Jessica Chew Cheng Lian: Leveraging remittances for sustainable development goals - a call to action

Keynote address by Ms Jessica Chew Cheng Lian, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Global Forum on Remittances, Investment and Development 2018 Asia Pacific "Leveraging Remittances for Sustainable Development Goals: A Call to Action", Kuala Lumpur, 8 May 2018.

* * *

It is my great pleasure to welcome you to Kuala Lumpur and the Global Forum on Remittances, Investment and Development 2018 Asia Pacific.

We host many regional and global events here in this building. From time to time, we are reminded at these events that not all challenges are created equal.

Some challenges inspire hope for the improvement of countless lives beyond our own borders, and create not just opportunities but a *need* for us to come together across social, economic and cultural boundaries to advance the development agenda.

This Forum is such an occasion and Bank Negara Malaysia is honoured to be among partners who are working together to build a better future for economic migrants the world over.

Beyond remittances: Migration and economic unfreedom

To provide some context for the discussions that will follow over the coming days, it seemed fitting to draw on the work of Nobel Laureate Professor Amartya Sen nearly two decades ago.

In his magnum opus "*Development as Freedom*", Sen described how a particular childhood incident shaped his views on the concept of development.

It was during the days of religious conflicts in Dhaka, now the capital of Bangladesh. Ten year old Sen was playing in his garden, when a man named Kader Mia came through the gate, bleeding profusely. He had been knifed by some communal thugs while working in the neighborhood.

Kader Mia unfolded his tale of woe to Sen and his family as he was rushed to the hospital. Despite his wife's warning to Kader Mia not to venture into a hostile area in such troubled times, he had no choice but to seek work there to bring food home to his impoverished family.

With the passing of Kader Mia, Sen learned from a very early age that economic "unfreedom", as he termed it, in the form of extreme poverty, can make one a helpless prey in the violation of other kinds of freedom – including freedom from want, from fear and from discrimination.

Sen argued that development requires the removal of major sources of "unfreedom", one of them being poverty. In Kader Mia's case, the price he had to pay for his economic "unfreedom" was death.

This is why we are here – to do our part to help many, like Kader Mia, who remain shackled by their circumstances, achieve economic freedom.

This Forum seeks to address not just the question of facilitating transfers more efficiently, but how to make such transfers *go further and do more* to meet today's most pressing global challenges – from access to healthcare and education, equal economic opportunity for all, to protection of the environment.

Without addressing these challenges, economic freedom would remain an elusive dream for many.

This Forum will cover a broad range of issues – not all of which will have clear solutions. But we will most certainly learn more, understand better and hopefully, be able to determine what our next steps must be.

With that in view, let me take this opportunity to offer some brief reflections on what those steps might be.

Reinvigorating financial services to drive the SDGs

First, we need to do more to reinvigorate financial services to drive the United Nations Sustainable Development Goals (SDGs).

Many countries in this region, including Malaysia, have made important progress in the adoption of the SDGs under the national development agenda.

Certainly, Malaysia has had a long-standing commitment to the pursuit of sustainable and inclusive growth.

Malaysia's national economic development policies adopted since more than four decades ago reflect many of the SDGs. Like many central banks in this region, financial inclusion is an important priority of Bank Negara Malaysia – one that is in fact legislated as a mandate of the central bank, which is actually not all that common in many countries. Because it is a statutory mandate of the Central Bank in Malaysia, it has enabled Bank Negara to lead and drive the financial inclusion agenda with the support of our key domestic partners and stakeholders.

With growing global concerns over rising inequality and the disproportionate impact of crises on the poor, there has been considerable focus by Governments and policymakers to ensure that no segment of society is left behind in participating and benefitting from the nation's development.

But what of the role of the financial services industry?

It is worth noting that *14* out of the 17 SDGs include specific targets that focus at some level on the financial sector. To mention a few:

- On poverty: The SDGs include a specific target to build resilience of the poor and those in vulnerable situations;
- On hunger: Targets include doubling productivity and incomes of small-scale food producers through secure and equal access to financial services;
- On health and well-being: Ensure universal health coverage, including financial risk protection;
- On education: Ensure all youth and a substantial proportion of adults achieve literacy and numeracy;
- On decent work and economic growth: Encourage the formalisation and growth of micro and small and medium enterprises, including through access to financial services;
- On industry, innovation and infrastructure: Increase access of small scale industrial enterprises to financial services; and
- Of particular interest to this forum, on inequality: Reduce the transaction costs of migrant remittances to less than 3 per cent and eliminate remittance corridors with costs higher than 5 per cent.

The list goes on.

Yet, based on a recent survey report by GlobeScan, only one third of the private sector respondents reflected on SDGs in setting long-term sustainability strategies for their organisations.

This should concern us.

In 2015, 15 years after the Millennium Development Goals were adopted, the United Nations itself conceded that the Millennium Development Goals, despite propelling significant progress, fell short for many people.

So a different approach was taken for the SDGs. One that was more encompassing and inclusive. Five million people from 88 countries shared their deepest, most pressing concerns and aspirations to create the SDGs.

These aspirations would ring hollow without the dedication and commitment of those with the influence and position to make a difference. For the financial sector, this needs to go beyond the cursory initiatives that have generally been associated with “corporate social responsibilities”.

Greater progress by financial institutions to more fully embrace sustainable principles in their business strategies will play an important catalytic role in delivering the SDGs. Among other things, it would provide a stronger focus on needs-based selling, increase financial resources that are directed at economic activities that promote sustainable goals, and encourage support for businesses to adopt sustainable practices.

Looking beyond remittances

Turning more specifically to remittances which is the focus of this Forum, more can and should be done to amplify the developmental impact of remittances.

In its report *Sending Money Home*, the International Fund for Agricultural Development estimates that about 1 billion people – migrants and their families – send and receive remittances. This translates to one in seven people in the world.

The most dynamic growth in remittances over the past decade has been in Asia, which receives 55 per cent of all flows. In some countries, remittances equal more than 20 per cent of GDP.

These statistics underscore the profound impact of remittances on development.

For most migrants, the prospect of dealing with banks remains generally daunting. Non-bank remittance service providers (RSPs) on the other hand are trusted by migrants and a regular point of contact to send and receive money. This places them in a strategic position to evolve from narrow service providers to change agents for entire communities, by providing financial education and solutions that can help pull families out of poverty traps.

For example, RSPs can partner with financial institutions in sending and recipient countries to create savings, insurance and investment products that are linked to migrant remittances. Some developing countries with large diaspora groups have successfully issued diaspora bonds, where the bond proceeds have been channeled to finance development projects in their home countries.

Other innovations can surely be developed to more effectively leverage migrant resources for development.

There is certainly no shortage of creativity and innovation in financial services. Regrettably, the Global Financial Crisis will remain a dark period of history where such creative forces were misdirected, with dire consequences for growth and development.

We must ensure that this never happens again.

But that should not discourage us from harnessing and redirecting such creative forces to address today's most urgent global challenges, and in the process, restore trust and confidence in the financial industry.

New paradigms in policymaking

This brings me to the role of policy.

In recent years, global standard setters including the Basel Committee on Banking Supervision, the Insurance Association of Insurance Supervisors and the Financial Action Task Force, have heeded the call to promote a better balance between the objectives of financial stability, financial integrity and financial inclusion. This has resulted in important strides taken to encourage a more proportionate regulation.

Despite this, a recent report by the Financial Stability Board disclosed that as of 2017, the de-risking phenomenon continued at the global level, affecting remittance service providers and many poor countries that rely on remittances from abroad.

Clarifying regulatory standards is an important step, but clearly this alone is not enough.

So where to from here?

First, taking a cue from Albert Einstein who famously said that we cannot solve our problems with the same thinking we used when we created them, there is a need for policymakers to create safe harbours for experimentation.

A number of regulators have introduced regulatory sandboxes that have helped create a virtuous cycle of innovation and sensible regulation, while isolating risks.

In Malaysia, solutions tested in the Bank's regulatory sandbox enabled the Bank to design regulatory safeguards that would allow the implementation of end-to-end electronic know-your-customer processes for the provision of remittance services.

By dispensing with the need to conduct physical face-to-face verifications, this is expected to significantly expand access to remittance services for customers working and living in remote parts of Malaysia, while effectively addressing money laundering and terrorist financing risks.

Bank Negara Malaysia also successfully collaborated with the World Bank and the money services business industry in Malaysia to pilot and adopt solutions that have expanded the reach and reduced the costs of formal remittances.

Second, policy life cycles will need to be managed more proactively, to allow for policies to be renewed when conditions change.

While much is often said about policy stability, policies that fail to keep pace with conditions that are changing far more rapidly than we have experienced before, can be counterproductive at best, and at worst, create greater risks for the system.

The SDGs are undeniably one of the most comprehensive attempts to capture the most important global challenges that we face. Solutions to these challenges will invariably create new issues for policy makers to consider. This in turn will lead to shorter policy life cycles, and a need for faster policy responses to emerging issues.

Third, we need better remittance data.

It is encouraging that efforts are being taken to ensure the availability of official global data sources on remittance flows. Yet, challenges remain in ensuring that the data is both complete and comparable.

These challenges are compounded by an increasing need for data at a more granular and disaggregated level. For example, initiatives by the United Nations Capital Development Fund to survey remittance recipients in the Mekong region helped develop a better understanding of relationships between gender and financial inclusion. Yet such data is not available in many other countries.

With the large and increasing size of intra-regional migration in this region, there are opportunities to collect and share remittance and migration data at the regional level to complement global datasets. This could be advanced through existing regional forums, including various forums at the ASEAN level.

Without good data, we cannot hope to move very far, or with much confidence in efforts to increase the development impact of remittances.

In summary, the notion of proportionate regulation has more than one dimension. It should not be mistaken for lighter regulation, nor should it be informed by considerations of size alone. The world is much more complex and regulators will need to find creative ways to better understand and manage that complexity.

This is a paradigm shift in the way that regulation is traditionally approached – to one that is more iterative, more inclusive and more discerning.

Conclusion

Eleanor Roosevelt once said that universal human rights begins in small places close to home – where every man, woman, and child seeks equal justice, opportunity and dignity without discrimination.

Remittances have significant potential to deliver such opportunities to millions of migrants in their home countries. Let this Forum serve as a call to action, based on an honest search for better understanding and a genuine commitment to pursue individual and collective solutions.

With much at stake, we cannot afford not to.

Thank you.