

Economy Story

Islands losing millions in money transfers

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By [Angela Gregory](#)

Pacific Island people living here could be wasting millions of dollars by using costly methods of sending money home to relatives, research shows.

University of Waikato economist John Gibson has found local systems are expensive when compared with other migrant communities sending remittances to their countries of origin.

Professor Gibson said the costs were high for the most widely used methods of using bank drafts and money transfer companies such as Western Union.

He focused on the New-Zealand-to-Tonga money corridor where typical transactions of transfers of about \$200 could cost up to 20 per cent of that amount.

Cheaper transfer methods were available such as setting up bank accounts here so that the money could be accessed from island-based ATMs.

Such transactions incurred costs of less than 5 per cent but were not widely used.

"This 10 percentage point spread between the most popular and the cheapest remittance methods means a potential loss for Tonga equivalent of 4 per cent of GDP," Professor Gibson said.

Remittances comprised 39 per cent of Tonga's gross domestic product and were estimated to earn \$600 million for the entire Pacific region – meaning it could be losing \$60 million a year in avoidable transaction costs.

And remittances were expected to grow as short-term labour mobility was increasingly used to deal with seasonal labour shortages here.

Professor Gibson said money transfers from New Zealand to Tonga were about twice as expensive on average as bank transfers from the United States and Britain to a wide variety of countries.

Some countries, which received significant finance from remittances, had taken steps to minimise the cost of having the money sent to them.

In India banks had created special accounts and in Latin America security guards minded ATM machines to make them a safe option, by deterring robbers or skimmers, for accessing funds deposited from overseas.

In the Philippines, cellphone technology was being used to allow relatives to send money through telecommunications networks.



Pacific Islanders could save by finding a different way to transfer money. Photo / Richard Robinson

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Professor Gibson calculated that if someone was to send \$500 to Tonga via an ATM-accessed account it would cost between \$15 and \$20 based on exchange rate losses. In comparison, it would cost about \$50 sending the same amount through a money exchange business such as Western Union because of higher fees and a less favourable exchange rate.

He said ATMs only costed about \$15,000 and it was a "no brainer" for banks to make use of them given what they would earn from remittance transactions.

Before last year's riots in Tonga, the main island of Tongatapu had eight ATM machines with one on the main outer-islands. However, the ATMs were clustered in Nuku'alofa with the exception of one at the airport. Western Union had just five outlets on Tongatapu but they were strategically located around the island.

Professor Gibson said there could be some reluctance by Tongans to use ATMs because of the access issue and they might not trust the machines.

Western Union referred comment to its Hong Kong office but a spokesperson there could not be contacted.

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