

Cost of Remitting to Pakistan Across Major Corridors

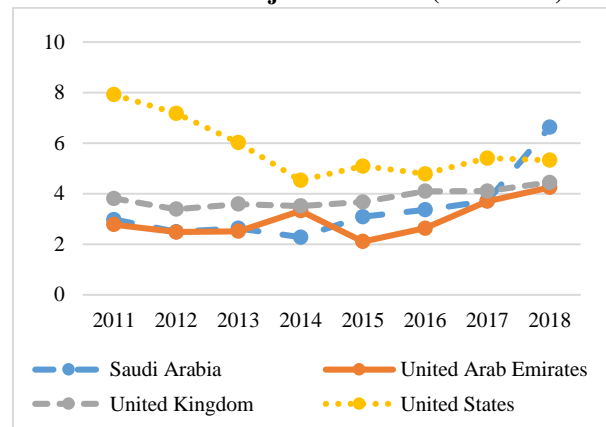
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Migrant remittances constitute a significant source of foreign exchange for developing countries. In several countries, the amount of remittances exceeds foreign direct investment and foreign aid inflows [World Bank (2019a)]. For Pakistan, the USD 21 billion of remittances received in the financial year 2018-2019 came close to the country's total export receipts and covered over half of the country's gaping current account deficit [State Bank of Pakistan (2019)]. Remittance flows to Pakistan are countercyclical in nature and help the country's economy in the times of slowdown [Mughal and Ahmed (2014); Umair and Waheed (2017)]. This is reflected in the migrants' motives to remit, which is found to be principally altruistic [Anwar and Mughal (2012)]. At the household level, remittances allow recipients to accumulate assets [Ahmed, *et al.* (2018)]. Moreover, remittances are more likely to be spent on investments in physical or human capital than consumed [Adams (1998)]. As a consequence, the incidence and intensity of poverty decreases [Siddiqui and Kemal (2006); Ahmed, *et al.* (2010)] and the GDP increases [Iqbal and Sattar (2010)].

The impact on remittances, however, is contingent on the development of the country's financial sector [Luqman and Haq (2016)]. In the absence of a developed financial sector, the cost of remitting remains high, which acts as an obstacle to further remittance flows [Ahmed and Martinez-Zarzoso (2016)]. When transfer costs are high, senders either refrain from sending money back home or use informal channels such as *Hundi or Hawala* to send money home. According to Amjad, *et al.* (2015), a sizeable amount of remittance money is transferred to Pakistan through informal channels. Principal attributes of informal channels which make them attractive to migrants include cost, convenience, speed, security, trust and familiarity [Freund and Spatafora (2008); Amjad, *et al.* (2015)]. Reducing these constraints could increase the share of formal remittance receipts.

Average cost of transferring remittances to Pakistan dropped from 8.2 percent in 2011 to 5.19 percent in 2018. The cost fell particularly sharply for the remittances from the United States, resulting from increased competition among service providers and greater use of technology as digitalisation provided more cost-effective and time-efficient means of sending money back home. The average cost of remitting to Pakistan rose in 2018. This mainly owed to increase in remittance cost from Saudi Arabia, Pakistan's least cost money transfer corridor (Figure 1).

Fig. 1. Cost of Remitting USD 200 (in percent) to Pakistan from Major Corridors (2011-2018)



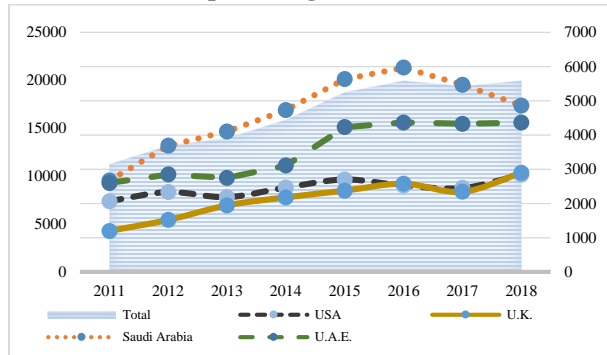
Source: World Bank (2019b).

The average cost hides considerable variations depending on the place from where the remittances were sent, their destination, and the channel used for the transfers. Therefore, it is pertinent to understand the cost of remittances to Pakistan for the top remittances corridors, namely: Saudi Arabia, United Arab Emirates, United Kingdom and the United States. In 2018, the above-reported countries accounted for about three-quarters of Pakistan's total remittance inflows. Saudi Arabia topped the list with USD 4.85 billion remittances followed by the United Arab Emirates with USD 4.35 billion, the United Kingdom with USD 2.89 billion and the United States with USD 2.83 billion (Figure 2).

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Figure 2 Country-wise Remittances Inflows to Pakistan from Top Sending Countries (Million USD).



Source: State Bank of Pakistan.

Table 1 classifies the cost by the type of remittance service provider (RSP) overseas Pakistanis used during the 2011 to 2018 period in order to make the transfer (Money Transfer Operator or Bank) and the corridor in term of cost. On average, MTO's, for example, tend to charge less for the transfer of USD 200 and USD 500 as compared to the banks. Similarly, banks are somewhat less efficient in terms of the delivery of the payments and coverage in the sending and recipient countries, which again imposes an implicit cost on the ultimate recipient. Banks remain by far the most expensive RSP type in UAE, with an average cost of about 9 percent compared to 3 percent for MTO's. However, there is a small variation in the cost of sending money either for the banks or the MTOs for the Saudi Arabia and the United Kingdom corridors. Bank transfers are somewhat less costly than MTO's but are less time efficient and have lower coverage across countries.

Table 1

Average cost of remitting USD 200 and USD 500 (in percent) to Pakistan from major Corridors (2011-2018)

	Source	Obs.	USD 200			USD 500		
			Mean	Min.	Max.	Mean	Min.	Max.
Saudi Arabia	Cost	8	3.40	2.28	6.63	2.37	1.66	4.64
	Bank	8	2.40	1.03	5.28	1.89	1.03	3.88
	MTO	8	3.78	2.78	7.17	2.55	1.91	4.94
United Arab Emirates	Cost	8	2.97	2.11	4.25	1.73	1.36	2.60
	Bank	2	9.20	8.10	10.30	5.04	4.68	5.41
	MTO	8	2.90	2.11	3.92	1.67	1.21	2.60
United Kingdom	Cost	8	3.83	3.39	4.45	2.31	2.05	2.68
	Bank	8	2.31	1.02	4.33	1.41	1.02	2.03
	MTO	8	3.96	3.57	4.45	2.39	2.11	2.72
United States	Cost	8	5.78	4.53	7.92	3.72	2.89	5.03
	Bank	3	7.08	2.70	13.33	3.95	2.82	5.33
	MTO	8	5.73	4.62	7.38	3.72	2.85	5.03

Source: World Bank (2019b) and authors' calculations.

In the following, we analyse data on the fee charged for sending money (as percentage of total money being sent), time efficiency, payment instruments, transfer

speed and coverage for these four countries. The data were collected from the World Bank Remittances Prices for the first quarter of 2019. The comparison of different remittances channels, payment methods, time efficiency and relative coverage for the Saudi Arabia corridor is presented in Table A1. The cost of banks is relatively low as compared to MTO's, though with low time efficiency, which adds an implicit cost in the form of exchange rate volatility. The remittance service providers market is dominated by MTO's as the coverage of remittances sent through banks is low.

For the United Arab Emirates, transaction cost varies depending on the channels, payment instrument, transfer speed and size of the amount transferred (Table A2). MTOs, using bank account transactions with debit or credit card as payment instruments instantly deliver funds to the immediate recipient (typically within an hour or the same day). Another important observation that emerges is that the cost of remittances has a strong tapering effect given that the cost comes down with the increase in the size of remittances. The cost of sending USD 500 is significantly lower than the cost of sending USD 200. Bank transfers in this corridor are relatively costly and rely on transfers of larger amounts than do the MTOs. The latter has higher coverage and speed, and are preferred by most remitters. The two major international money transfer companies, Western Union and Money Gram both offer money transfer within an hour with lower fees and high coverage. MTOs with a significant physical presence can transfer more swiftly using cash and bank account transaction compared with little coverage MTO's. The UBL Tezraftaar Cash transfer funds on the same day with a high coverage but charge 4.68 percent on remitting USD 200 to Pakistan. However, the fee becomes zero when transferring USD 500 or more. The 2.53 percent of cost reflects the exchange rate margin.

Table A3 shows the overall cost structure for the United Kingdom corridor. The United Bank Limited charged about 4.23 percent fee for sending USD 200. However, the fee becomes zero when the size of the fund increases to USD 500. The extra cost of 1.73 percent indicates the percentage difference between the interbank exchange rate and the actual exchange rate applied in the remittances transfer. This means that even with zero fees, the remitter pays an implicit cost in terms of receiving a lower exchange rate.

The cost of sending money from the United States to Pakistan is reported in Table A4 for most of the transmission channels. The cost is low for sending money through Western Union and Money Gram using bank account transaction, though the transfer takes three to five days. However, Western Union is less

expensive when using cash as a payment instrument and able to deliver money is less than one hour. Similarly, the debit card transaction is also relatively cheaper and time-efficient. Among banks, transfer from Walmart2World banking services is relatively more efficient in terms of delivery, coverage and cost.

In the light of the above analysis, we can infer the following policy actions:

First, remittance charges decline with the amount transferred. Remitters also enjoy free remittance facility under the Pakistan Remittance Initiative (PRI) for a minimum amount of USD 210 transferred. Not all the senders can benefit from this opportunity though. A large proportion of overseas Pakistani workers, particularly those living in the Middle East, work on temporary labour contracts and frequently send small amounts to support their families back home. Given the high costs of remitting small amounts, many among these workers send money through informal channels. These remittances can be brought into the formal set-up if the minimum amount required to avail the PRI free remittance facility is lowered. The condition of minimum limit of amount remitted could perhaps be waived entirely.

Another development that can bear fruit is to focus better on the provision of financial services through post offices in establishing partnerships between leading banks and the post office network. Part of the reason banks are minor partners in the remittance business is their low coverage, especially in the rural areas. The extensive network of post offices can be of great help in enhancing access to financial services in those areas. Besides, greater transparency and technology can be used to redirect the remittances from informal to formal channels. Banking the unbanked rural population by providing low-cost remittance services is a must if Pakistan is to achieve the target of bringing down the cost of remitting to 3 percent by 2030.

APPENDIX

Table A1

Remittances Cost and Time Efficiency of Transfer Money from Saudi Arabia

Firm	Firm type	Payment Instrument	Transfer Speed	Cost1 (%)	Cost2 (%)	Coverage
Al-Rajhi Bank	Bank	Bank acc. trans	2 days	4.2	1.4	Low
Enjaz Bank	Bank	Bank acc. trans	2 days	1.32	1.32	Low
Al Amoudi Exchange	MTO	Cash	< than 1 hour	3.55	1.45	High
MoneyGram	MTO	Cash	< than 1 hour	3.55	2.63	High
TeleMoney	MTO	Cash	< than 1 hour	5.62	2.82	High
Western Union	MTO	Cash	< than 1 hour	3.98	1.45	High
Xpress Money	MTO	Cash	< than 1 hour	6.81	4.01	High

Source: World Bank (2019b).

Note: Bank acc. trans represent bank account transaction.

Table A2

Remittances Cost and Time Efficiency of Transfer Money from United Arab Emirate

Firm	Firm Type	Payment Instrument	Transfer Speed	Cost1 (%)	Cost2 (%)	Coverage
DirectRemit (NBD)	Bank	Bank acc. trans.	Next day	0.45	1.35	Low
Dubai Islamic Bank	Bank	Cash	Next day	10.24	4.78	High
Al Ansari/Al Fardan/UAE Exchange	MTO	Bank acc. trans.	2 days	2.89	0.51	Low
Western Union	MTO	Bank acc. trans.	< than 1 hour	3.39	2.17	High
WorldRemit	MTO	Bank acc. trans., D/C card	< than 1 hour	6.11	3.8	Medium
UBL Tezraftaar Cash	MTO	Cash	Same day	4.68	2.53	High
GCC Exchange	MTO	Cash	< than 1 hour	1.57	0.48	Medium
MoneyGram	MTO	Cash	< than 1 hour	4.39	3.1	High
Western Union	MTO	Cash	< than 1 hour	4.92	2.78	High

Source: World Bank (2019b).

Note: Bank acc. trans and D/C card, represent bank account transaction and debit and credit card respectively.

Table A3

Remittances Cost and Time Efficiency of Transfer Money from the United Kingdom

Firm	Firm Type	Payment Instrument	Transfer Speed	Cost1 (%)	Cost2 (%)	Coverage
UBL	Bank	Bank acc. trans.	2 days	4.23	1.73	Low
Western Union	MTO	Bank acc. trans.	< than 1 hour	6.32	3.87	High
MoneyGram	MTO	Bank acc. trans., D/C card	< than 1 hour	7.84	4.84	High
WorldRemit	MTO	Bank acc. trans., D/C card	Same day	4.25	2.26	Medium
MoneyGram	MTO	Cash	< than 1 hour	6.5	4.05	High
Ria	MTO	Cash	Next day	5.12	3.62	High
Western Union	MTO	Cash	< than 1 hour	4.59	3.79	High
Xpress Money	MTO	Cash	< than 1 hour	4.99	2.49	High
Western Union	MTO	Cash, D/C card	< than 1 hour	8.42	4.97	High
Ria	MTO	D/C card	< than 1 hour	1.93	1.93	High

Source: World Bank (2019b).

Note: Bank acc. trans and D/C card, represent bank account transaction and debit and credit card respectively.

Table A4

*Remittances Cost and Time Efficiency of Transfer
Money from the United States*

Firm	Firm type	Payment instrument	Transfer Speed	Cost1 (%)	Cost1 (%)	Coverage
MoneyGram	MTO	Bank acc. trans.,	3-5 days	4.55	3.05	High
Western Union	MTO	Bank acc. trans.,	3-5 days	6.28	4.48	High
Xoom	MTO	Bank acc. trans.,	< than 1 hour	4.4	2.9	Low
WorldRemit	MTO	Bank acc. trans.,D/C card	2 days	4.08	2.88	Medium
MoneyGram	MTO	Cash	< than 1 hour	8.47	5.17	High
Western Union	MTO	Cash	< than 1 hour	5.25	3.75	High
MoneyGram	MTO	D/C card	< than 1 hour	7.02	4.02	High
Western Union	MTO	D/C card	< than 1 hour	9.58	6.58	High
Xoom	MTO	D/C card	< than 1 hour	4.43	3.53	High
Walmart2World	Bank	Cash	< than 1 hour	6.47	4.07	High

Source: World Bank (2019b).

Note: Bank acc. trans and D/C card, represent bank account transaction and debit and credit card respectively.

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