Korea’s Case on Remittance Cost Reduction
- Contents -

1. Background

2. Increasing Remittance Market Competitiveness

3. Improving Financial Infrastructure

4. Expectations
1. Background

- The cost of sending remittances from the Republic of Korea is 4.87% (2017 1Q).
- In 2015, its cost of sending remittances was 6.0%.

* In 2011, G20 leaders agreed to work to reduce the global average cost of transferring remittances from ten to five percent by 2014.
1. Background

- Major remittance corridors for Korea are China, India and Philippines.
- This order is related to size of the foreign resident population in Korea.
1. Background

- Korea has efficient online banking infrastructure which makes sending and receiving remittances convenient.
- Most remittances are being transferred via commercial banks.
- Money Transfer Operators (MTOs) are permitted to send remittances, only if they are connected with commercial banks by business agreement.
The Foreign Exchange Transactions Act prevented sending remittances via independent MTOs (without connection with commercial banks).

In June 2015, the Ministry of Strategy and Finance announced the plan to increase remittance market competitiveness.

In the end of 2016, the revised bill for the Foreign Exchange Transactions Act which allows independent MTOs to send remittances, passed the National Assembly.

The revised bill will come into force in July this year.

2. Increasing Remittance Market Competitiveness

(1) Introduction of Foreign Currency Remittance Business
Conventional Cross-Border Money Transfer System

- Current cross-border money transfer structure includes Agent Network, Settlement Bank, MTO, Remitting/Receiving Bank.
- Generally intermediary money broker banks are involved in addition to the remittance sender’s bank and the receiver’s bank.
- SWIFT is needed to manage the intermediary process and to deliver transactions.
Cross-border Small Transfer Services Using New Technologies

**Netting**
- Remittance clearing through netting center
- Netting center plays the role of a clearing-house of payment

**Pooling**
- Reduce cost by pooling multiple number of small transfers and process them as one

**Pairing**
- For cross-border transfers, currencies are paired and exchanged

**Using Virtual Currency**
- Because transaction records are managed with separated ledgers, central system or managing institution are unnecessary and transactions between individuals are possible
- Transfer is quicker and services with lower transfer fees can be offered
The service using virtual currency does not require a central management facility, which means the fee and the time is reduced by eliminating the intermediary.

**Comparison of Conventional Cross-border Service and Virtual Currency Method**

**Conventional Cross-border Remittance Service (2~4days)**

- USD → Central counterparty
- Central counterparty → USD
- USD → EUR (Intermediary Remittance Bank Commission)
- EUR → Central counterparty
- Central counterparty → EUR

**Cross-border Remittance Service using Virtual Currency (3~5 sec.)**

- Remitting Bank → Using Virtual Currency
- Using Virtual Currency → USD → EUR
- USD → EUR (Intermediary Paying Bank Commission)
- EUR → Receiving Bank

- Liquidity Provider
  - FX cost: $$$
K Bank, the first online-only bank in Korea, opened on April 3rd, and Kakao Bank, the second one, will open in several months. The advent of two online-only banks will fuel competition in the remittance market. These two online-only banks plan to provide easy-to-use online remittance services at much lower fees.

Korea has made publicly available comparative information of 16 commercial banks based in Korea and their remittance costs to increase competition and transparency in Korea’s remittance market.
3. Improving Financial Infrastructure

(1) Building Remittance Infrastructure that links National Payment Systems

- 10 Korean banks and 3 Vietnamese banks launched an international remittance system without any intervention of intermediary banks and SWIFT in December 2014.

 Currently, 11 member states of Asian Payment Network (APN) are planning to build a multilaterally linked network called the ‘Hub System’.

* Korea, Singapore, Malaysia, Thailand, Indonesia, Philippines, Vietnam, Australia, New Zealand, Japan, China
3. Improving Financial Infrastructure

(2) Building Open Platform for 41 financial institutions

‘Open Platform’ opened in August 2016 as a cooperation channel between 41 financial companies (banks and securities companies) and fintech startups.

- Financial companies provide standardized API on the open platform and fintech startups use them to develop and test services.
4. Expectations

- Fintech startups and financial companies can offer more affordable and faster remittance services with the new remittance technologies and financial infrastructure.

- Policies for remittance cost reduction will impact positively on the fintech industry by lowering regulation of entry and expanding business opportunities for fintech startups.

- Financial inclusion will be improved by reducing small transfer fees.
Thank you