PACIFIC REMITTANCES: CHANNELS, COSTS, AND THE GAINS FROM SWITCHING

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3. How large are the gains from switching to the cheapest RSPs?

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- Relatively mature market, with low and high cost providers
- According to RPW, average remittance cost is 8%
- Policy-makers are engaged with and acting on the issue
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⇒ Key stylized facts, however, do hold for other Pacific countries

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3. **Conduct a simple simulation to understand the magnitude of the savings** gains from a switch from high to lower cost providers

What We Find—A Preview of Four Results

1. **Low cost options exist, and there are enormous cost differences (over 20 p.p.) between high and low cost RSPs**
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4. **Potential gains are large: 2.4% of all remittances**

Rest of today's talk

1. Background—remittance costs
2. Background—Tongan remittance market
3. Data—Pacific Labour Mobility Survey
4. Data—market audit data
5. Results—what the market actually looks like
6. Results—explaining digitisation and low-cost adoption
7. Results—simulating the potential gains
8. Discussion and next steps

Background

Why remittance costs?

Since the early 90s, the stock of international migrants has grown from 152 million to 280 million (remittances $>>>$ foreign aid)

Sustainable Development Goal: **reduce remittance costs to less than 3%,** and eliminate corridors with costs higher than 5%

- RPW: global average is 6.25 per cent
- 39% of major corridors meet the SDG target

Global remittance costs were around 38 billion USD in 2021:

- Equivalent to **about 20% of all global ODA**
- More than all US (largest bilat donor) ODA the year before

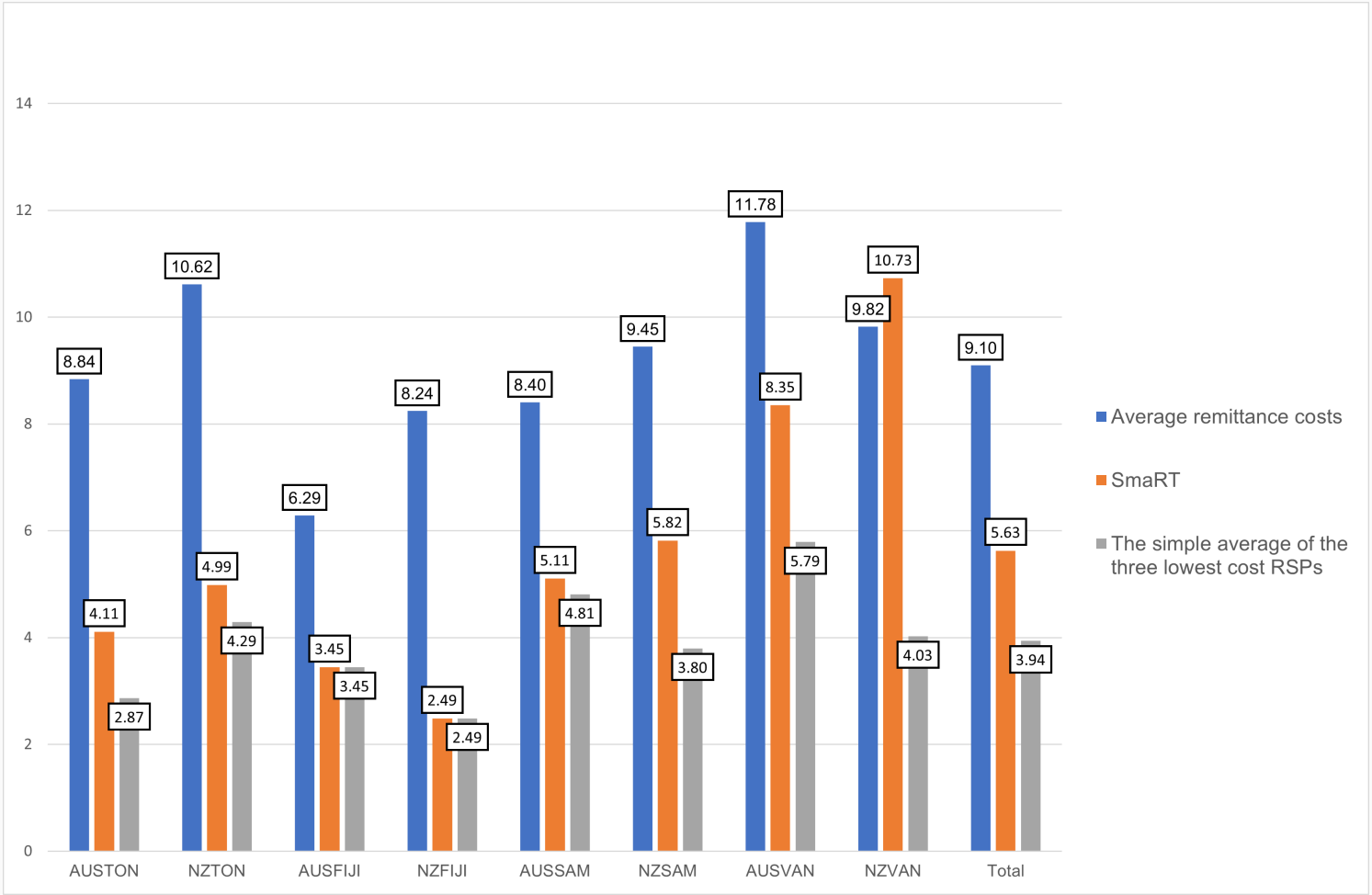
Pacific remittance costs

According to Remittance Prices Worldwide, average remittance costs in the Pacific were:

- 9.10% in Q4 2022 for four Pacific countries included in the database
- These are Fiji, Samoa, Tonga, Vanuatu

If we manually include other countries and use the same method, this calculation goes up to 10.4%

But measurement matters, a lot



Notes: The figure shows average remittance costs (blue bar), SmaRT (orange bar), and the simple average of the three lowest-cost RSPs (grey bar) in the eight remittance corridors and the PICs as a whole. The data is available from Remittance Price Worldwide (World Bank 2023b).

Tongan remittance market

- **Tonga has a mature market amongst PICs,** more than 28 RSPs
- Global MTOs, small local MTOs, mobile money, commercial banks
- Similar to Fiji (25)
- More than PNG (13), SI (11), Vanuatu (13), and Kiribati (8)
- Tonga is the 2nd country to have Digicel mobile money in 2011
- TDB introduced Ave Pa'anga Pau (APP) in collaboration with IFC in NZ corridor in 2017 and Australia corridor in 2020
- **Despite low cost options existing, realised costs remain high.** NRBT reports 83 percent going through WU in 2016 and losing 12 percent in fixed fees and exchange rate losses.

Data

New market audit data

Monitored and manually collected data on remittance costs from the **two regional remittance cost comparisons platforms**, Send Money Pacific and Saver Pacific.

Two phases:

1. **Pilot phase:** to decide design of final dataset in terms of which RSPS, for how long, which variables, etc., and to understand the differences between the two platforms. Every day from 28 March 2023 to 25 April.
2. **Final data collection phase:** send 200 AUD/NZD each day for 14 days from 25th July 2023 to 7 August 2023, and record (1) remittances received in local currency, (2) fixed fee, (3) exchange rate, (4) total remittance costs in percentage, (5) transfer method, and (6) transaction speed.

Since we did it by hand, we only collected data for the five lowest and highest cost RSPs, and both online and cash transfers for Moneygram and Western Union.

Both platforms cover popular and low cost RSPs, but the main differences are **coverage** (e.g., SMP did not cover Ria during pilot period) and the **timing of updates.**

Pacific Labour Mobility Survey, Wave 1

New household and worker survey spanning three different temporary migration schemes, three labor sending countries, and two labor receiving countries. Omnibus in nature.

Tonga household survey in person by same team as the census, HIES, etc. from Nov 2021 to January 2022, with 1160 households, 7,359 individuals, including 543 households with temporary migrants.

Sampling area covers the four main residential islands (i.e. Tongatapu, Eua, Ha'api, and Vava'u) with PPS

Worker survey conducted by phone, in local language by Tongans, due to COVID restrictions, from Dec 2022 to March 2023.

Both surveys ask about channels, MTOs, reasons why, and more.

Results

Channels reported by households

Main channel	Freq.	Percent
Online transfer through banks	119	12.41
Online transfer through MTOs	324	33.79
Over-the-counter transfer through MTOs	456	47.55
Mobile wallet	55	5.74
Through friends	1	0.10
Other	4	0.42
Total	959	100.00

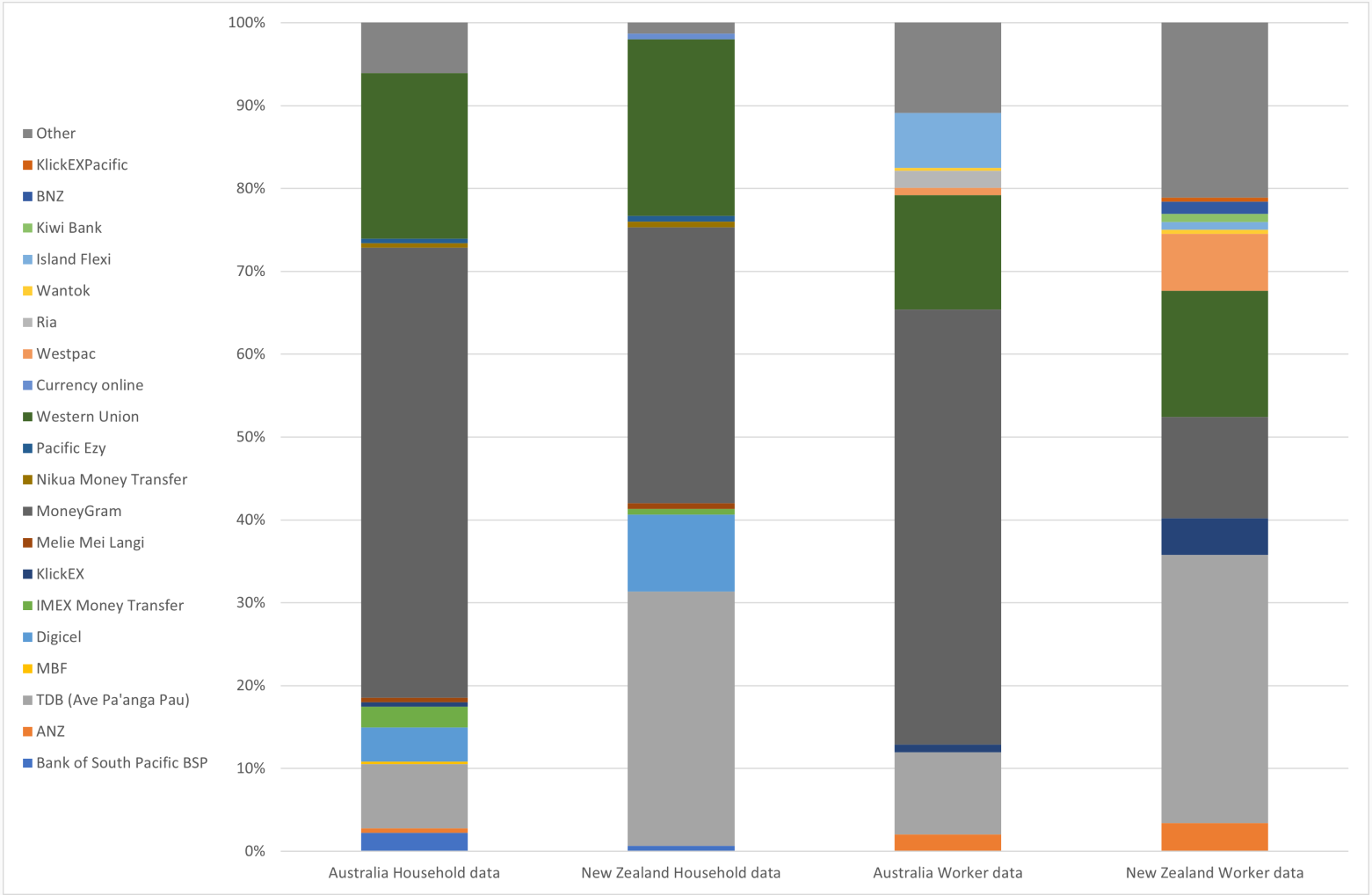
Notes: Author's tabulation using data on remittance channels from PLMS household dataset. The table shows the frequency and percentage share of 5 main remittance channels and "other."

Channels reported by workers

Main channel	Freq.	Percent
Online transfer	522	69.88
Over-the-counter transfer	191	25.57
Mobile wallet	13	1.74
Through friends	19	2.54
Other	2	0.27
Total	747	100.00

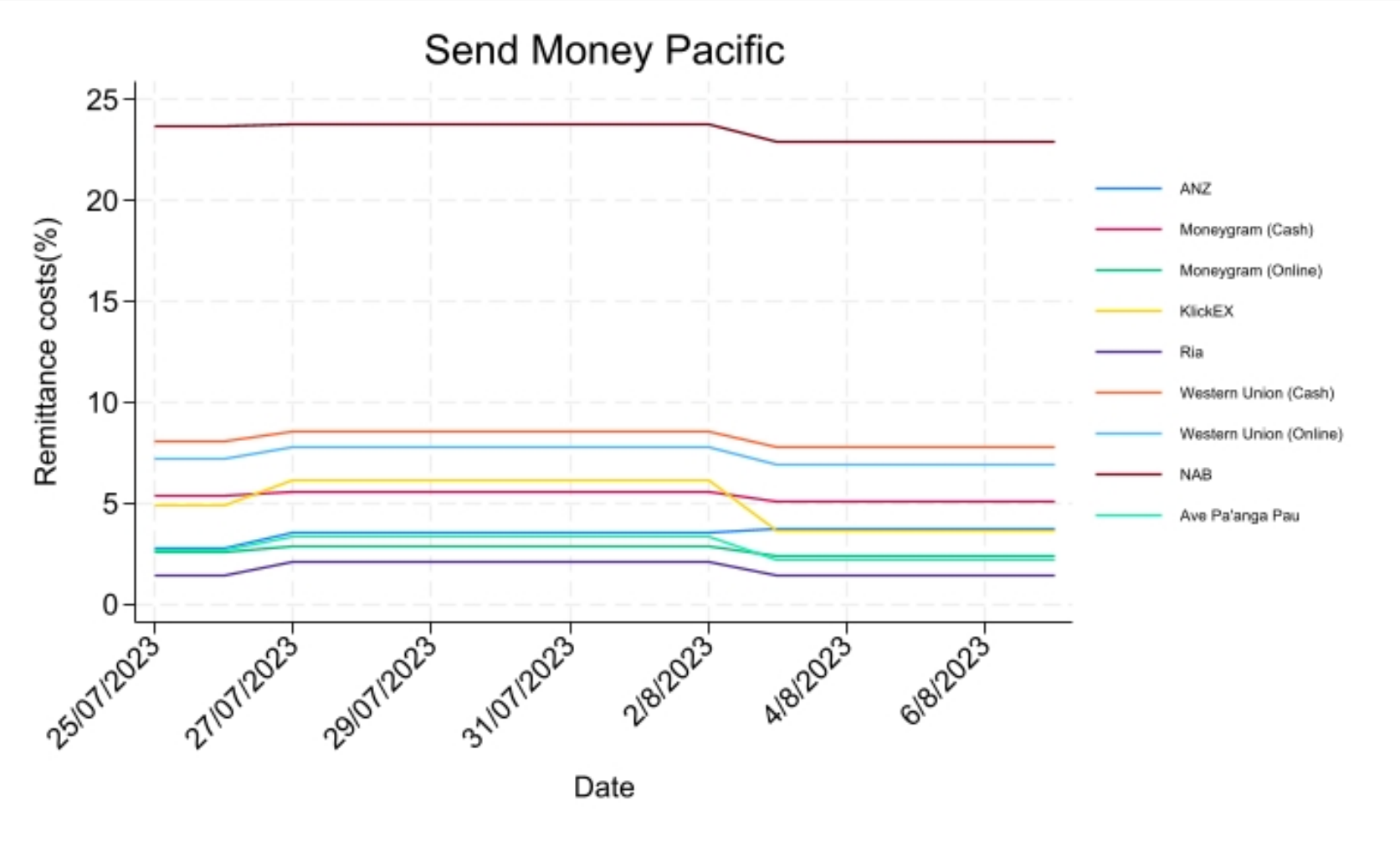
Notes: Author's tabulation using data on remittance channels from PLMS worker dataset. The table shows the frequency and percentage share of 4 main remittance channels and "other". Compared to PLMS household dataset, "Online transfers through banks" and "Online transfer through money transfer operators, such as Western Union, MoneyGram, etc" are combined to "Online transfer."

RSP market shares in the PLMS



Notes: The figure shows the share of the RSPs used by Tongan households and workers. PLMS household and worker surveys are used to obtain the frequency and proportions of the RSPs.

Remittance costs, Australia-Tonga



Notes: The figure shows the fluctuation of remittance costs of the five lowest-cost RSPs, the highest-cost RSP, Moneygram, and Western Union in the Australia-Tonga corridor. Final audit data are used for this figure.

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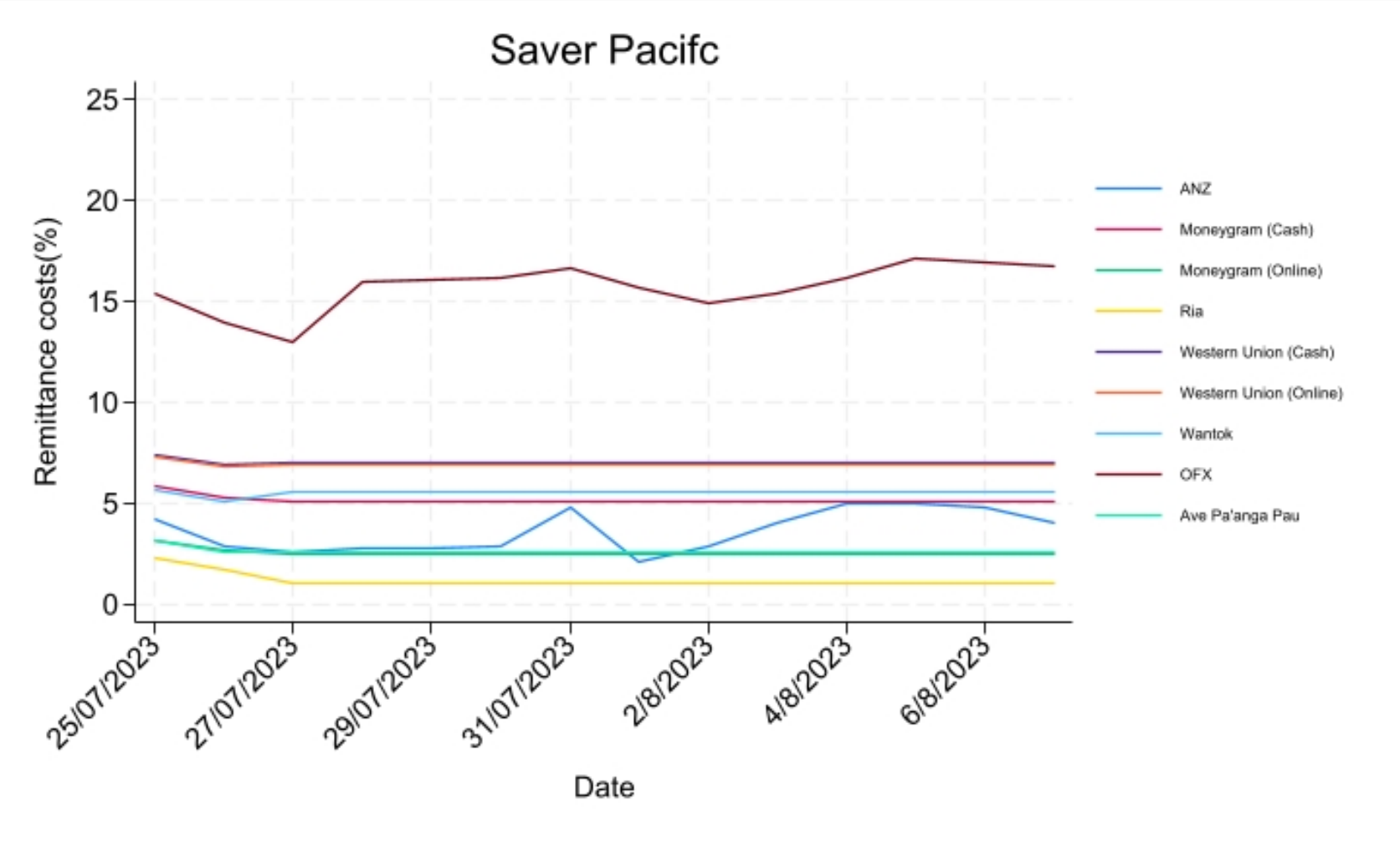
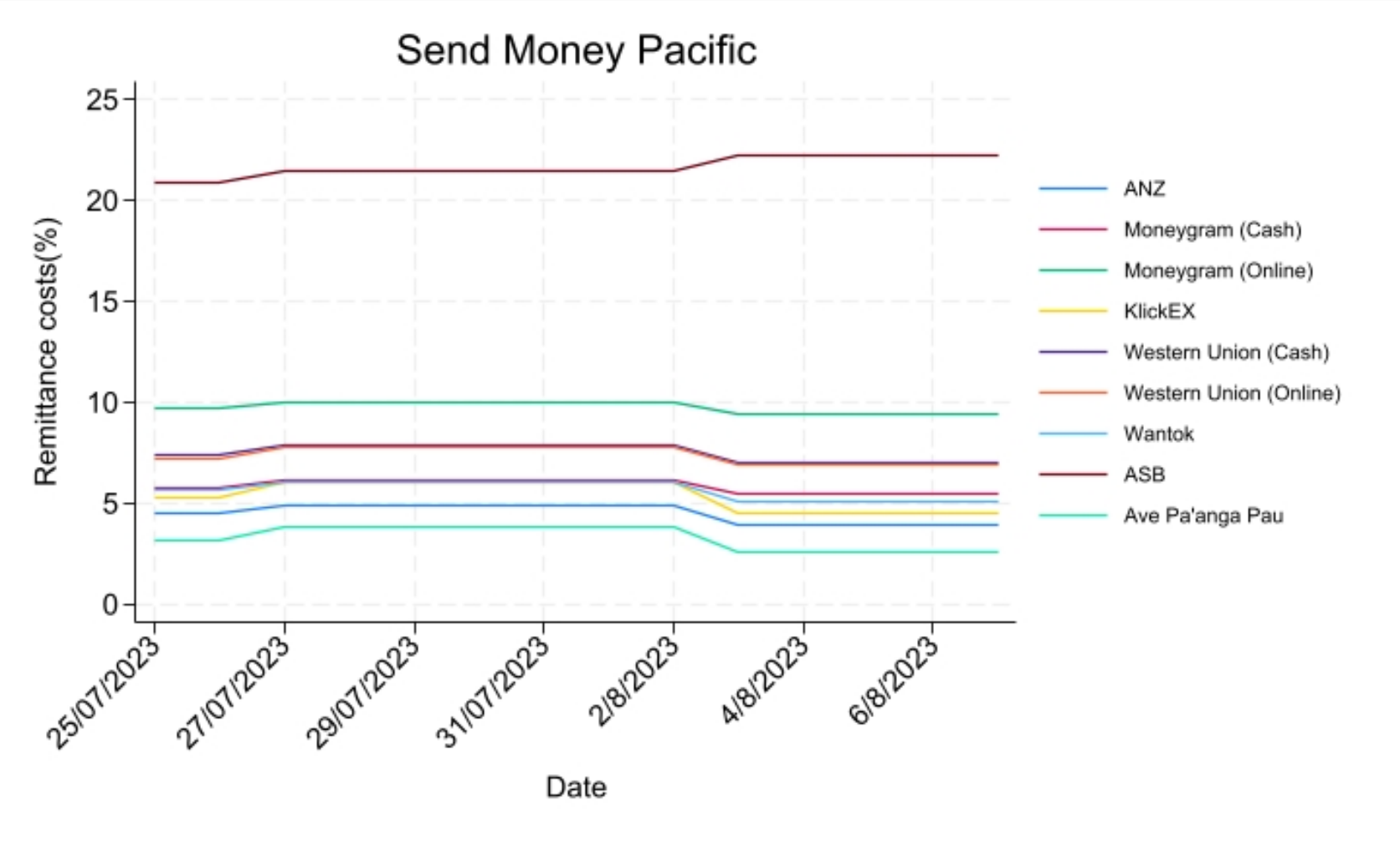


Notes: The figure shows the fluctuation of remittance costs of the five lowest-cost RSPs, the highest-cost RSP, Moneygram, and Western Union in the Australia-Tonga corridor. Final audit data are used for this figure.

Remittance costs, NZ-Tonga



Notes: The figure shows the fluctuation of remittance costs of the five lowest-cost RSPs, the highest-cost RSP, Moneygram, and Western Union in the New Zealand-Tonga corridor. Final audit data are used for this figure.

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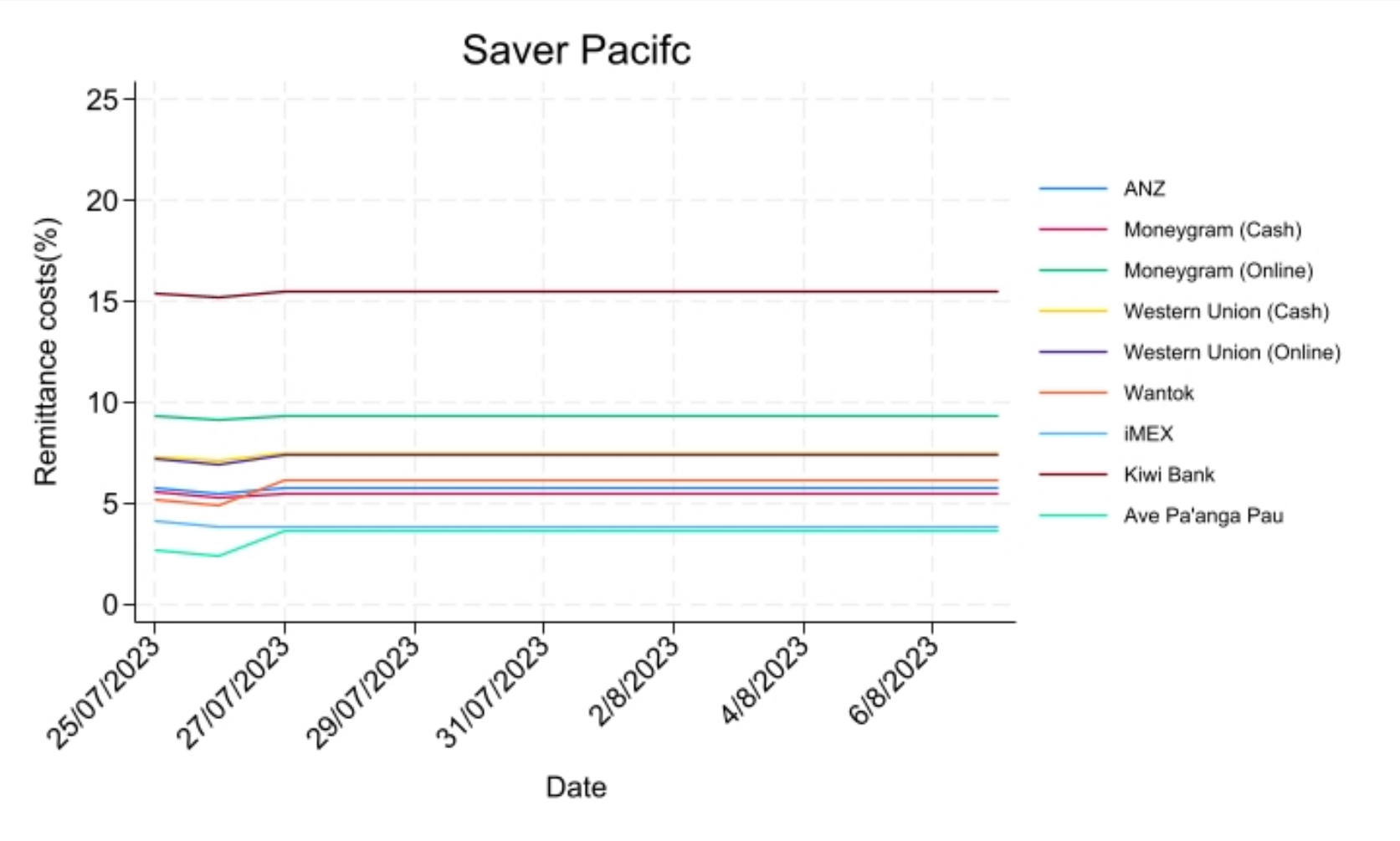

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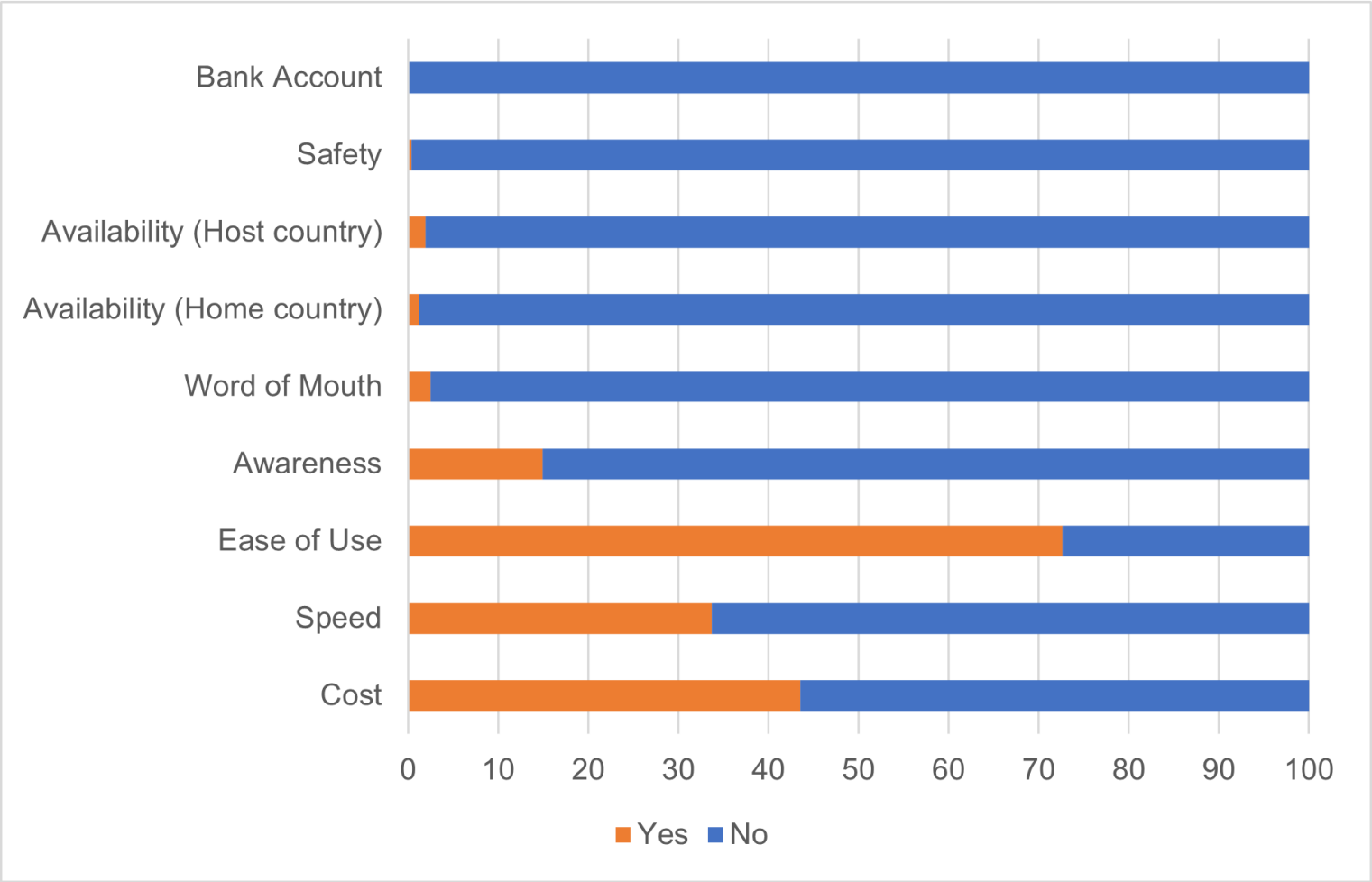
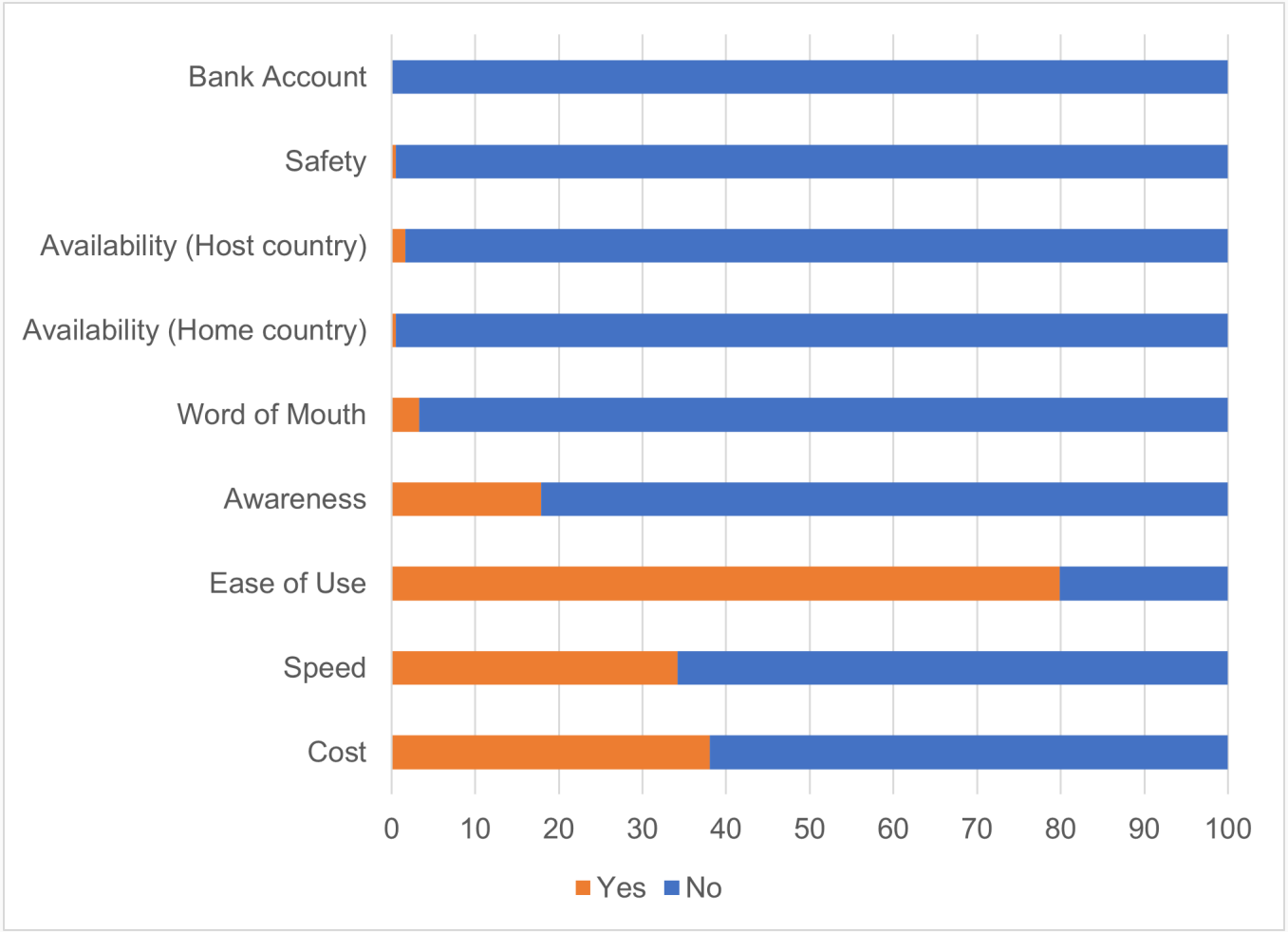
Reason for particular channel



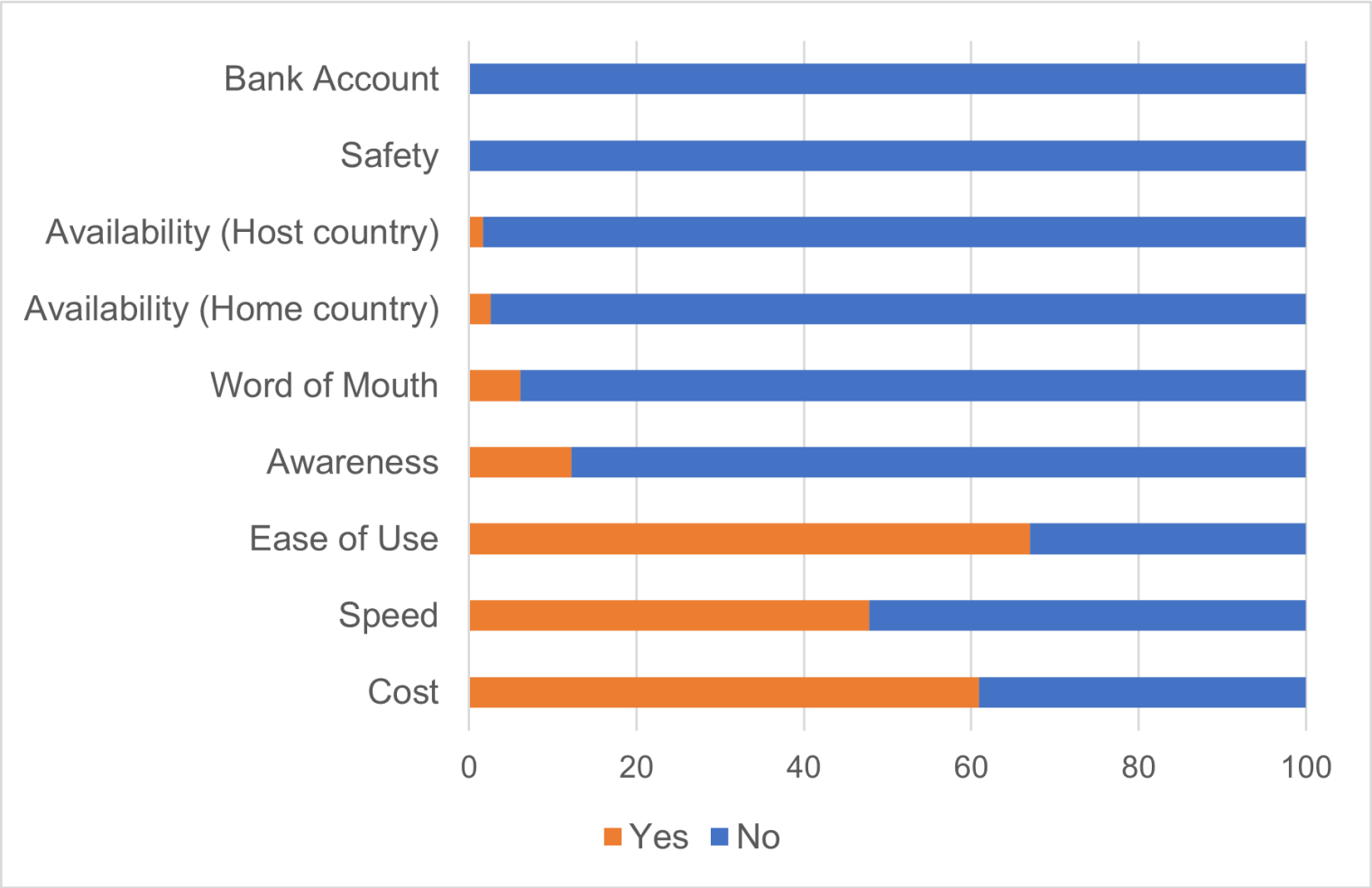
Notes: The figure shows the proportion of the binary answer for the reason why Tongan migrants choose remittance channels. The PLMS worker dataset is used to obtain this figure.

Reasons for using Moneygram and WU



Notes: The figure shows the proportion of the binary answer for the reason why Tongan migrants who use Western Union and Moneygram choose remittance channels. The PLMS worker dataset is used to obtain this figure.

Reasons for using Ave Pa'anga Pau



Notes: The figure shows the proportion of the binary answer for the reason why Tongan migrants who use Ave Pa'anga Pau choose remittance channels. The PLMS worker dataset is used to obtain this figure.

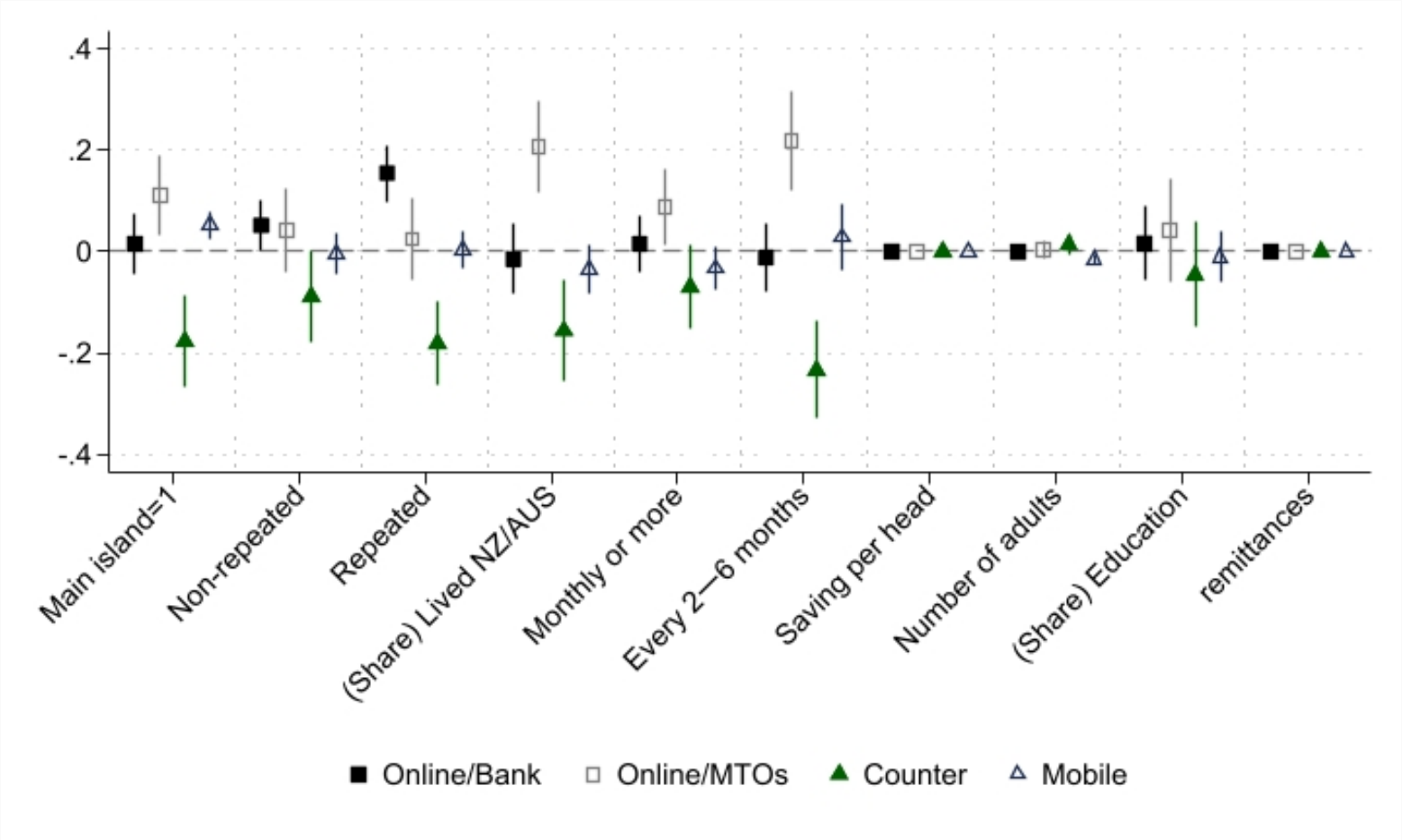
Examining channel choice formally

Estimate a simple **multinomial logit regression model**, via maximum likelihood, where the outcome is a polychotomous choice variable for four remittance channels: online through bank, online through MTO, OTC through MTO, and mobile money.

We **model household decision making with eight factors** from **theory and literature**:

1. Chance of getting or seaching for information about remittance costs, as proxied by current temporary migration participation status (0, 1, 2) and second whether someone has spent more than one month abroad (0,1)
2. Education, as proxied share of individuals 18 and older who completed secondary schooling
3. Main island Tongatapu dummy (access)
4. Amount (monthly total) and frequency
5. Monthly savings per head (proxy use of bank transfers)
6. Number of adults 18 and over (easier to retrieve)

Channel choice, average marginal effects



Notes: The figure shows the average marginal effects of household characteristics on the choice of remittance channels. The vertical axis represents the magnitude of the effects in percentage points. For example, .2 represents 20 percentage points increase while -.2 is a 20 percentage points decrease. The vertical line on each point estimate shows the 95 percent confidence intervals which is calculated from robust standard errors.

Calculating the gains from switching

1. **Derive the gain per transaction** of 200 AUD/NZD: difference between the cost of the lowest-cost RSP and the two most popular RSPs in local currency and percentage. Use cash and online transfers for Moneygram and WU.

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   - RSE workers: 9,265.3 NZD (13410.2 Pa'anga)

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4. **Calculate the gain for the Tongan economy** by multiplying the gain per household by the number of temporary migrants in these schemes in Australia and New Zealand on 30 April 2023, 3,692 and 1,386 workers, respectively.

Simulation results: SMP data

	WU (Online)	WU (Cash)	MG (Online)	MG (Cash)
Australia-Tonga				
Remittance costs	7.38	8.23	2.64	5.4
Gain by switching	5.62	6.47	0.88	3.64
Gain in 6 months	1,103,809 TOP 2.40%			
New Zealand-Tonga				
Remittance costs	7.39	7.53	9.73	5.84
Gain by switching	4.07	4.2	6.4	2.51
Gain in 6 months	424,596 TOP 2.30%			

Notes: Author's calculation using the new market audit data and PLMS worker and household dataset. The third and fourth rows of the table show remittance costs and gain by switching to the cheapest RSP for both online and cash transfers by Western Union and Moneygram. The bottom row shows the total gain in a respective remittance corridor and the total gain in the Tongan economy.

Simulation results: SP data

	WU (Online)	WU (Cash)	MG (Online)	MG (Cash)
Australia-Tonga				
Remittance costs	6.93	7.03	2.51	5.17
Gain by switching	5.73	5.83	1.3	3.96
Gain in 6 months	1,186,427 TOP 2.50%			
New Zealand-Tonga				
Remittance costs	7.39	7.53	9.73	5.84
Gain by switching	3.8	3.94	5.77	1.95
Gain in 6 months	424,596 TOP 2.10%			

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Discussion and next steps

Potential generalisability

Australia to.. Country	Cost	New Zealand to.. Country	Cost
Fiji	0.27	Fiji	0.25
Kiribati	0.00	Kiribati	1.625
PNG	2.34	PNG	4.045
Samoa	1.85	Samoa	2.41
Solomon Islands	1.19	Solomon Islands	3.105
Tonga	1.32	Tonga	3.76
Tuvalu	0.00	Tuvalu	1.91
Vanuatu	2.12	Vanuatu	1.77
Cook Islands	2.83	Cook Islands	0.00
Niue	3.54	Niue	0.00
Timor-Leste	3.02	Timor-Leste	1.54

Notes: Authors' calculation using the new market audit data additionally collected from the 21st of September to 4th of October. The table shows the simple average of remittance costs of the lowest-cost RSP in the remittance corridors from the country to Australia and New Zealand.Figure 1 Remittance costs in the four PICs.

Australia to PNG?

	Avg Kina received	Cost(%)	Speed
Avg 5 cheapest RSPs	468.34	3.92	N/A
WU (Online)	473.49	2.86	Minutes
Wantok	463.74	4.90	Minutes
Wise	466.58	4.27	Next day
WU (Cash)	437.71	10.4	Minutes
Gain moving to WU online	35.78	7.54	N/A

Thinking about the barriers to switching

We showed **large benefits** from inward remittance senders **switching from higher to lower cost RSPs.**

If policymakers were to try shift behaviour, **what currently prevents people from switching?** That is, if they are not already behaving optimally.

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Which one, or all? Stay tuned for our next study.

Conclusion

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What we did. Combined new market audit data with information from new household and worker surveys to examine the state of the Tongan remittance market and household behaviour in that market.

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What we found. Many low cost options exist. There are big differences between high and low cost options. People face higher remittance costs because they choose higher cost providers. Adoption of low cost options appears feasible and happening slowly (digitisation). The potential gains from switching to the lowest cost provider overall are not trivial, 2.4 percent of all remittances sent here.

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What we did. Combined new market audit data with information from new household and worker surveys to examine the state of the Tongan remittance market and household behaviour in that market.

What we found. Many low cost options exist. There are big differences between high and low cost options. People face higher remittance costs because they choose higher cost providers. Adoption of low cost options appears feasible and happening slowly (digitisation). The potential gains from switching to the lowest cost provider overall are not trivial, 2.4 percent of all remittances sent here.

Key takeaways / interpretation / implications?

- Remittances costs aren't necessarily higher in the Pacific. It really depends on how you measure and define it, and no clear best approach here.
- It is more household choices than any macro factor that likely keeps realised remittance costs in the region higher than they need to be.
- Positive signs in terms of fintechs, online transfers, mobile money adoption, and broader digitisation, with quite the opportunity for policy
- Remaining knowledge gap to respond to this opportunity is around adoptions of different technologies. Rigorous field testing with experiments now needed

Thank You

Please send any comments or suggestions to

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