supporting the readiness of smart phone users that demand efficiency on money and time. This is where once again we need to rethink and immediately reach the maneuver to securing money transfer system. Especially since the cyber security issue is not yet major concern in most countries within Southeast Asia.



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