G20 GERMANY 2017
HAMBURG

INDONESIA

G20 National Remittance Plan

GPFI
Global Partnership for Financial Inclusion

COUNTRY PLANS FOR REDUCING REMITTANCE TRANSFER COSTS – INDONESIA

Background

The provision of efficient remittance services in Indonesia still faces certain challenges such as there is an intermediary agent within remittance process that could affect remittance cost structure and the other is Indonesia position as a receiving country which makes it couldn't determine remittance cost from sender country. However, there are several efforts that are being held to create efficient services such as designing remittance business model that is simple, cheap, efficient, and affordable. Business model design is expected to be the operationalization of fund transfer regulation (National Act and BI Regulation) as a cornerstone of fund transfer implementation.

The Indonesia Funds Transfer Act [2011] and the implementing regulations - "BI Regulation concerning Funds Transfer" issued in 2012, provide legal and regulatory basis for funds transfer activities which encompasses domestic and international transfers initiated and received through a variety of instruments and transaction accounts. The law and regulation recognize several entities involved in the provision of a funds transfer i.e. provider and operator, which is itself defined to include funds transfer initiated and received in cash and also through transaction accounts.

Remittances continue to grow every single year due to the large number of workers seeking employment in other countries to improve the economy. According to World Bank, **Indonesia is one of the 10 largest receiving countries in 2016** of USD 9.2 billion (representing almost 1,1 percent of the national GDP) with India on first position (at USD 62.7 billion). This amount is a 4% decrease of Indonesia's inflow remittance in 2016 compared to 2015 amount which is USD 9,6 billion. As an additional information Indonesia outflow remittance for 2014 and 2015 is has increase 12% within a year.

Meanwhile according to Indonesian Economic and Financial Statistics Data (SEKI) on 2016, **The Top Remittance-Sending Countries to Indonesia** are Saudi Arabia, Malaysia, Taiwan, HongKong, and Singapore. **The average amount of a remittance transfer to Indonesia is generally around USD 200-300,** with the most used channels are the commercial banks, which are estimated to have the largest market share among regulated channels.

Call to Action on Remittances

1. **Increase Remittance Market Competitiveness**
   Mapping of cost remittance to identify the business models through study and survey on structure of remittance cost in Malaysia, Singapore and Hong Kong has been completed. The study will be continued by analysing the model that is proposed as the most efficient.

2. **Improve Financial System Infrastructure and Pursue Policies Conducive to Harnessing Emerging Technologies**
   a. BI has conduct pilot project of remittance using 5 proposed business model of remittance in order support the empowerment of migrant worker.
   b. In supporting the remittance transaction, post office expanded their coverage by increasing the number of offices and agents in Indonesia. The number of post offices in 2016 had grown by 16,12% and reached 4.401 offices as compared to 2014 while the number of post agent in 2016 recorded 5.437 agent.
3. **Improve Transparency and Consumer Protection of Remittance Transfers**
   a. Workshop and training related to financial education to migrant worker has been conducted since 2015 by colaboration of Bank Indonesia, National Authority for the Placement and Protection of Indonesian Overseas Workers (BNP2TKI) and Indonesia Ministry of Foreign Affairs, and will be continued to be provided in 2017 and beyond.
   b. In 2017 World Bank Greenback Project 2.0 collaborates with local government in East Lombok which aims to improve the efficiency of remittances through innovative approaches as well as provide maximum benefits for migrant workers in the placement country and the families of migrant workers in the origin country.

2017 Country plan for reducing remittance transfer costs

1. **Increase Remittance Market Competitiveness**
   a. Drafting new business model of remittance that focus on cash to account or account to account.
   b. Analyzing possibility cooperation between money transfer operators (MTO) in Indonesia with branch offices in destination countries of migrant worker to reduce the cost of remittances by overseas migrant workers.
   c. Boost financial services access for women and vulnerable person include remittance.
2. **Improve Financial System Infrastructure and Pursue Policies Conducive to Harnessing Emerging Technologies**
   a. Pilot project on remittances are proposed to use non cash platform and ended in an account. The pilot project is expected followed by several banks, telecommunication companies and post office.
   b. Harmonize DFS Regulation with AML/CFT regulation to set up strong and sound risk-based approach regulation of AML/CFT for FIs.

3. **Improve Transparency and Consumer Protection of Remittance Transfers**

Financial education for migrant workers aims to encourage the use of non-cash transactions, among others. Through financial education, the migrant workers and the society more generally are expected to protect themselves and have more balanced bargaining power with financial services providers. Financial education will be done through making standard modules and integrating these modules into the curriculum of the Migrant Worker Training Center.