

A. Fellowship Summary

The original intent of the fellowship project was to explore how Canada could develop an “enabling environment” that allows its diaspora communities to send remittances – estimated at billions of dollars – cheaply and effortlessly to their families abroad through cell phones, while ensuring that adequate regulation and monitoring exist to prevent terrorist financing. My plan was to offer recommendations on stakeholder collaboration (among government, private sector, and civic organizations) and policy-making frameworks that would adapt to emerging technological channels.

I realized mid-way through the Fellowship that the obstacles of the money transfer process will always be on the “last-mile” – i.e., getting the money to the recipient in the developing country. Moreover, most Canadians have bank accounts and thus the marginal benefit of offering the service through a cell-phone is little.

The overall question I sought to answer was: *from a policy and regulatory perspectives, could we one day be sending money from Canada overseas so that friends and family receive it on cell-phones – in the same cheap and efficient way you could send a text message to a phone overseas from the internet?*

I thus revised the idea to look into the account to mobile channel (rather than mobile to mobile), which allows me to focus on Canadian policy implications on the receiving end rather than on the sending side (or both).

B. Summary of Activities

The following activities were carried out:

- Read extensive literature on remittances, electronic money, cell-phones, and “cell-phone banking”
- Researched and conducted interviews to gather available data on remittances in Canada (very little exists apart from a Canada-Jamaica and Canada-Haiti remittance corridor study)
- Researched and conducted interviews to understand existing efforts underway (an “environmental scan”) in remittances in the government sector.
- Quantified the overall remittance market in Canada, using a variety of sources and assumptions.
- Researched beacons of money transfers on mobile phones (case studies in Philippines and Kenya) and government’s “intervention” in facilitating this (Central Bank of Philippines has excellent regulatory environment; UK designed an informative website to let senders know of their remittance options).
- Interviewed authorities in policy circles in Canada, Philippines, and the UK.
- Participated in first-ever “Mobile Money Summit” in Cairo, Egypt.
- Participated in roundtable on “Mobile Banking for the Poor” organized by Bill and Melinda Gates Foundation.

C. Findings

I. The Remittances Market

- Remittances go directly to poor households in developing countries, and are used chiefly for consumption purposes (food, shelter) but also for savings, education, and investment. Thus in many ways it is considered a source of “aid” that rich countries provide (albeit by their residents and not through their government).
- Key obstacles remain, however: it’s too expensive (around 10-15% of the value) for the sender, and receiving bulk payments in cash is not safe, nor are the receiving locations always conveniently located or serviced.

- Money transfers are a huge market – roughly \$337 billion globally through formal channels, with tremendous growth rates. This amount actually is nearly double the total official development assistance offered by rich countries.
- It is difficult to estimate how much money goes through informal channels, but the World Bank estimates that roughly the same amount as formal – thus the total market could be upwards of \$660 billion. That means lost revenue for the private sector, inconvenience for recipients and senders (it usually takes longer), and a risk for governments looking to monitor and keep record of transactions.
- Canada does not track the remittance market, but rough estimates put this at around 5-15 billion dollars annually – compare with about \$3.6 billion in development assistance.

II. The Rise of Cell-Phones – and as “Bank Accounts”

- The mobile phone will continue to be the most widely-help platform in the world, especially for poor people in developing countries. There are over 2 billion phones in developing countries, and by 2011 90% of the population will be covered by a mobile signal, and handsets will drop to just \$20.
- In most developing countries, more people have phones than bank accounts. This represents an opportunity to “convert” the phone into an access mechanism for a type of account where money could be stored – in the same way as, for example, a pre-paid or “stored value” card (a piece of plastic accesses the holder’s account information, but it’s not necessarily a bank account).
- Kenya, Philippines, and South Africa have all seen impressive roll-outs of “cell-phone banking” products where the main product is person-to-person money transfers via cell-phone, where retail outlets act as the points where users “exchange” cash for “cell-phone credit”.
- Based on these examples, a number of pilots are planning to be launched shortly. The feeling among experts and observers following the nascent cell-phone banking space is that within 5 years, many countries will have seen some type of mobile banking product in the marketplace. In other words, the foundation for a receiving transfers through a cell-phone in the “last mile” – the receiving end – will hopefully be a reality in the near future.

III. Evidence of Regulatory Frameworks for Cell-Phone Transfers In Other Countries

- The World Bank developed 5 main guidelines for remittances, most crucially that they should be supported by “sound, predictable, and proportional legal and regulatory frameworks in relevant jurisdictions.”
- Specifically, the worry with cell-phone transfers is that of using the ease and convenience it offers for criminal purposes, in particular money laundering (ML) and terrorist financing (TF). In particular, most countries insist on “knowing your customer” and verifying identity to prevent ML and TF.
- Since using a cell-phone requires less “customer due diligence” than opening a bank account, there is an understandable concern that criminals could go “under the radar” – by not being asked for identify or providing falsified documents – to move money around and actually facilitate the entire laundering or terrorist financing process.
- The UK has been using a “risk-based” approach (versus a “rules-based” approach more common in the United States) to financial regulation. Based on the planned pilot using sending money from a Citibank account in the UK to a cell-phone in Kenya, they stated that they regulate only the “outward leg” of the transfer – which naturally falls under standard rules as the sender is using funds from their bank account. (The pilot has yet to launch so it remains to be seen just how prudent this is).

IV. The Regulatory Framework for Canada

- FINTRAC, a department under Finance Canada, monitors financial crimes and is responsible for

enforcing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) requirements for banks and non-bank money transfer organizations.

- When asked about the prospects of a regulatory framework for account-to-mobile international remittances, they stated that their jurisdiction is only Canada – in other words, once the money “left” Canada’s borders, they would have no say over requirements on how or where the money was “received”.
- That being said, they did encourage private sector players interested in exploring the opportunity to work with them and perform a more in-depth analysis of what, if any, regulations would need to change.

D. Recommendations & Possible Follow-Ups

Generally-speaking, Canada can take three main actions on the remittance portfolio:

1. **Allocate the remittances portfolio in one department, and create a sub-department to focus on this.** It is clear from interview with CIDA, StatsCan, and Finance Canada that the portfolio has fragmented ownership and there is little coordination between departments. The UK has set up a “Remittances Task Force” and this may serve as a model for Canada.
2. **Ensure service transparency for consumers.** Sending options and fee structures are still opaque for Canadians. The UK launched a user-friendly website (www.sendmoneyhome.com) [which also prices remittances from Canada] and other countries have followed suit.
3. **Collect better data and quantify the remittances market.** This can be achieved through quantitative means (Finance Canada) and qualitative (household surveys with detailed questions). Estimating market size will help the government (Finance Canada, CIDA) and private sector (banks, money transfer organizations) alike.

Specifically, Canada can start establishing the groundwork for account-mobile transfers by doing the following:

1. Create cross-functional, multi-sector task force on assessing the opportunities presented by technological innovation in general.
2. Establish general guidelines on when such transfers could be and could not be plausible, the inherent risks associated with it.
3. Ideally, banks and money transfer organizations would need to get approval from regulators to send money to non-bank.
4. Regulators would work with private sector and work on “country-by-country” basis and other country’s regulators to assess if there are any risk in allowing account-mobile transfer. This “reactive” approach is preferred especially if parameters (#2) are established ahead of time and the regulators can commit to rapid turnaround for requests from the private sector.

In conclusion, the government has a responsibility to take action, but given extra-terrestrial landscape and infancy of cell-phone transfer product and regulation, caution must be exercised. A collaborative, iterative approach will yield the best result over a single decision or back-and-forth discussions.

Possible follow-ups include disseminating the material to key private sector actors (banks and money transfer organizations) and preparing a briefing note for the government, especially CIDA, Finance Canada, and Immigration and Citizenship Canada.