

Bitcoin to disrupt remittance market



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Social entrepreneurs in developing countries are using mobile phones and the controversial digital currency bitcoin to increase the speed, and slash the price, of international money transfers, raising the prospect of a revolution in the \$600bn annual global remittance market.

Soaring rates of mobile phone use in developing countries are helping the entrepreneurs compete with more usual forms of money transfer in countries where remittance rates and fees are highest.

Many of the world's poorest people depend on money sent to them from friends and family abroad. According to World Bank figures for 2011, nearly half of Tajikistan's GDP is derived from remittances, while in Liberia, Lesotho, Nepal and Haiti they account for more than a fifth of GDP.

Entrepreneurs claim they are using bitcoin to give some of the world's poorest people a better deal on the money they receive from abroad. The World Bank calculates the average fee on remittances at 8%, yet charges can be three times as high.

A report from the Overseas Development Institute (pdf), published in April, said the benefits of remittance transfers “ are lost in intermediation as a result of high charges. Africa's diaspora pays 12% to send \$200 – almost double the global average.”

Bitcoin could also cut the time it takes to send remittances. BitPesa, a Kenyan mobile money transfer firm that launched in May, says its remittance transactions are “ twice as fast and 75% cheaper” than competitors, because it uses bitcoin to transfer funds. Elizabeth Rossiello, BitPesa's founder and

CEO, said: “ We’re looking to bring the price [of sending remittances] as close to zero as possible.”

BitPesa does not charge a transfer fee, but levies a 3% foreign exchange margin on each transaction. “ It’s a percentage of the transfer, not a fixed fee; so that means it works really well for micro-remittance payments,” said Rossiello, a former analyst at Credit Suisse. “ Nobody can beat us on price.”

More than 80% of the adult population in Kenya use the mobile money transfer service M-Pesa, which is widely accepted as payment throughout the country. The prospect of using bitcoin for remittances is proving attractive.

“ Bitcoin ... can allow the transfer of funds nearly instantaneously and costs less than traditional means,” said Josiah Mugambi, executive director of Nairobi’s iHub. “ This would be especially useful to recipients of remittances in Kenya from relatives and friends in the diaspora; they would be able to save on money transfer fees and gain access to their funds in a shorter period of time.”

Bitcoin-based remittance firms such as PayFast, Xoom, and BitPagos have also targeted markets in South Africa, the Philippines and Argentina.

But despite the optimism, the high-profile closure last December of Silk Road – a US-based online marketplace where payments for drugs and other contraband were made in bitcoin – has damaged the digital currency’s reputation in formal financial sectors.

“ Most UK banks won’t let Bitcoin businesses open bank accounts. These businesses want to be licensed, but UK banks shy away, just like Barclays cut
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Somalia off the map,” said Rossiello, referring to Barclays’ attempt last year to cut off services to Somali remittance companies.

In December, the firm Dahabshiil won a temporary injunction to keep its account open. “ The whole banking world just shrugs its shoulders at Africa. It’s dominated by a few large monopolies, and the rest of the market is picked up by very informal means.”

The risks that bitcoin poses are highlighted by the sudden bankruptcy of Japanese Bitcoin exchange Mt Gox in February, after the company misplaced about ? 70m in bitcoins.

“ Consumers learned a hard lesson [from Mt Gox],” said author and Boston University academic Mark T Williams. “ Under the current structure, bitcoin participants have little protection and can lose everything. Since inception, bitcoin has been the designer currency of choice for the criminally inclined.

“ Given the genesis of bitcoin and its inherent flaws, it is dangerous to assume that this new and unproven technology is the solution [to reducing remittance fees].

Bitcoin has the potential to be used for legitimate purposes but for this to happen it has to be restructured to provide consumer protection and tighter oversight, and meet important money laundering prevention standards.”

Michael Kimani, head of the African Digital Currency Association, said he is worried about bitcoin’s stability. “ It has attracted lots of interest as a digital asset but, as a currency, it’s going to take some time to grow and find itself.”