Asia Focus
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# Record High Remittances to the Philippines Lead to Increased Competition among Philippine Banks

Remittances to the Philippines from Overseas Filipino Workers (OFWs) reached record high levels in 2007, despite a decline in the number of OFWs. According to the Bangko Sentral ng Pilipinas (BSP), total remittances are expected to reach $14.7 billion for 2007, up five percent from 2006. The Philippine economy has historically benefited greatly from robust growth in remittances, and Philippine banks have enjoyed significant fee income generated by their remittance business lines. In response to the continued growth in the remittance market, banks are increasingly focused on improving their remittance operations and gaining a competitive edge. This has resulted in a flurry of activity both domestically and overseas, including the opening of new remittance branches in the United States. This *Asia Focus* looks at the increase in remittance activity in the Philippines and the banking system's response to this growing market.

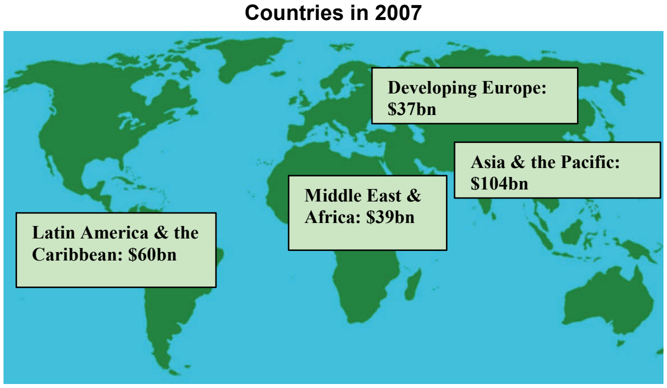
## Global Remittance Picture

According to the World Bank's Remittance Trends 2007 report, worldwide remittance levels reached $297 billion in 2006 and are forecast at $318 billion for 2007, 75 percent of which will flow to developing countries (Figure 1). Although estimates vary, when unrecorded flows from informal channels are factored in, total remittance volume becomes significantly larger, by as much as 50 percent or more. Asia is expected to receive approximately $104 billion in remittances in 2007, the highest regional remittance intake in the world. The majority of the flow into Asia is remitted to India, China and the Philippines. Among these three countries, remittances are most significant to the Philippines, where they constitute about 13 percent of GDP, compared to 3 percent in China and 1 percent in India.

## Remittance Growth in the Philippines

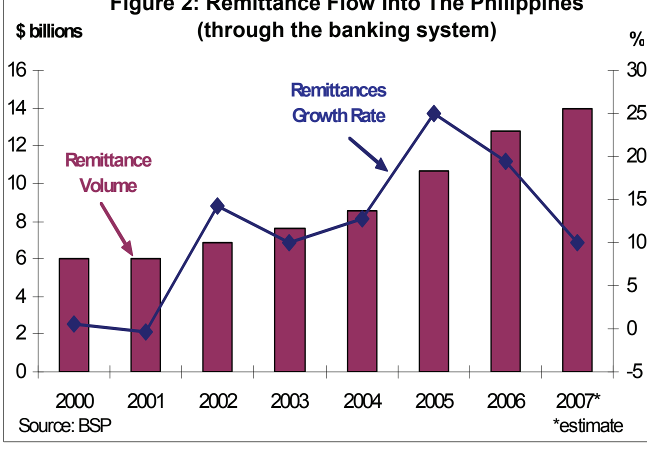
Remittances enter the Philippines through a number of formal and informal channels, including the banking system, informal wire transfer businesses, cellular phones, and hand-carrying into the country. Officially reported "banking sector" remittances to the Philippines have been increasing over the last several years, reaching record high levels in 2007 (Figure 2). For the first nine months of 2007, officially reported remittances grew by 15

**Figure 1: Estimated Remittances to Developing Countries in 2007**




Source: World Bank

**Figure 2: Remittance Flow Into The Philippines (through the banking system)**




Source: BSP *estimate

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percent despite a declining OFW population. This increasing trend in officially reported remittances is partly a function of the banking sector capturing a larger share of the total remittance market from informal "non-bank" market participants. The other contributor to the increasing trend in reported remittances is the recent shift in the OFW population to more highly skilled jobs (e.g., healthcare) with higher wages than historically. Total remittances from OFWs are expected to reach $14.7 billion for 2007, according to the BSP, of which 95 percent is expected to be sent via the banking system, versus 72 percent in 2001.

The continued strong growth of remittances to the Philippines plays an integral role in the strength of the Philippine economy. At 12.5 percent of GDP in 2006, remittances are largely responsible for improving the Philippines' international reserve position, maintaining the country's strong balance of payments position, and generating strong fee income for a banking system that had historically weak profitability.

## Source Countries for Remittances to the Philippines

Remittances to the Philippines are sent by OFWs from all over the world, including Japan, Singapore and Hong Kong. However, the vast majority of remittances are sent from the U.S. (50 percent of total remittances), followed by Saudi Arabia, a distant second (8.7 percent). Although not among the top ten OFW destinations (Table 1), the U.S. comprises a large share of remittances to the Philippines for two key reasons. First, according to the Philippines Overseas Employment Administration (POEA), a significant number of remittance centers in other OFW destination countries route their remittances through U.S. correspondent banks. Second, 43 percent of the OFWs deployed to the U.S. work in highly skilled professional/technical jobs that receive higher wages relative to OFWs in other countries.

## The Philippine Banking System's Response to the Growing Remittance Market

The remittance market is a highly competitive field for the major Philippine banks. Due to a historical overhang of poor asset quality, Philippine banks suffered from stagnant loan growth and therefore increased their dependence on non-interest income sources, such as remittances, to boost earnings in the years following the Asian financial crisis. Several major Philippine banks report that remittances are an important business line and have stressed their intention to continue to focus on growth in that area. For example, Bank of the Philippine Islands (BPI), the nation's third largest bank, saw its remittance business grow by 27 percent in 2006. In its most recent annual report, the bank defined the OFW market

**Table 1: Top Ten Destinations of Landbased[1] OFWs 2006**

| Country | OFWs Deployed | % of Landbased total |
|---|---|---|
| 1. Saudi Arabia | 223,459 | 28.4 |
| 2. United Arab Emirates | 99,212 | 12.6 |
| 3. Hong Kong | 96,929 | 12.3 |
| 4. Kuwait | 47,917 | 6.1 |
| 5. Qatar | 45,795 | 5.8 |
| 6. Taiwan | 39,025 | 5.0 |
| 7. Singapore | 28,369 | 3.6 |
| 8. Italy | 25,413 | 3.2 |
| 9. United Kingdom | 16,926 | 2.1 |
| 10. Korea | 13,984 | 1.8 |
| **Other Destinations** | **151,041** | **19.2** |
| - United States | 11,443 | 1.4 |
| **Total Landbased OFWs** | **788,070** | **100%** |
| Total Seabased[2] OFWs | 274,497 | |
| **Total OFWs Deployed** | **1,062,567** | |

Source: Philippine Overseas Employment Administration

1. Landbased workers refer to OFWs deployed to work in an actual country.
2. Seabased works refer to OFWs deployed to sea to work on a type of vessel.

as a considerable and special consumer segment, stating expansion in that market as one of their strategic initiatives going forward. In addition, Metropolitan Bank and Trust, the nation's largest lender, reported 14 percent growth in remittance volume in 2006, and similar to BPI, indicated in its most recent annual report that the volume of remittances sent home by OFWs warrants the series of expansions the bank continues to implement abroad.

As the Philippine banking system's share of the total remittance market has grown, so has competition among the banks. Historically, Philippine National Bank (PNB) had dominated the remittance market, with about a 20 percent market share. However, in 2005, PNB was replaced as market leader by BPI as competition in the remittance market escalated. PNB then fell to third place when Metrobank in 2006 increased its market share to 22 percent.

In order to compete more effectively in the growing remittance market, Philippine banks have been expanding their operations and forming strategic alliances. Important advantages for Philippine banks and their remittance customers include accessibility and cost efficiency. Not surprisingly, given the role of the U.S. in generating OFW remittances, a spate of remittance centers (and subsidiaries) has recently opened in the U.S. In 2007 alone, three Philippine banks each opened remittances branches in the U.S. (two in the Bay Area and one in Miami), and several formed partnerships with existing third-party remittance companies that have an established client base. Overall, in the U.S., eight of the ten largest Philippine Banks have some form of remittance operation catering to the U.S.-based OFW population, either through their own remittance centers or branches or through strategic partnerships with other institutions.

In addition, Philippine banks have been diversifying the services they provide to OFWs in order to gain a competitive advantage and to use remittances as a tool to reach the "unbanked." In 2007, for example, Metrobank partnered with internet-based company Xoom.com to permit their OFW customers to remit money via the internet. In the Philippines, Banco De Oro, through its affiliation with one of the Philippines' largest retailing conglomerates, the SM Group, permits remittance beneficiaries to pick up their remittances at SM Supermalls and Hypermarkets so that they can use the money immediately for purchase in those same stores. Several Philippine institutions, including Metrobank and PNB, offer the convenience of door-to-door remittance in order to gain a competitive advantage. Several other banks have been tying their remittance services to loans and savings products as a means of introducing banking services to the rural population.

## Conclusion

Remittances are undeniably important to the Philippine economy as a whole and the financial sector specifically. The recent flurry of activity among banks and their remittance business lines indicates that the Philippine banking system is trying to capitalize on this business opportunity. The increased competition in turn will likely drive down the cost of remittance transactions for OFWs, which is a primary goal of the BSP. However, the total OFW population deployed worldwide is declining, as is the growth rate of officially reported remittances to the Philippines. While banks continue to expand their remittance business line, it will be important for them to continue to explore alternate income sources and maintain enough flexibility to scale back their remittance operations should deployment numbers and remittance growth rates continue to decline.

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