Disrupting Business as Usual: Blockchain Startups in the International Remittance Market

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ABSTRACT

This article analyzes the research on cryptocurrency and blockchain technology and the alternate banking system, led by giants like Bitcoin and Ethereum, and its potential utility for the millions of migrants living in working around the globe, who send nearly half a trillion dollars through various formal and informal channels to family and friends in their home countries. While research on migrant remittances is well established and has been examined from many different lenses, including economic, political, financial, sociological and entrepreneurial, there are few studies to date that examine how the growing crypto-blockchain channel can impact remittance flows, as a lower cost alternative to MoneyGram and Western Union, which have high transaction costs, and also considering that many migrants do not have formal bank accounts, eliminating formal bank transfers, and also that many migrants hold a vulnerable legal status, and may avoid formal money transfer channels. This article is exploratory in nature and identifies the work that has been done to date on this topic, and identifies potential future research in the area.

KEYWORDS

Bitcoin, Cryptocurrency, Economic Development, Migrant Remittances, Mobile Banking

INTRODUCTION

There has been much speculation and debate recently around topics of cryptocurrencies and blockchain technology, hence it can be challenging to separate the facts from the fiction. Proponents and early adopters embrace the efficiencies and significant potential of blockchain to transform complex processes and the de-intermediation of financial markets with cryptocurrency. Increasing regulation of cryptocurrencies and the tamper-proof properties of blockchain databases and ledgers have increased their reliability in recent years. On the other side, critics and skeptics focus on unpredictability of unregulated financial markets for unregulated cryptocurrencies, over-speculation, illegal transactions and massive energy consumption by blockchain’s algorithms, especially the “proof of work” method used in Bitcoin (Zhao, 2018). This article examines the broader issues surrounding the emergence of blockchain and cryptocurrencies, with a particular focus on its potential to disrupt the global remittance market, potentially streamlining and facilitating the transfer of funds by migrants across international borders.

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Unlocking the capabilities of the technology could potentially help millions of migrants living and working around the globe, who send nearly half a trillion dollars through various formal and informal channels to family and friends in their home countries. These migrants often play a major role in their family’s, community’s and country’s economic survival through the infusion of a significant amount of capital in the form of these remittances, sent from abroad. These flows of capital can significantly impact some of the world’s most vulnerable populations and have an important humanitarian impact. Since remittances have significant economic development impacts across the globe, research in this area can also have policy implications. There are also many entrepreneurial opportunities for companies who can meet the unique needs of the actors in the remittance market and provide the most seamless, low cost and culturally appropriate services in order to get a foothold as a major channel in remittance activity and transfers.

While research on migrant remittances is well established and has been examined from many different lenses, including economic, political, financial, sociological and entrepreneurial, there are few studies to date that examine how the growing crypto-blockchain channel can impact remittance flows. Blockchain-powered channels and cryptocurrency exchanges, are beginning to be seen as a lower cost alternative to MoneyGram and Western Union, which have high transaction costs. Also considering that many migrants may hold vulnerable legal status, and that even those who do not are unlikely to have formal bank accounts, there is a significant market opportunity to provide financial transfer services to the unbanked population.

Many fintech entrepreneurs are creating new blockchain-based digital transfer services for migrants and remittance recipients in countries like the Philippines and Singapore, in the hopes of gaining market share by increasing efficiency and lowering costs for the senders of remittances. The authors believe that the remittance market is an area for growth for crypto-blockchain companies and that additional inquiry in this field can shed light on the strengths and weaknesses of these channels as well as their economic development implications.

**Why the Remittance Market is Ripe for Disruption**

Since only about half the adults in developing economies have a formal bank account, with the statistics even lower for women, there are gains to be made in formalizing monetary transfers. There are a variety of formal development efforts underway to facilitate access to the formal banking system, but this is also an opportunity for companies in the crypto-currency and blockchain field to provide more efficient transfer services at a lower cost. The use of blockchain technology offers increased transparency when compared with traditional methods, in that a blockchain operates as a tamper-proof ledger that cannot be altered. Any alteration of attempt of fraud will become evident by the structure of the blockchain, the numbers cannot be changed.

The current system operates with higher transaction costs by its own nature and by the many intermediate steps involved. A blockchain transaction is simple and all copies of the ledger are agreed upon to the same result, due to a consensus operation. When the traditional system can be said has a high risk of fraud, such fraud is almost impossible in a blockchain transaction that has reached consensus and finality.

Within the remittance industry landscape, there are different market segments with very different characteristics in terms of types of transactions, volume of currency transferred and involvement of larger institutions like banks other intermediaries.

**The Opportunity**

According to World Bank data, the broad market opportunity for financial services companies and banks to attract the world’s nearly 2 billion unbanked people is significant, and they value this opportunity at more than $375 billion (World Bank Global Findex, 2018) with the remittance industry ripe for growth. Officially recorded remittance figures alone in 2017 were upwards of $466 billion, according to the World Bank. These flows of capital have a deep impact on both macro levels,
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