



Cryptocurrency Remittances

A presentation by DMA Global

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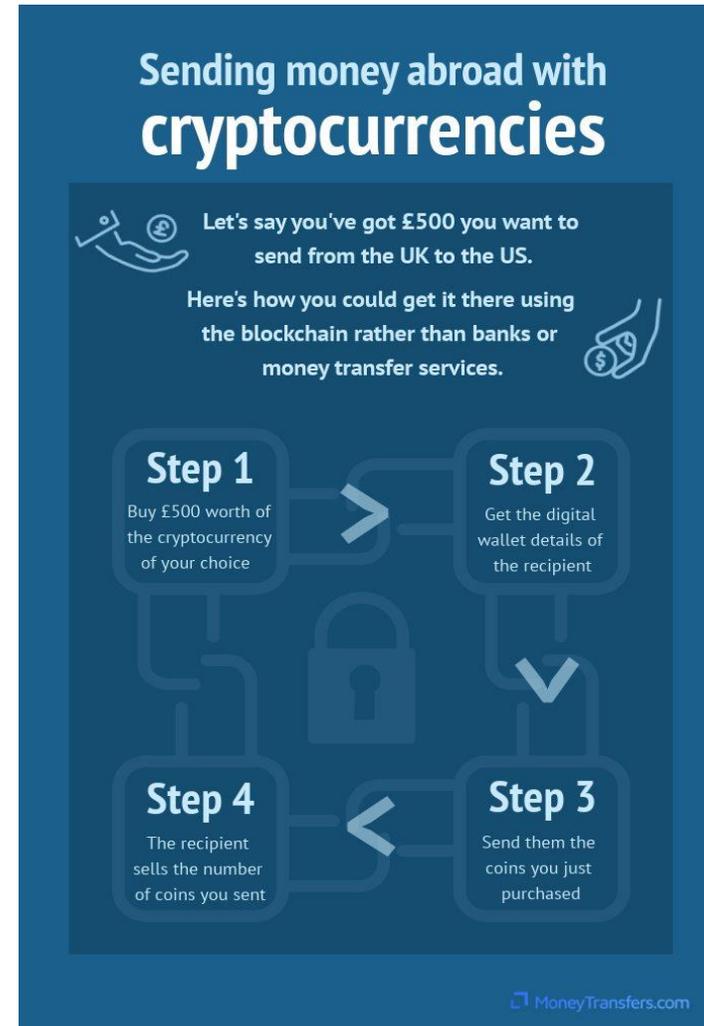
Definitions

- **Cryptocurrency:** a digital or virtual currency that is secured by cryptography or coding
- **Cross-border cryptocurrency or cryptocurrency remittances:** peer-to-peer transactions from one country to another using cryptocurrencies
- **Blockchain:** an online ledger otherwise described as “a record of time-stamped series of data that is immutable and managed by a network of computers and not by a single centralised system”
- **Bitcoin:** an example of a decentralised digital currency
- **Central bank digital currencies (CBDC):** digital tokens, which are similar to cryptocurrency; however, they are issued by a central bank (not a decentralised authority)
- **Stablecoin:** is a type of cryptocurrency offering price stability and backed by a reserve asset
- **Fiat currency:** is money issued, and backed, by a government that is not backed by a physical commodity, such as gold or silver.

Use cases for cryptocurrency in remittances

(1) A peer-to-peer transaction

(2) Using crypto to settle transactions between themselves



Key Facts

- Global cryptocurrency market size (2021) → USD 1.6 billion
- Global remittance market value (2021) → USD 605 billion
- Number of global cryptocurrency users (2021) → 300 million
- Number of cryptocurrency users in Europe (2021) → 38 million
- Largest country of crypto-users (global) → India: 100 million
- Largest country of crypto-users (EU) → Germany: 2 million

Cryptocurrency Companies



- AzaFinance (originally BitPesa), provides cryptocurrency-based remittances for six African currencies



- Coinbase, founded in 2012, offers global remittance cryptocurrency-based remittance services for a range of cryptocurrencies including Bitcoin and Ethereum.



- Ripple, founded in 2012, has been focused on working in the remittance space and was partnered with MoneyGram until 2021.

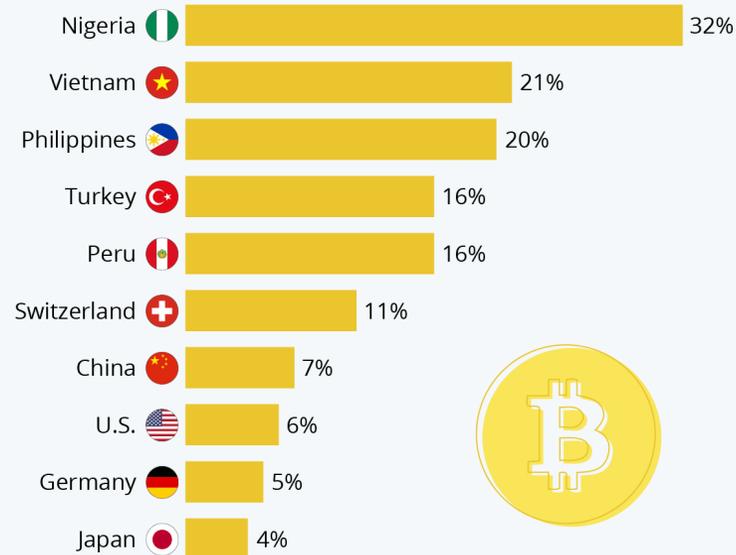


- Meta (Facebook) launched their cryptocurrency, Libra in 2019, however due to opposition from policymakers and regulators in the US, the project was unable to come to fruition.

Global response

How Common Is Crypto?

Share of respondents in selected countries who said that they used or owned cryptocurrency (2020)



1,000-4,000 respondents per country
Source: Statista Global Consumer Survey



statista

- The majority of governments are cautious of cryptocurrency operations
- The Caribbean has taken the lead on introducing CBDCs,
- Some countries either have implicit or absolute bans on all cryptocurrency transactions, for example, China
- Cryptocurrency remittances make up an estimated less than 1 percent of the volume of global cross-border remittances
- Two countries have adopted Bitcoin as legal tender – El Salvador and Central African Republic

EU Response

- The EU is open to cryptocurrencies including Bitcoin or digital currencies such as **digital-Euro**
- Currently there is limited crypto adoption by EU citizens across all of the countries - in Europe, **Switzerland** has the highest adoption rate of crypto and **Germany** has the highest adoption rate in the EU
- The EU is currently planning its response to the **emergence of crypto assets** such as Bitcoin
- The '**Regulation on Markets in Crypto Assets**' (MiCA), is a regulation that will form part of the EU's 'Digital Finance Strategy'
- Private operators within the EU have also been engaged with crypto transactions, for example a **remittance corridor** has been opened between the 27 EU countries and Thailand on the Stellar blockchain

Industry Response

- The **largest payment providers** have accepted the cryptocurrency will feature in the payments landscape in the future
- There are **several MTOs** offering 'traditional remittances' backed by crypto currencies
- There is a **growing interest from banks** in using cryptocurrency to settle
- Remittance companies using crypto to settle could lead to a **shift in the way remittances are settled** without the end user necessarily knowing that crypto transactions are taking place
- The **Bank of International Settlement (BIS)** has focused on cryptocurrency and digital currency in recent years as part of their 'Innovations and the Digital Economy'

Benefits of Using Cryptocurrency



- Cheap



- Fast



- Secure



- Anonymous



- Some experts considering cryptocurrency to have the same or better level of global liquidity than fiat currency

Challenges



- Cryptocurrency transfers currently have challenges with **accessibility**



- Another issue with accessibility is the **lack of diversity** in crypto users



- The value of cryptocurrencies can be particularly **volatile**



- Most countries do not yet have any recognised cryptocurrency **trading or payments platforms**

Summary

- **Overall, this space is still too embryonic, for most regulators and governments to have long-term strategies on cryptocurrency.** It appears the first step for many governments will be to issue a CBDC before moving onto considering cryptocurrency as legal tender.
- Whilst there are benefits to cryptocurrency cross-border payments, they are not ready to replace the traditional remittance in any form. They do not have the functionality to be quick, easy, reliable, or even cheap for the average remittance sender.
- However, there applications that can help, particularly as a settlement tool for remittance service providers.
- **Thus, cryptocurrencies are something that should be looked at and monitored but their short-term importance for remittances has been exaggerated.** Ultimately it should be remembered that they are a currency/asset and not a transfer mechanism in their own right.

Case study - Kenya

- A Mercy Corps Ventures (MCV) pilot study in Kenya in 2021 showed that cryptocurrency payment cuts down the transaction fees by 93 percent regardless of the size of payment
- As part of the study, 200 Kenyan youths were trained to access digital microwork from global platforms using the mobile app and digital wallet Valora in the Celo ecosystem
- Key findings:
 - Fee reduction
 - Improve employment in youth populations
 - Long-term financial stability
- The proposed benefits of cryptocurrency could fill a serious gap in international payments

Case study - eNaira

- Nigeria became the first African country to introduce a digital currency in December 2021
- A number of potential benefits including to:
 - Financial inclusion;
 - Direct welfare disbursements to citizens;
 - Facilitate diaspora remittances to Nigeria;
 - Improve the efficiency of cross-border payments due to a more resilient payments system.
- In December 2021, the CBN announced there were over 580,000 personal wallets and 83,000 merchant wallets across Nigeria

Case study - eNaira

- Risks
 - Disruption to the current Nigerian banking system.
 - Data protection and privacy
 - Limited understanding amongst the population
 - Nigeria has an electricity crisis and there is a lack of widespread, stable access to the internet across the country
 - Customers will need a digital identity

Case study – El Salvador

- In June 2021 the El Salvador President, Nayib Bukele, that Bitcoin will become an official currency in El Salvador
- One of the ‘campaign’ promises of Bitcoin was that it was going to make remittances cheaper
- The launch of the crypto wallet also promised to increase financial inclusion and provide financial services to the 70 percent of the population who are unbanked
- Central Bank data suggests that only 1.6 percent of remittances were sent through the digital wallet in 2021

Case study – El Salvador

- A 2022 study which surveyed El Salvadoran people and businesses found that only 20 percent of businesses were accepting Bitcoin as a form of payment and the majority of them were large firms. The study also found that 5 percent of all sales were in Bitcoin and the majority of transactions were converted to dollars
- El Salvador has lost almost all access to international credit because of analysis suggesting that there was a 42 percent chance of default in the next decade.
- Remittance prices do not seem to have dramatically decreased because of Bitcoin

Thank you



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Slide 1: image, source: <https://www.pinterest.co.uk/pin/147563325263475972/>; slides 2 and 3: data, source: KNOMAD (2021); UNDESA (2019); World Bank (2018); World Bank RPW (2021); slide 4: data, sources: KNOMAD (2021); FINDEX (2017); Reserve Bank of India (2019, 2020); World Bank RPW (2021); Slide 5: data, sources: Central Bank of Bangladesh (2021); KNOMAD (2021); World Bank BRM (2018); World Bank RPW (2021)

