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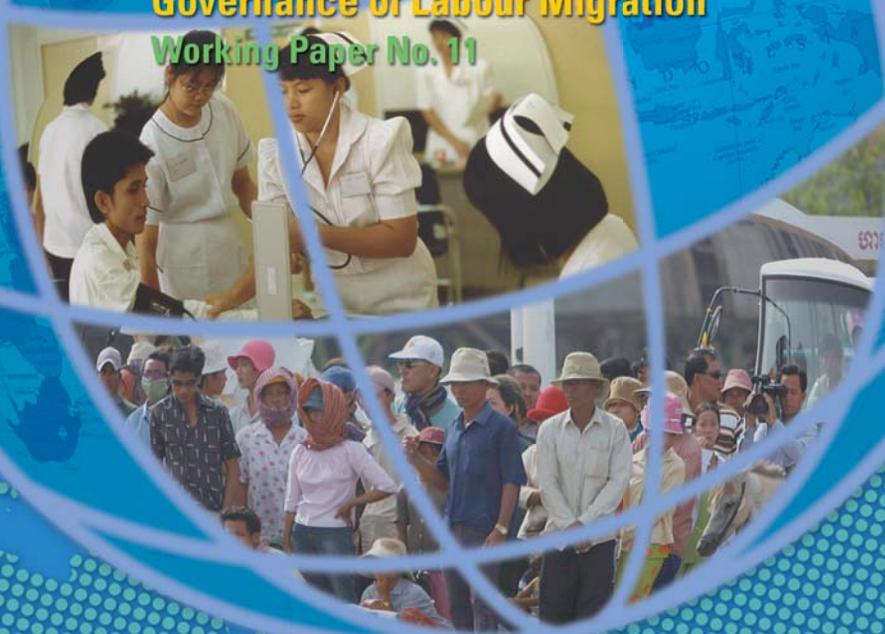
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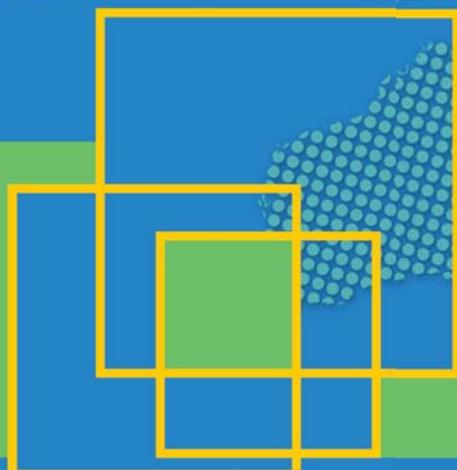
European Union



Feasibility Study of the Electronic Money Remittance to Extend Social Security Coverage for Migrant Workers: The Case of the Philippines

Barbara Jo Domingo

**Regional Office for Asia and the Pacific
March 2008**



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Exchange rates, October 2007

	Foreign currency 1 USD =	Philippine Peso 1 unit of Foreign currency =
US Dollar		41.66- 41.87
Singapore Dollar	1.46	28.57-28.66
Hongkong Dollar	7.76	5.4-5.42
Taiwan Dollar	32.59	1.28
Malaysian Ringgit	3.75	13.59
Bahraini Dinar	0.38	116.16

List of acronyms

ILO	International Labour Organization
ISSA	International Social Security Association
OFW	Overseas Filipino Worker
PhilHealth	Philippine Health Insurance Corporation
POEA	Philippine Overseas Employment Administration
SMS	Short Message Service
SSS	Social Security System

Glossary of Terms

Cellular phone – Commonly referred to as “mobile phone” or “cell phone”. It is a handy electronic gadget used for mobile communication. It enables voice telephone communication, as well as other services such as short message service (SMS) for text messaging, email, access to the Internet, and for sending and receiving photos and video. Mobile phones usually connect to a cellular network called cell sites, and are interconnected to the public switched telephone network (PSTN).

Electronic wallet - Refers to money which is being exchanged electronically. (This is also known as electronic cash, electronic money, electronic currency, digital money, digital cash, or digital currency). To transact using an electronic wallet would typically involve the use of computers and networks, the Internet and digital stored value systems.

International roaming services – Refers to a service offered by mobile telecommunication providers that allows you to use your mobile phone abroad. This entails partnership arrangements with a mobile network in another country to enable seamless use of the foreign provider’s network while within the foreign country.

Internet – Refers to the publicly accessible network of interconnected computer systems. It is made up of various groups of users in the industries, academe, government, and other sectors worldwide. Its network of databanks, information, services and users is called the World Wide Web (www). They transmit data using the standard Internet Protocol (IP).

Internet banking – Refers to banking transactions, payments etc. which are made over the Internet through a secure website. This enables customers to gain access to banking services outside of the usual banking hours, and from locations where Internet access is available. This is usually done with the use of computers or any mobile device capable of Internet access. This is also sometimes referred to as **online banking**, and may include any of the following services:

- Viewing of bank statements
- Payment of bills
- Transfer of funds from one account to another
- Investment
- Others

Java – Refers to a programming language characterized by platform independence. This means that programs written in the Java language must run in the same manner on any supported hardware/operating-system environment. Further more, one may be able to write a program once, compile it once, and run it anywhere.

Merchant – Refers to a business entity which accepts credit cards, debit cards, gift cards and other forms of facility for payment transactions. Usually, the merchant enters into an agreement with the principal company administering the payment facility.

Mobile banking – Refers to banking transactions which are made using a mobile device such as a mobile phone. These are performed through short message service (SMS), or through Internet banking.

Mobile device – Refers to mobile phones or PDAs

Personal Digital Assistant (PDA) – Refers to a handheld computer with several functions: personal organizer; calendar; calculator; contact address book; memo/note pad; etc. More sophisticated PDAs have evolved allowing Internet access, word processing, spreadsheets, e-mail, portable media players, even cellular phone and global positioning systems (GPS) capabilities.

SIM Card - A Subscriber Identity Module (SIM) card is a removable smart card for mobile phones. It stores vital information to identify the subscriber and the services available to him. A SIM card, when it is not locked-in to the service provider, allows users to change phones by simply removing the SIM card from one mobile phone and inserting it into another mobile phone.

Short Message Service (SMS) – Commonly referred to as “text messaging”. This is a means of sending short messages to and from mobile phones.

Telco – Refers to a telephone company, or a provider of telecommunications services for voice and data communications. Sometimes, telcos are also referred to as common carriers, or local exchange carriers, or wireless carriers, in the case of cellular telephones.

Wireless access protocol (WAP) – Refers to an international standard for applications that use wireless communication. It is primarily used to enable access to the Internet from a mobile phone or PDA.

Summary

This report studies the feasibility of electronic money remittance systems as a means of extending the social security coverage of migrant workers. The Philippines has been chosen for this case study.

The Philippines is the largest sending country of migrant workers in South-East Asia. There are around 4.7 million temporary Filipino migrant workers in either regular or irregular status. Every year around one million migrant workers leave the Philippines for jobs abroad. Most Filipino migrant workers do not avail of the social security coverage of their host countries, unless the host country has a bilateral social security agreement with the Philippines. Therefore, lack of access to social security benefits either in the host country or in the Philippines is one of the major disadvantages to migrant workers.

In the Philippines, the Social Security System (SSS) and the Philippine Health Insurance Corporation (PhilHealth) provide social security benefits and health insurance cover to migrant workers. Despite the efforts by SSS and PhilHealth to extend their coverage to OFWs, between 3.4 and 3.9 million Filipino migrant workers had neither PhilHealth nor SSS coverage. This study reviews the existing collection processes, infrastructure, and future plans of SSS and PhilHealth to cover migrant workers and assesses the readiness of the two institutions to adapt available technologies for the collection of contributions. In the case of SSS, the majority of migrant workers, specifically land based overseas Filipino workers (OFWs), are covered on a voluntary basis. In the case of PhilHealth, the first year of contributions is mandatory and is collected as part of the OFW's departure requirements. However, subsequent years' contributions are voluntary. Both SSS and PhilHealth are able to collect contribution payments from migrant workers on a limited scale through partnerships with remittance channels and arrangements with collecting agents in the foreign countries.

The study reviews current remittance services offered by banks and telecommunications companies to determine whether these would provide appropriate mechanisms for the collection of OFW member contributions. For this purpose, payment mechanisms should be able to handle small payments in a cost-effective manner, and should be widely accessible. Considering that the migrant worker's payment of contributions is for the most part voluntary, payment mechanisms that are available to them should be convenient, easy to use and of low cost.

From the analysis on the feasibility of collecting SSS and PhilHealth contributions from migrant workers using the current mobile payment and remittance service of telecommunication companies and banks, the following observations are made.

- (1) Because OFWs' membership in SSS and PhilHealth is voluntary, the OFW must have compelling reasons for such membership. Therefore, SSS and PhilHealth should continue its programmes to increase awareness regarding social security benefits and health insurance. SSS and PhilHealth can also provide different options for contribution payments.
- (2) OFWs would be willing to pay their SSS and PhilHealth contributions if an easy-to-use, convenient and of low cost payment mechanism is available. The availability of such a payment method is key to ensuring that OFWs' payment obligations to SSS and PhilHealth stay current and up-to-date.

- (3) The study shows that the use of existing remittance payment as a way of collecting SSS and PhilHealth contribution payments from OFWs is technically feasible but its cost is still relatively high and access still limited. However, on-going technological development of mobile payments holds significant potential as a payment mechanism for social security contributions. Recent initiatives of Philippine telecommunication companies to partner with their foreign counterparts (at this stage in Malaysia and Bahrain) show marked cost reductions in handling mobile payment transactions, thus enhancing the cost-efficiency of telecommunication companies to handle small payments.
- (4) Rapid developments in electronic mobile payments expand the range of options for migrant workers for remitting their SSS and Philhealth contributions. Two feasible electronic money payment options include (i) payment by proxy, in which a migrant worker can send money to a responsible family member through the electronic payment system and authorize the family member to effect the payment of obligations on behalf of the migrant worker; and (ii) payment via internet mobile banking services, in which the migrant worker can directly make the payment by making use of bank or telecom services. To enable the second option, SSS and PhilHealth must have prior arrangements with the bank to be included in the bank's bills payment system.
- (5) SSS and PhilHealth could explore the option to pursue pilot projects with telecommunications companies and major Philippine banks regarding the use of mobile phones for cross-border payments. In particular, both institutions could explore the possible pilot projects to test the low cost applications from Malaysia and Bahrain. Telecommunication companies and banks should meet the data requirements of SSS and PhilHealth regarding the recording and tracking of contribution payments of OFWs.

Expanding the reach of mobile payment services to more migrant workers in the major OFW destinations will depend on the success of Philippine telecommunication companies in forging partnerships with the mobile phone operators in those countries, and the capability of SSS and PhilHealth to reach a mutually beneficial agreement with the Philippine telecommunication companies for the collection of social security contributions. The ILO and ISSA, in collaboration with other international organizations, continue to be involved in assisting the governments and social security organizations in meeting these challenges.

1. Introduction

The purpose of this report is to examine the feasibility of using electronic money remittance systems as a means of extending the social security and national health insurance coverage of migrant workers, using the Philippines as its area of study¹.

Data for the study have been collected through interviews with key executives and officers of the following key social security organizations, telecommunications companies, and banks:

- Philippine Social Security System (SSS)
- Philippine Health Insurance Corporation (PhilHealth)
- GLOBE Telecom
- SMART Communications Inc.
- Bank of the Philippine Islands (BPI)
- Philippine National Bank (PNB)

Interview data were supplemented with secondary data from other sources, such as the Philippine Overseas Employment Administration (POEA), National Census and Statistics Office (NCSO), Bangko Sentral ng Pilipinas (BSP), and other references.

It was not possible to obtain information on the potential fees that a bank or telecommunication company would charge SSS and PhilHealth for acting as collection agents. The cost data used in this study were based on the publicly available information on the fees that are paid by an individual for remittances, for telecommunications charges of international short message service (SMS), and the like.

A disclaimer needs to be added. Because of the nature of the study, the report has made reference to specific commercial products, process, or service offered by telecommunications companies, banks and other private companies. Such a reference in this report does not necessarily constitute or imply its endorsement, recommendation, favouring or disfavouring.

This study was conducted in the framework of ILO/UNIFEM/EC Asian Programme on the Governance of Labour Migration with technical backstopping from ILO Subregional Office for Asia and the Pacific and the ISSA Regional Office for Asia and the Pacific.

This report has been prepared by Barbara Jo Domingo, Consultant on IT and Operations in Social Security, under the technical supervision of Kenichi Hirose, Social Protection Specialist of ILO Subregional Office for Southeast Asia and the Pacific, and Maribel Ortiz, Director ISSA Regional Office for Asia and the Pacific. The author would like to thank Rose Banzon, Gerry Favila and Ayaka Matsuno for their valuable comments and inputs provided to an earlier version of this report.

¹ The potential use of electronic money remittance to extend social security coverage in the Philippines was discussed at an ISSA conference in 2005.

2. National context

This chapter summarizes the mandate, benefits, and membership of the key social security organizations and presents data on the Overseas Filipino Workers (OFWs).

2.1 Social Security System (SSS)

Based on the State's policy to establish, develop, promote and perfect a sound and viable tax-exempt social security system suitable to the needs of the Filipino people, SSS is mandated to promote social justice and to provide meaningful protection to members and their families against the hazards of disability, sickness, maternity, old-age, death and other contingencies resulting in loss of income and financial burden. It endeavours to extend social security protection to workers and their beneficiaries.

SSS administers the Social Security Programme and the Employees' Compensation Programme. The Social Security Programme provides replacement income for workers and their family members in times of death, disability, sickness, maternity and old-age. The Employees' Compensation programme provides compensation to the worker when the illness, death or accident occurs during work-related activities. In addition to these benefits, members can also avail of salary, calamity, housing and business loans.

The number of SSS registered workers as of the end of 2006 was 27.5 million, broken down as follows: 21.1 million employed, 5.6 million self-employed, and 0.7 million employers. The SSS counted 700,000 overseas Filipino workers (OFWs) amongst its members.

To service the OFWs, SSS has set-up an office within the POEA. Also, in collaboration with the Department of Foreign Affairs (DFA), SSS opened 15 satellite offices in Philippine embassies in the following locations: Hong Kong, Singapore, Taipei, Brunei; Rome, Milan, London; Riyadh, Jeddah, Al-Khobar, Kuwait, Abu Dhabi, Doha; San Francisco, California; and Sydney. These offices handle enrollment of OFWs for SSS membership, promotion of social security programmes, membership inquiries, and verifications.

2.2 Philippine Health Insurance Corporation (PhilHealth)

The Philippine Health Insurance Corporation is the government entity responsible for ensuring sustainable, affordable and progressive social health insurance and delivering accessible quality health care for all Filipinos. The National Health Insurance Programme is an expansion of the former Medicare programme, and was instituted through the enactment of the National Health Insurance Act of 1995. The programme, which is administered by the Philippine Health Insurance Corporation (PhilHealth), mandates universal coverage for all citizens of the Philippines with a basic package of health insurance benefits. The benefit package of personal health services covers in-patient and some out-patient hospital care.

As of December 2006, there were 17 million registered principal Philhealth members, broken down as follows: 8 million employed, 1.2 million OFWs, 2.6 million individually paying members, 5 million members sponsored by local government units and 263,000 retirees. The dependent family members of the PhilHealth members are also covered by PhilHealth.

2.3 Overseas Filipino Workers (OFWs)

Table 1 presents the estimated number of overseas Filipinos.

Table 1. Stock estimate of overseas Filipinos as of December 2006

Region /Country	Permanent	Temporary	Irregular	Total
World Total	3,556,035	3,802,345	874,792	8,233,172
Land Based Workers	3,556,035	3,527,848	874,792	7,958,675
Africa	553	71,503	17,742	89,798
Nigeria	18	13,428	700	14,146
Libya	75	9,475	680	10,230
Others / unspecified	460	48,600	16,362	65,422
Asia, East & South	196,968	789,110	237,600	1,223,678
Japan	124,722	103,555	30,700	258,977
Malaysia	26,001	88,372	125,000	239,373
Others / unspecified	46,245	597,183	81,900	725,328
Middle East	3,523	1,723,911	112,250	1,839,684
Saudi Arabia	247	1,001,330	18,000	1,019,577
Kuwait	94	133,361	11,500	144,955
Others / unspecified	3,182	589,220	82,750	675,152
Europe	229,132	534,748	124,380	888,260
United kingdom	62,606	93,358	9,600	165,564
Italy	23,108	84,972	20,000	128,080
Others / unspecified	143,418	356,418	94,780	594,616
Americas	2,887,129	333,763	356,400	3,577,292
United states	2,443,269	128,440	156,500	2,728,209
Canada	396,054	38,886	3,000	437,940
Others / unspecified	47,806	166,437	196,900	411,143
Oceania	238,730	74,813	26,420	339,963
Australia	218,425	15,100	3,000	236,525
New Zealand	19,549	742	120	20,411
Others / unspecified	756	58,971	23,300	83,027
Seabased workers	0	274,497	0	247,497

Source: POEA

As of December 2006, the estimated number of overseas Filipino was 8.2 million, which consists of three different types of migrants.

- First, there are 3.6 million permanent overseas Filipinos who are immigrants or legal residents abroad whose stay does not depend on work contracts.

- Second, there are 3.8 million temporary overseas Filipinos who stay overseas for employment related reasons and are expected to return at the end of work contracts.
- Third, there are estimated 875 thousand overseas Filipinos with irregular status who are not properly documented, do not have valid work permits, or have been overstaying in a foreign country.

Hence, the total number of temporary Filipino migrant workers, both regular and irregular, is estimated to be around 4.7 million. Of these, 4.4 million were land-based, while 275 thousand were sea-based workers.

Tables 2 and 3 show the statistics of the newly deployed OFWs.

Table 2. Deployment of overseas Filipino workers, 2005 and 2006

Category	OFW Deployment			Percentage Share to Total	
	2005	2006	% Change	2005	2006
Land-based	740,632	788,070	6.4%	74.9%	74.2%
- New hires	289,981	317,680	9.6%	29.3%	29.9%
- Rehires	450,651	470,390	4.4%	45.6%	44.3%
Sea-based	247,983	274,497	10.7%	25.1%	25.8%
Total Deployed	988,615	1,062,567	7.5%	100.0%	100.0%
Daily Deployment Average	2,709	2,903	7.2%		

Source: POEA

Table 3: Deployment of OFWs in top ten destinations, 2005 and 2006

Destinations	OFW Deployment			Percentage Share to Total	
	2005	2006	% Change	2005	2006
1. Saudi Arabia	194,350	223,459	15.0%	26.2%	28.4%
2. United Arab Emirates	82,039	99,212	20.9%	11.1%	12.6%
3. Hong Kong	98,693	96,929	-1.8%	13.3%	12.3%
4. Kuwait	40,306	47,917	18.9%	5.4%	6.1%
5. Qatar	31,421	45,795	45.7%	4.2%	5.8%
6. Taiwan	46,737	39,025	-16.5%	6.3%	5.0%
7. Singapore	28,152	28,369	0.8%	3.8%	3.6%
8. Italy	21,267	25,413	19.5%	2.9%	3.2%
9. United Kingdom	16,930	16,926	0.0%	2.3%	2.1%
10. Korea	9,975	13,984	40.2%	1.3%	1.8%
Other Destinations	170,762	151,041	-11.5%	23.1%	19.2%
Land-based Total	740,632	788,070	6.4%	100.0%	100.0%

Source: POEA

In 2006, more than one million Filipino workers left for jobs overseas. The daily deployment average of documented OFWs in 2005 and 2006 was 2,709 and 2,903 respectively. The main destination countries of the newly deployed land-based OFWs are Middle-East countries such as Saudi Arabia, United Arab Emirates, Kuwait, Qatar, and Southeast and East Asian countries such as Hong Kong, Taiwan, Singapore, followed by European countries such as Italy and United Kingdom.

2.4 Social security coverage of OFWs in host countries

Unlike employees in the private and public sectors in the Philippines, Filipino migrant workers are in general not automatically covered by social security and health insurance in the host countries. For most Filipino migrant workers, their employers are not compelled to provide them with social security benefits granted by the host country's social security scheme, unless they are working in the countries with bilateral social security agreements with the Philippines. Therefore lack of access to social security benefits either in the host country or in the Philippines is one of the major disadvantages to migrant workers. Health insurance of seafarers is provided by their employers, but the coverage may not extend to their family members.

In the Philippines, employers in the private sector and the government are responsible for ensuring that their employees, while in their employ, are in good standing with SSS and PhilHealth. Membership enrolment, compulsory contributions and payments to both institutions are ensured by the employers.

This is not the case for Filipino migrant workers who have to look after their own situation. Given their status of being employed overseas by foreign employers, SSS and PhilHealth are responsible for ensuring that migrant workers are aware of their rights, privileges and obligations as Filipino citizens insofar as social security and health insurance coverage are concerned.

In view of the migrant worker's unique situation, SSS and PhilHealth have active and ongoing programmes for membership enrolment. In coordination with the Philippines Overseas Employment Administration (POEA), migrant workers undergo orientation and are given the opportunity to enrol as members of SSS and PhilHealth prior to departure.

As of end-2006, SSS estimates that 0.7 million OFWs were already members, while PhilHealth estimates 1.2 million OFWs were already members. This means that out of a total of 4.7 million migrant workers in 2006, 26% were PhilHealth members, and 15% were SSS members.

If the trend continues of at least one million migrant workers leaving the Philippines annually, they would be adding to the number of migrant workers who should have social security and national health insurance coverage.

The challenge for Philhealth and SSS is to be able to vastly improve the enrolment of migrant workers and the collection of their contribution payments, so that the present gap in coverage of migrant workers can be narrowed, if not closed, and the future requirements for migrant worker coverage can be handled adequately. It should be noted though that the discussion in this paper is limited to the collection of contribution payments.

3. Coverage of overseas Filipino workers under the current SSS and PhilHealth systems

This chapter summarizes the current mechanism of providing social security coverage to the OFWs.

3.1 SSS coverage of OFWs

3.1.1 Collection of the SSS contributions from OFWs

Under the current SSS system, Filipino seafarers or sea-based OFWs are subject to compulsory coverage upon the signing of their contracts. For land-based OFWs, their SSS coverage is considered voluntary.

SSS estimates that it collected Php 1 billion as contributions from OFWs in 2006. About 40% were paid locally, and the remaining 60% were collected from overseas. SSS uses banks as their collecting agents for OFW contribution payments. The SSS charter allows only banks to be accredited as collecting agents, although SSS is now looking into options with non-bank entities for the collection of OFW contributions through third-party arrangements with accredited local banks (see section 3.1.6). However, non-banks' foreign offices are not authorized to collect contribution payments.

Currently, OFWs can make their contribution payments to SSS in either of the following ways:

- First payment method is through an auto debit account set up by the OFWs or their relative. Auto-debit accounts can only be opened with Philippines banks, and can be a savings or checking account. The bank account is debited every 10th of the month for a contribution payment. The participating banks include Metro Bank, Development Bank for the Philippines (DBP), Philippine National Bank (PNB), Equitable Bank, Bank of the Philippine Islands (BPI), and United Coconut Planters Bank (UCPB). However, it appears that use of auto debit accounts for the purpose stated above has not gained wide acceptance because members prefer to trigger the transaction by themselves. There are only about 5,000 auto debit accounts. Banks get the float income of 15 days on these accounts.
- Second payment method is through authorized overseas partners or branches of local banks. Under this method, an SSS member could go to a bank's partner or branch and give his/her contribution payment accompanied by a form. The form contains the following data: SSS number, member name, payment amount, period covered, payment type (contribution payment/loan payment). Using this payment channel an SSS member can pay his/her contributions in advance, and is also allowed to pay arrears of up to 1 year. At the moment about 200,000 OFWs use this payment channel. Hong Kong and Saudi Arabia generate the largest total contribution payments.
- Third method is through Bancnet's Online Payment System. Through this new facility (launched on 6 November 2007) OFWs with ATM accounts at Bancnet member-banks, may pay their SSS contributions and loan payments online.
- Fourthly, if paying through their relatives in the Philippines, SSS has likewise expanded local payment channels, which now include 63 SSS branches and all Bayad Center outlets.

- Fifth method is through a 3rd party collection facility operated by Ventaja, International Corp (launched in Singapore in November 2007). Ventaja uses a web-based system for electronic transfer of funds and collection reports to SSS.

3.1.2 Transfer of SSS contributions from collecting agents

The local banks and their partners transfer their collections to SSS twice a month. For SSS contribution payments received by the collecting agent between the 1st to the 15th of the month, funds transfer happens on the 16th of the same month. For SSS contribution payments received by the collecting agents between the 16th and 31st of the month, funds transfer happens on the 1st of the succeeding month. On average, banks and their partners get a float of 10 to 20 days. In addition to the float, banks and their partners charge SSS fees for each transaction.

3.1.3 Recording contributions made by OFWs

Banks and their partners provide SSS with data on the contribution payments by batches. These are sent via courier to SSS together with the bundle of payment contribution forms filled-up by SSS members. The data are provided to SSS when funds are transferred to SSS. The banks and their partners are responsible for reconciling the actual collections with the data. The data are provided in electronic format, thereby enabling SSS to upload them to its system. Nevertheless, SSS still needs to perform its own matching and reconciliation. They usually re-encode a number of these transactions and handle manual adjustments.

3.1.4 Facilities for inquiring on contributions

Members can inquire on the status of their contributions and loans either via the Internet or using SMS on SMART or GLOBE cellular phones.

Members who are using an auto debit account have to wait 10 days from the date their account was debited before they can inquire on their latest contribution.

Members who have sent their contributions through banks' overseas branches or partners have to wait 1.5 months from the date that they made their contribution before they can inquire on their latest contribution.

3.1.5 IT system

The SSS' Information Technology Division provides the overall IT support. The IT Division manages the development and implementation of systems for membership verification, collection, claims and benefits administration.

The system for collection and recording of contribution payments is a mainframe system. This was developed internally using Oracle as its database. It processes the transactions by batch, mostly regular contribution payments made by local employers for their employees.

Much works still need to be done for SSS to be able to process online and real-time transactions. The direction of the IT Division is to outsource the development and implementation of such systems.

3.1.6 Future plans for expanding collection network

SSS is engaged in other projects under various stages which involve the following payment channels:

- a) Payment via mobile phone/SMS (GLOBE and SMART)
- b) Payment through credit card (Auto-Charge Arrangement)
- c) Other third party agents using web-based systems (e.g., Western Union)
- d) The use of bank automated teller machines (ATMs) is also being pursued with some banks.

3.2 PhilHealth coverage of OFWs

3.2.1 Collection of OFWs PhilHealth contributions

The administration of health insurance coverage for OFW was transferred from OWWA to PhilHealth in 2005. Under the current PhilHealth OFW programme, an OFW is required to pay one year's premium of Php 900 upon departure (one can voluntarily pay up to 2 years' premium), which covers the OFW and family members. The contribution rate of Php 900 was set by OWWA and was not changed. It should be noted that this is lower than the contribution rate of the individually paying members which is set at Php 100 per month (Php 1,200 per year). The OFWs can make these payments at any PhilHealth office or at the POEA desk at the airport.

OFWs premium payments after their first year of employment overseas are made on a voluntary basis. These premium payments can be made at a PhilHealth office, a local bank or an overseas remittance center. After two years of implementation, the PhilHealth is facing difficulties in renewing the coverage for OFWs abroad.

Generally, OFWs can continue to pay their premiums beyond the first year through the following ways:

- First, PhilHealth can extend the enrolment by collecting in advance the premium in respect of the whole contract period. However, the actual take-up rate of this option is low even if the premium is set at a lower level than the self-employed in the Philippines.
- Second, an OFW can request a family member to renew his membership and pay his/her premiums. In this case the payments can be made through local banks if their payments are on time or through the PhilHealth office.
- Third, OFWs in Hong Kong, Singapore, Taiwan and Australia can use I-Remit, a remittance center, to continue paying their PhilHealth premiums. Table 4 below presents the remittance fees of I-Remit.

Table 4 : Remittance charges of I-Remit in selected locations, 2007

Country	Remittance Charge	Exchange Rate	Phil Peso
Hong Kong	HK\$ 5	5.90	29.49
Taiwan	TW\$ 150	1.39	208.50
Singapore	Sing\$ 3	30.07	90.20
Australia	Aus\$2	39.10	78.20

Source: PhilHealth

Undocumented OFWs can also pay their PhilHealth premiums through a family member residing in the Philippines. In this case, the relative is the PhilHealth card holder, and the undocumented OFW is named as his/her dependent. In this case, the applicable premium is that of the individually paying members which is P1,200 per year.

3.2.2 Transfer of contributions from collecting agents

Premiums paid through the POEA are transferred to PhilHealth on the same day. Premiums paid through banks are transferred to PhilHealth every two weeks, i.e. after the 15th and 30th or 31st of every month.

Similarly, premiums paid through I-Remit are turned over to PhilHealth every two weeks. I-Remit turns over the consolidated collections using manager's cheques. I-Remit does not charge PhilHealth for acting as its collection agent; however, it has a 15 day float on the collections.

3.2.3 Recording contributions made by OFWs

PhilHealth receives data on premium payments from the POEA, banks and remittance centers in electronic format and on a batch basis. PhilHealth is able to update its contributions database using the data provided by these entities.

Premiums paid through POEA offices are posted to the contributions database on the same day. Premiums paid through banks and I-Remit are posted every two weeks. Premiums paid between the 1st and 15th of every month are posted to the PhilHealth database between the 20th and 25th of the same month. Premiums paid between the 16th and 30th of every month, are posted to the PhilHealth database between the 10th and 15th of the succeeding month.

3.2.4 Facilities for inquiring on contributions paid

Currently, PhilHealth does not have a facility that will allow members to inquire on the premiums they have paid either via internet or mobile phone.

If a member needs to inquire on the premiums paid in the past, the member has to do it either by phone or at a Philhealth office.

3.2.5 IT system

PhilHealth's Management Information Systems Department provides the IT support to the organization. The department has a total head count of 50. The department consists of three groups: Systems Development, Networking and Database, Policy and Standards.

The applications that are currently in use include membership, contributions and collections systems. These applications were developed in-house on a client-server platform using Oracle as the database and Windows for the front-end.

PhilHealth has not yet used mobile or internet-based applications to handle customer transactions for individually paying members, although it recently launched an internet-based payment facility for employers, called the PhilHealth E-pay Premium Contributions Programme, in partnership with Union Bank. Through this facility, the employer's account is debited for the employee and employer premium contributions and transferred to the PhilHealth account. Union Bank also sends the contributions list to PhilHealth electronically. Aside from this initiative, PhilHealth is currently reviewing mobile payment applications for local use.

3.2.6 Future plans for expanding collection network

PhilHealth has several plans for enhancing the coverage of individually paying members including OFWs. Among the plans are:

- a) Development of e-registration and e-payment modules within the next 3 to 5 years.
- b) Appointment of more collecting agents overseas. Currently PhilHealth is in discussions with the Department of Labor and Employment (DOLE), PNB, Rizal Commercial Banking Corp. (RCBC) and DBP for these arrangements.
- c) Sending reminder notices to family members of OFWs prior to expiry of membership.
- d) Further study on how to effectively extend premium contributions to cover the entire duration of the OFW's overseas contract, instead of just the first year of overseas employment.

3.3 Concluding remarks

Despite the efforts by SSS and PhilHealth to extend the coverage to OFWs, at the end of 2006, between 3.4 and 3.9 million Filipino migrant workers had neither PhilHealth nor SSS coverage². As the number of migrant workers is likely to increase, the gap in social security will become an increasingly important issue.

Possible reasons for the still limited social security coverage of Filipino migrant workers can be summarized as follows:

² This figure was derived using the following 2006 figures: total migrant workers, 4.6 million; OFWs who were SSS members, 700,000; OFWs who were PhilHealth members 1.2 million.

- First, the membership of SSS and PhilHealth is voluntary and the decision to pay social security contributions depends on OFWs and their families. With the average level of remittances (US\$250-300), social security is not given priority over more basic needs such as food and education. However, given proper information (in particular lower premium for PhilHealth), OFWs and their families are expected to make a rational choice.
- Second, there is low awareness among OFWS of the need for social security. There is a need for more intensive information campaign about social security coverage among OFWs.
- Third, the utilization of the currently available methods such as automatic debit, over-the-counter, or pay-by-proxy appears to be low, although these payment methods are widely used in other countries. As analyzed earlier, automatic debit is not popular among migrant workers because they rather prefer to trigger the withdrawal. Over-the-counter option may not attract many OFWs in view of the cost and time to go to the branch offices. Pay-by-proxy may have a problem that the family members spend the remittances for other purposes than payment of social security contributions.

A possible solution to these problems is the use of mobile payment applications, which we explain in the next chapter. These applications have a potential to reduce the transaction costs for remittances. They can also avoid the problems described in the third bullet point above since they give the OFWs full control of the timing and destination of remittances.

4. Existing electronic money remittance facilities

This chapter describes the mobile payment applications currently offered by telecommunications companies and banks.

4.1 Remittance channels

The Philippines has recorded rapid growth in remittances from migrant workers. Remittances through official channels reached US\$10.8 billion in 2005 and increased to US\$12.8 billion in 2006. It is expected that the increasing trend of remittances will continue for 2007. An ADB study in 2004 found that Filipino migrant workers remit a monthly average of US\$ 250-350³.

There are various channels for remittance services such as banks, door-to-door services, local agency/office and co-workers or friends. Table 5 compares the NCSO survey data on remittance in 2005 and 2006.

It is observed that a large portion of remittances passes through official channels. In 2005, 76 percent of cash remittances passed through banks, but the percentage increased to 79 percent in 2006. This is due to stricter regulation of transactions of financial institutions and enhanced services offered by banks and money transfer operators.

Table 5 :Remittance channels used by OFWs, 2005 and 2006

	2006	2005
	%	%
Total Remittance	100%	100%
Cash sent	74%	71%
Cash brought home	21%	25%
In kind	5%	5%
Total Cash Remittance	100%	100%
Mode of Remittance		
Banks	79%	76%
Agency/Local office	2%	3%
Friends/Co-workers	1%	1%
Door-to-door	13%	19%
Others	4%	1%

Notes : Estimates cover overseas Filipinos whose departure occurred within the last 5 years who are working or had worked abroad during the past 6 months (April-September) of the survey period.

Source : 2005 and 2006 Survey on Overseas Filipinos, Income and Employment Statistics Division
Household Statistics Dept, Philippine National Statistics Office

³ ADB: "Enhancing the Efficiency of Overseas Filipino Workers Remittances", 2004.

Table 6 shows the presence of nine main Philippine banks in top ten OFW destination countries. It is seen that at least one of the nine Philippine banks is present in these ten countries. Especially, all nine banks operate in the top 4 countries. Typical remittance services offered by these banks include credit to account within bank, credit to other local bank, door to door delivery and branch pick-up.

Table 6: Presence of Philippine banks in top ten OFW destinations, 2007

Destinations	PNB	Metro bank	BPI	Allied Bank	RCBC	Asia United Bank	Land Bank	Banco de Oro	Equitable PCI
1. Saudi Arabia	P	P	P	P	P	P	P	P	P
2. United Arab Emirates	P	P	P	P	P	P	P	P	P
3. Hong Kong	P	P	P	P	P	P	P	P	P
4. Kuwait	P	P	P	P	P	P	P	P	P
5. Qatar	-	P	P	P	P	P	-	-	P
6. Taiwan	P	P	P	-	P	P	P	P	P
7. Singapore	P	P	P	P	P	P	P	P	-
8. Italy	P	P	P	P	P	-	P	P	P
9. United Kingdom	P	P	P	P	P	-	P	P	P
10. Korea	-	P	P	-	-	-	P	-	P

Legend : P : present, - : absent

Note: Presence of Banks in terms of International Remittance Partners or Branch Offices.

Source: Information provided in Bangko Sentral ng Pilipinas (BPS) OFW portal.

4.2 Mobile phone usage by OFWs

Mobile phones are widely used in the Philippines. The National Telecommunications Commission estimates that in 2005 about 41% of the total population were cellular mobile phone subscribers. There is no data on how many of them are OFWs. However, we can assume the percentage of cellular mobile phone subscribers among OFWs is much higher than the general population. A rough estimate indicates that at least two million OFWs are users of the cellular mobile phone.

GLOBE and SMART are the two major cellular phone operators in the Philippines. Table 7 shows the presence of these companies in top ten OFW destination countries. Except Kuwait and Korea, either GLOBE or SMART is present in eight countries out of ten countries in the list. It is expected that the services will be extended to all of these countries in near future.

Table 7: Presence of the Philippines mobile phone operators in top ten OFW destinations, 2007

Destinations	SMART	GLOBE
1. Saudi Arabia	P	P
2. United Arab Emirates	P	P
3. Hong Kong	P	P
4. Kuwait	-	-
5. Qatar	P	-
6. Taiwan	P	P
7. Singapore	P	P
8. Italy	-	P
9. United Kingdom	P	P
10. Korea	-	-

Legend : P : present, - : absent

Note: Presence of GLOBE and SMART in terms of International Remittance Partners

Source: Information provided in websites of SMART and GLOBE.

4.3 Mobile payments: general descriptions

Mobile payments involve the use of a mobile device to transfer funds via an intermediary. In the mobile payment applications we describe in this paper, the intermediaries are either banks or telecommunications companies. The main advantage offered by mobile payments applications is that access to funds is not tied to a location or limited to a certain time schedule. These features of mobile payment systems would be convenient to migrant workers, because they do not need to leave their workplace or make extra trips to make fund transfers.

The mobile payment applications that banks offer can be seen as an extension of their Internet banking services. These services are limited to the bank's customers. However, they do not depend on the mobile phone operator that the customer uses. In the case of mobile payments applications which are web based, the cellular phone needs to be web-enabled.

The mobile payment applications that telecommunications companies offer should be viewed as a value added service to their basic mobile phone offerings. These services enable the telecommunications company to differentiate itself from the competition, but more importantly, can potentially generate more use of telecommunications. The market for mobile payment applications offered by telecommunications companies could have a larger potential because anyone with a mobile phone can have access to the mobile payment applications.

4.3.1 Mobile payment services offered by telecommunications companies

In the Philippines, both GLOBE and SMART provide mobile payment services to their cellular phone subscribers. A general description of these services is as follows:

(1) Electronic money

The IT infrastructure for mobile payment is electronic money. Subscribers can activate the E-money service by following a registration procedure using their cellular phone. With this service, one can

turn the cellular phones into an electronic wallet. Settlement between accounts is done by telecommunication companies' partner bank or by a subsidiary company.

In the Philippines, the SMART remittance service was launched in 2000 with the SMART Money service, while the GLOBE remittance service was launched in 2004, via the G-Cash service.

(2) E-money remittance through international remittance partners

Telecommunication companies offer services to send remittances to the Philippines through their designated remittance partners overseas using the E-money infrastructure. In this case, the migrant worker does not need to be a mobile phone subscriber, but the recipient has to be a subscriber of cellular phone of the same telecommunication company and to have an E-money account.

When a migrant worker pays cash, the remittance partner uses the E-money services to transfer E-money value to recipients in the Philippines. The remittance partner advises the recipient in the Philippines via SMS with a payment code. Recipients can convert E-money value into cash at an authorized outlet or a partner bank or withdraw at designated ATMs using an E-money card.

(3) Direct remittance by E-money

Using E-money, subscribers can send and receive cash and make payments via text message or SMS. Both the sender and the receiver must be the cellular phone subscribers of the same company.

A subscriber can load cash into the E-money account in an authorized outlet or a partner bank. To convert E-money value into cash, the recipient must go to an authorized outlet to collect the cash. Alternatively the recipient can withdraw the cash from designated ATMs, using his/her E-money card. If a recipient is a merchant receiving payment for the purchase of goods and services, the payment may be directly credited to the merchant's bank account via the settlement process between the telecommunication company's bank and the merchant's bank.

This payment method can be used both from overseas and within the Philippines. However, to load E-money from overseas, the subscriber needs to use the international remittance partner of the telecommunication company to transfer E-money value to his/her E-money account in the Philippines. The daily transaction limit is Php. 50,000 (US\$1,200) for SMART and Php. 40,000 (US\$950) for GLOBE.

4.3.2 Mobile payment services offered by banks

Banks offer Internet and mobile banking services for migrant workers. With the use of the Internet and wireless technology, customers can make transactions from their home or office. Examples of these transactions are inquiries on account balance, transfer of funds between several accounts of a customer, bills payments and many others. With the use of a cellular phone, customers are also able to do mobile banking or make banking transactions.

If a migrant worker would like to use the Internet and mobile banking applications offered by Philippine banks, he/she must have his/her bank account. Main Internet or mobile banking services are described below.

(1) Mobile banking via SMS

Major Philippine banks provide mobile banking services to their depositors. The mobile banking services are generally SMS-based. If a migrant worker wants to pay bills from his/her Philippine bank account using a mobile phone, he/she would need to use either a GLOBE or SMART cellular phone with international roaming services.

(2) Mobile banking using Wireless Access Protocol (WAP)

Several banks provide mobile banking facilities using Wireless Access Protocol (WAP). WAP provides mobile phones access to the Internet, hence a mobile phone user can use a more user-friendly interface. Also, WAP-based applications provide better security compared to SMS-based applications. The WAP application requires cellular phones with features that support wireless connection to the Internet.

One Philippine bank plans to launch a mobile banking application using Java. The main advantage of this technology is that it will allow Internet access to web sites regardless of the carrier. However, in this case the Java application requires a Java enabled phone that supports a wireless connection to the Internet.

4.4 Cost analysis of mobile payments

If a migrant worker uses the E-money provided by the telecommunications companies to make electronic payments from overseas, the following costs would be incurred.

- The users of E-money must have cellular phones. Activation of the E-money services is free. At least one OFW family member as recipient needs to have an E-money account. If an OFW would like to send remittances directly via E-money, then both the OFW and the recipient family must have E-money accounts in the same telecommunication company.
- If a migrant worker uses international remittance partners, he/she has to pay a remittance fee every time he/she sends money to the relatives. Out of the costs that would be directly absorbed by the migrant worker, the most significant component is the remittance fees. Table 8 presents the remittance fees from selected countries to the Philippines.
- If a migrant worker has an E-money account, every time a migrant worker transfers E-money value to his/her E-money accounts in the Philippines he/she has to pay a remittance fee to the remittance partner (presented in Table 8). In addition, when a migrant worker sends an instruction to make payments via E-money, he/she will incur charges corresponding to a telecommunication fee. The fee varies according to the competitive pricing strategies of the telecommunication company but it could range from Php. 1 to Php. 22.50 depending on the telecommunication provider.
- The recipient of the remittance would be charged processing fees for converting E-money values into cash. The fee is 1 percent of the amount with a minimum of Php. 10.
- If the recipient withdraws cash from authorized ATMs using an E-money card, each withdrawal transaction is subject to a fee ranging from Php. 3 to Php. 11 depending on the bank. The E-money card is valid for one year and is issued for a fee of Php. 200.

If a migrant worker uses the mobile banking services offered by Philippine banks from overseas, the cost incurred would be remittance fees and telecommunications charges. To use the mobile banking services, a migrant worker needs to maintain a bank account with the Philippine bank. If a migrant worker deposits money into his/her Philippine bank account from overseas through the overseas branches or partners of the Philippine bank, a remittance fee will be charged. In addition, each time the migrant worker issues a payment instruction from his/her cellphone, telecommunications fees will be charged.

Table 8 below compares remittance fees charged by banks and the remittance partners of telecommunication companies in selected locations overseas. It should be noted that these remittance fees are a fixed amount regardless of the amount of the remittance. The remittance fees charged by banks are relatively higher than the telecommunication companies. However one should also take into account the other costs such as transportation and transaction costs for conversion from E-money to cash.

Table 8: Comparative remittance fees, 2006⁴

Country	Bank Services			Telecom Services	
	Door to Door	Branch Pick Up	Credit to Bank Account	G-Cash	SMART Padala ⁵
USA	USD 12-16	USD 10-12	USD 7-14	N.A.	USD 6-8
Singapore	SGD 7-15	SGD 10-20	SGD 2.5-5	SGD 2.45-3	SGD 3.8
Hong Kong	HKD 25-35	HKD 30-40	HKD 18-25	HKD 14-20	HKD 12
Taiwan	NT 250-300	NT 300-350	NT 200-250	NT 150	NT 250
In US Dollar Equivalent					
USA	12-16	10-12	7-14	N.A.	6-8
Singapore	4.8-10.3	6.8-13.7	1.7-3.4	1.7-2.1	2.6
Hong Kong	3.2-4.5	3.9-5.2	2.3 -3.2	1.8-2.6	1.5
Taiwan	7.7-9.2	9.2-10.7	6.1-7.7	4.6	7.7
Philippine Peso Equivalent					
USA	500-670	420-500	295-590	N.A.	250-420
Singapore	200-430	285-575	70-145	70-85	110
Hong Kong	135-190	160-215	95 -135	75-110	65
Taiwan	320-385	385-450	255-320	195	310

From the above analysis, the following options will emerge as the best possible strategies under the current cost structure of the mobile payment system.

- Since the remittance fee is a fixed rate, it would be most cost-efficient if a migrant worker accumulates the remittance money up to the maximum amount and minimizes the frequency of international remittance.

⁴ Source: “Reducing the Cost of International Remittance Through Technology” by Rosalinda Nieva, Deputy Director, Core Information Technology Supervision Group, Bangko Sentral ng Pilipinas. October 2006.

⁵ The SMART Padala rates for Singapore, Hongkong and Taiwan are as of June 2007.

- If a migrant worker keeps a sufficient balance in a Philippine bank account, then he/she can use internet or mobile banking services to make any transactions. This will allow the migrant worker to pay contributions directly to the social security organizations (unlike auto debit, the migrant worker can trigger the transaction).
- Alternatively, a migrant worker and the family member can open the E-money accounts and use direct E-money remittance. Once the money is transferred to the migrant worker's E-money account in the Philippines, he/she can initiate payment transaction by simply sending an SMS message.

4.5 New developments in mobile payment applications by telecommunication companies

In view of the accelerating trend of mobile payment systems at global, regional and local levels, it is expected that a more user-friendly and cost-efficient payment method would be available in the future. Currently, some initiatives are underway to develop a more user-friendly and low-cost payment system using mobile communications for migrant workers.

4.5.1 Case Study 1: GLOBE

GLOBE is expanding its G-CASH capability by creating an inter-exchange hub that would allow multi-currency money transfer among partner mobile operators around the world. In collaboration with Singtel in Singapore, CSL in Hong Kong, and Maxis in Malaysia, work is in progress to enable mobile subscribers in these countries to make remittances using their mobile phones via SMS through their local SIMs. To illustrate, a migrant worker in Malaysia using a Maxis SIM would be able to send a payment instruction via text or SMS to a payee in the Philippines. The cash intended for transfer to the payee is presented to a Maxis cash-in partner outlet. Data provided in a GLOBE press release indicates that the estimated cost to the sender is as follows:

	Malaysian Ringgit	US Dollar Equivalent
SMS Charge	0.15	0.04
Cash In Fee	5.00	1.49
Total	5.15	1.53

4.5.2 Case study 2: SMART

SMART plans to launch pilot projects in collaboration with mobile phone operators and banks in Bahrain, Italy and other countries hosting a large number of Filipino migrants. SMART's enhanced services would allow migrant workers to remit funds to the Philippines using the mobile phones of SMART's telecom partners in the host country. In Bahrain, a migrant worker may use an MTC Vodafone SIM to send a payment instruction via text or SMS to a payee in the Philippines. Initial data indicates that estimated costs to the sender are as follows:

	Bahraini Dinar	US Dollar Equivalent
SMS Charge	0.03	0.08
Cash In Fee	0 if through partner bank	0 if through partner bank
Total	0.03	0.08

Initial data gathered on the costs of remitting funds using these new services indicate that they would be significantly lower than the remittance fees currently charged by the usual overseas remittance channels. SSS and PhilHealth could explore the option to pursue pilot projects to test the application in Malaysia or in Bahrain.

The use of mobile phones presents the best potential for a low cost and convenient payment system for OFWs. Expanding the collection of contribution payments to more OFWs using mobile payment applications will depend on telecommunication companies' efforts to forge partnerships with the mobile phone operators in countries with sizeable OFW populations.

5. Feasibility of mobile applications for collecting social security contributions

This chapter analyzes how the mobile payment applications by telecommunications companies and banks can be applied to the collection of SSS and PhilHealth contributions from migrant workers.

5.1 Mechanism of mobile applications for collecting SSS and PhilHealth contributions from migrant workers

Mobile payments have the potential to expand the coverage for the collection of migrant workers' SSS and PhilHealth contributions. To prepare to use these mobile payment services, SSS and PhilHealth will need to carry out the following actions.

5.1.1 Enroll as merchants with the providers of the services

SSS and PhilHealth need to enter into an agreement with telecommunication companies to be a merchant which receives payments for their members' contributions. These merchant agreements are standard contracts with the banks or telecommunications companies. However, due to the volume and velocity of transactions that SSS and PhilHealth generate, they can leverage and negotiate for favourable terms and conditions.

5.1.2 Maintain settlement accounts in a bank

SSS and PhilHealth need to maintain accounts with some bank to handle settlement of payment transactions. This will enable data on the contribution payments made by migrant workers to be provided in electronic format, at the frequency that SSS and PhilHealth require. This will also facilitate the posting of transactions into the databases of the two institutions. SSS and PhilHealth have to agree with the telecommunications companies and their respective partners on the information requirement for the remittance of SSS and PhilHealth contributions.

5.1.3 Enhance customer services on members' inquiries

As SSS and PhilHealth expand the collection of contributions to migrant workers, both institutions will have to assess the adequacy of the inquiry system that members currently use for inquiring on their contributions. Currently PhilHealth handles inquiries via telephones or directly at their offices. If migrant workers make inquiries through the Internet or their cellular phones, PhilHealth will need to put in the systems for this. SSS members are able to make inquiries on their contributions in the branch offices through the Members' Assistance Center (MAC), over the Internet through SSS' website and via cellular phones. Both institutions should provide a customer helpdesk that migrant workers can contact in case they have problems with their contribution payments. Additional hardware and network bandwidth may be required to be able to service the on-line inquiries of migrant workers.

5.2 Implications for the migrant workers

The appropriateness of technology applications that are available for making electronic remittances or payments should be assessed from the point of view of the migrant workers. The following observations are made.

- If a migrant worker intends to pay SSS and PhilHealth contributions using the bills payment feature of the telecommunication or bank applications, loading cash into his/her electronic wallet or bank account would still be subject to remittance charges. If the current charges for remitting money to the Philippines are levied on SSS and PhilHealth contribution payments, they would be too high in comparison to the contribution amounts. The minimum amount for an SSS contribution payment from a migrant worker is Php 520 per month⁶ (less than US\$15), while for PhilHealth, the minimum amount is Php 900 per year (US\$20). It should be also noted that the average amount of remittances made by OFWs to their families is US\$ 250-350.
- In view of the accelerating trend of mobile payment systems at global, regional and local levels, it is expected that a more user-friendly and cost-efficient payment method would be available in the future. In fact, telecommunications companies have recently developed less costly options that would enable OFWs to use mobile phones to transfer E-money from Malaysia and Bahrain to the Philippines. The same mobile money transfer services could be used to make SSS and PhilHealth contribution payments from Malaysia and Bahrain. SSS and PhilHealth could explore the possible pilot projects to test these applications.
- Currently, migrant workers using cellular phones with the SIM of cellular phone operators in their host country would not be able to access the available mobile payment services offered by the Philippine telecommunications companies and banks. An arrangement must be put in place to connect the telecommunication services of the host country with that of the country of origin. International roaming service might be feasible, but the cost of this service might put off the migrant worker.
- The migrant worker should maintain a bank account where funds are kept for remittance and payments. The location of this custodian of funds should be within a short distance from his/her place of residence or work and the migrant worker should be able to transact 6 days of the week. The cost to the migrant worker of putting cash into such an account should be low. Due to banking laws and regulations in the host countries, many migrant workers are not qualified to open bank accounts. The “know your customer” rule followed by banks would be difficult to apply to migrant workers who stay on contract basis. Although overseas branches of Philippine banks exist in most of the top ten OFW destination countries, they are limited in number and coverage. Furthermore, overseas remittance offices of Philippine banks are limited to remittances and are not allowed to accept deposit accounts.⁷

Both institutions need to find ways of working with existing remittance service offerings in a cost-effective manner, so that it can address the present requirements for coverage. More importantly they need to look beyond current remittance service offerings and test applications that are more appropriate for small payments.

⁶ SSS advises land-based OFWs to make contributions equivalent to a P5,000 monthly credit. The OFW’s total monthly contribution would then amount to Php 520.00, of which Php 166.70 is the employee’s share and Php 353.30 is the employer’s share.

⁷ ADB, “Enhancing the Efficiency of Overseas Filipino Workers Remittances”; and interview with PNB officers.

5.3 Electronic money: Expanding the options for social security coverage

The above analysis has shown that the existing remittance service offerings are still expensive to handle small payments such as SSS and PhilHealth contributions, although there are now some promising developments which reduce the cost significantly.

However, these rapid developments in electronic mobile payments clearly expand the range of options migrant workers have for remitting their SSS and Philhealth contributions. A brief summary of the electronic money payment options available to migrant workers is given below. These options are in addition to the more traditional over-the-counter payments to authorized overseas collecting agents of SSS and PhilHealth, such as overseas branches of Philippine banks, and accredited remittance centers and agents.

5.3.1 Payment by proxy

A migrant worker can send money to a responsible family member and authorize him/her to effect the payment of obligations on behalf of the migrant worker. The funds can be sent by the migrant worker to the family member through banks or by using the electronic money remittance services of telecommunication companies. Through a “pabayad” system (a Filipino word which means “to pay by proxy”), payments to SSS and PhilHealth can then be made by a third-party for the account of the migrant worker.

Two bank executives interviewed for this study indicated that the practice of “pabayad” is prevalent among migrant workers. With the use of direct E-money remittance, the migrant worker can initiate the transaction. One drawback of this payment scheme, however, is the risk of moral hazard that the entrusted third-party may not effect the payment as directed by the migrant worker.

5.3.2 Payment via internet and mobile banking services

Instead of authorizing a third party to carry out payment transactions on his/her behalf, the migrant worker can directly make the payment by making use of bank or telecom services.

A migrant worker who has an account with a Philippine bank that offers Internet banking services would be able to effect direct payments to third parties through the Internet. Likewise, a migrant worker who has a GLOBE or SMART cellphone can direct payments from his/her Philippine bank account, provided the bank offers mobile banking services.

To enable the payment of SSS and PhilHealth contributions through this mechanism, SSS and PhilHealth must have prior arrangements with the bank to be included in the bank’s bills payment system.

5.4 Conclusions

From the analysis on the feasibility of collecting SSS and PhilHealth contributions from migrant workers using the current mobile payment and remittance service of telecommunication companies and banks, the following observations are made.

- (1) Because OFWs’ membership in SSS and PhilHealth is voluntary, the OFW must have compelling reasons for such membership. Therefore, SSS and PhilHealth should continue its

programmes to increase awareness regarding social security benefits and health insurance. SSS and PhilHealth can also provide different options for contribution payment.

- (2) OFWs would be willing to pay their SSS and PhilHealth contributions if an easy-to-use, convenient and of low cost payment mechanism is available. The availability of such a payment method is a key to ensuring that the OFWs' payment obligations to the SSS and PhilHealth stay current and up-to-date.
- (3) The study shows that the use of existing remittance payment as a way of collecting the SSS and PhilHealth contribution payments from OFWs is technically feasible but its cost is still relatively high and access is limited. However, on-going technological development of mobile payments holds significant potential as a payment mechanism for social security contributions. Recent initiatives of Philippine telecommunication companies to partner with their foreign counterparts (at this stage in Malaysia and Bahrain) show marked cost reductions in handling mobile payment transactions, thus enhancing the cost-efficiency of telecommunication companies to handle small payments.
- (4) Rapid developments in electronic mobile payments expand the range of options for migrant workers for remitting their SSS and Philhealth contributions. Two feasible electronic money payment options include (i) payment by proxy, in which a migrant worker can send money to a responsible family member through the electronic payment system and authorize the family member to effect the payment of obligations on behalf of the migrant worker; and (ii) payment via internet or mobile banking services, in which the migrant worker can directly make the payment by making use of bank or telecom services. To enable the second option, the SSS and PhilHealth must have prior arrangements with the bank to be included in the bank's bills payment system.
- (5) The SSS and PhilHealth could explore the option to pursue pilot projects with telecommunications companies and major Philippine banks regarding the use of mobile phones for cross-border payments. In particular, both institutions could explore the possible pilot projects to test the low cost applications from Malaysia and Bahrain. Telecommunication companies and banks should meet the data requirements of SSS and PhilHealth regarding the recording and tracking contribution payments of OFWs.

Expanding the reach of mobile payment services to more migrant workers in the major OFW destinations will depend on the success of Philippine telecommunication companies in forging partnerships with the mobile phone operators in those countries, and the capability of SSS and PhilHealth to reach a mutually beneficial agreement with the Philippine telecommunication companies for the collection of social security contributions. The ILO and ISSA, in collaboration with other international organizations, continue to be involved in assisting the governments and social security organizations in meeting these challenges.

Annex: Recent press releases

The technological development in the area of mobile money transfers is advancing very rapidly. This Annex aims to supplement the report with the up-to-date information from internet sources.

1. The GSM Association (GSMA), a global trade association that counts 700 GSM mobile phone operators as full members, and more than 200 manufacturers and suppliers as associate members, recently issued a press release on its initiatives in mobile payment:⁸

12 February 2007.

The GSM Association has launched a pilot programme aimed at tapping the ubiquity and ease-of-use of mobile communications to enable the world's 200 million international migrant workers to easily and securely send remittances to their dependents, many of whom don't have bank accounts. By exploiting the extensive reach of the mobile networks, the programme will complement existing local remittances channels and make transferring money internationally significantly more affordable.

Spearheaded by a special group of 19 mobile operators with networks in over 100 countries and representing over 600 million customers, the GSMA believes the programme could double the number of recipients of international remittances to more than 1.5 billion, while helping to quadruple the size of the international remittances market to more than \$1 trillion by 2012.

To combine the strengths of the mobile and financial ecosystems, mobile operators are partnering with banks at a local or regional level, while the GSMA is setting up a pilot with MasterCard Worldwide, a global payments leader whose cards and network provide international authorization, clearing and settlement. The GSMA and MasterCard, which has a 25,000 member-bank network, plan to pilot a global hub that will link together national markets and the local payment systems run by mobile operators in partnership with those local banks. The hub will enable migrant workers to trigger international money transfers using their mobile phone and their families to be notified via their mobile phones.

2. The following press release from GLOBE provides details on the mobile payment service available through the Maxis SIM:⁹

30 May 2007.

GLOBE Telecom and Maxis Communications Berhad launched the world's first international mobile to mobile money transfer service between Malaysia and the Philippines.

Having acquired approval from Bank Negara, Maxis is now authorized to offer mobile international remittance service in Malaysia through M-money. The mobile international remittance service is a simple SMS-menu based service that enables Maxis customers to instantly transfer money up to the value of RM500/PHP6500 (per transaction) to friends and family in the Philippines using their mobile phones. Customers can request to remit M-money in Ringgit value to GLOBE's G-Cash

⁸ Source : GSMA Website

⁹ Source : Globe Website

customers in the Philippines, which will be converted into Pesos on the fly and immediately deposited into the recipients' G-Cash wallet.

To get started on Mobile International Remittance, Maxis customers can instantly cash in to their M-money account via selected Maxis centres or DropZone outlets and Maxis Partner Banks. Customers can also register for M-money service for free by sending Mmoney to 27007.

Charges for the Mobile International Remittance services are RM5 per remittance to GLOBE GCash customers in the Philippines and RM0.15 SMS fee per transaction. Note: No additional fees will be levied on the remittance to the beneficiary in Philippines.

3. The following press release from SMART explains the details of the mobile payment services that will be provided through their partners:¹⁰

13 February 2007.

SMART Communications, Inc. (SMART), the Philippines' leading wireless services provider, announced that it will soon launch pilot projects in the Middle East and Europe to offer low-cost remittance services using its mobile phone-based financial services platform.

Called the SMART Services Hub, the platform will enable mobile operators and banks to serve the remittance needs of migrant populations in their respective countries. Through the platform, migrant workers will be able to send remittances to their countries via SIM-based services anytime, anywhere -- all at the speed of a text message.

Through the SMART Services Hub, mobile operators at the sending country can offer menu-based services that enable their migrant subscribers to use their mobile phones to remit funds drawn from accounts in a partner bank in the sending country.

The transaction goes through an authorization, clearing and settlement process that allows the funds to be deposited in an account in a partner bank in the receiving country or in an electronic wallet linked to the recipient's mobile phone.

It is working with MTC Vodafone Bahrain of the MTC Group. In Europe, SMART is pursuing a similar arrangement with a telco and a bank in Italy.

In cooperation with the GSM Association, SMART will also conduct a pilot with MasterCard as an authorization, clearing and settlement partner.

4. The following press release mentions that Western Union and GSMA are to create new global mobile money transfer services. The entry of Western Union would facilitate the setting up of arrangements between telecommunications companies and financial intermediaries in foreign countries. Also Western Union is prepared to handle the small amounts that will be transferred via mobile money transfers:¹¹

18th October 2007, New York:

¹⁰ Source : SMART Website

¹¹ Source : GSMA Website

The GSM Association (GSMA), a global trade association representing over 700 GSM mobile phone operators, and The Western Union Company (NYSE:WU), a global leader in money-transfer services, today announced an agreement to facilitate the development of cross-border mobile money transfer services.

Western Union and the GSMA are developing a commercial and technical framework that mobile operators can use to deploy services that enable consumers to send and receive low-denomination, high frequency money transfers using their mobile phones. The first commercial services that make use of the framework are anticipated to be rolled out beginning in the second quarter of 2008.

The framework forms a key element of both Western Union's mobile strategy and the GSMA's Mobile Money Transfer programme which aims to use the reach and ease of mobile money transfer services to expand the mobile financial services market and stimulate social and economic development. Mobile money transfer services will make it simple, quick and affordable for more people to send small amounts of money through a conventional and regulated system. Both Western Union and the GSMA believe there is an opportunity to create and grow a large new market for low denomination transfers.

"Mobile networks now cover more than 80 percent of the world's population and 3 billion people have a mobile phone, creating an unprecedented opportunity to extend the benefits of financial services to the majority of the world's families for the first time." said Rob Conway, CEO of the GSMA. "Mobile money transfers are a key driver in the development of a potentially vast market for financial services delivered via the mobile phone."

"Western Union has a long-tradition of innovation," said Western Union President and CEO Christina Gold. "Our focus on the mobile money transfer space is an important step in expanding the range of Western Union's global services to a new category of consumers. Our brand, extensive network, and compliance capabilities, combined with the GSMA members' market reach, uniquely positions Western Union in the mobile money transfer marketplace."

The Western Union mobile service will connect operators to Western Union's existing global money transfer system, which processed approximately 17 percent of the world's remittance volume in 2006. Once connected to the Western Union service, operators will be able to use their own 'mobile wallet' software to enable person-to-person mobile money transfers over Western Union's cross-border remittance network. The Mobile Money Transfer service will enable consumers to transfer money to or from mobile wallets and will offer a global network of Western Union Agent locations for cash-to-mobile and mobile-to-cash transactions.

Thirty-five GSMA operators with more than 800 million customers in more than 100 countries are participating in the GSMA Mobile Money Transfer programme. Led by Sunil Mittal, the Chairman and Managing Director of Bharti Airtel, the Mobile Money Transfer programme is overseen by a steering committee made up of representatives from Bharti, MTN, Orange, Orascom, Smart, Telenor and VimpelCom.

"Remittances are playing a vital role in the social and economic development of India and many other developing countries," said Mr. Mittal. "This initiative will bring down the cost of lower-value and high-frequency mobile remittances considerably and also enable smaller amounts to be transferred in a fast and secure fashion, thereby benefiting millions of people in the developing world."

Western Union and its affiliates provide money transfer services across 200 countries through a network of more than 312,000 Agent locations.

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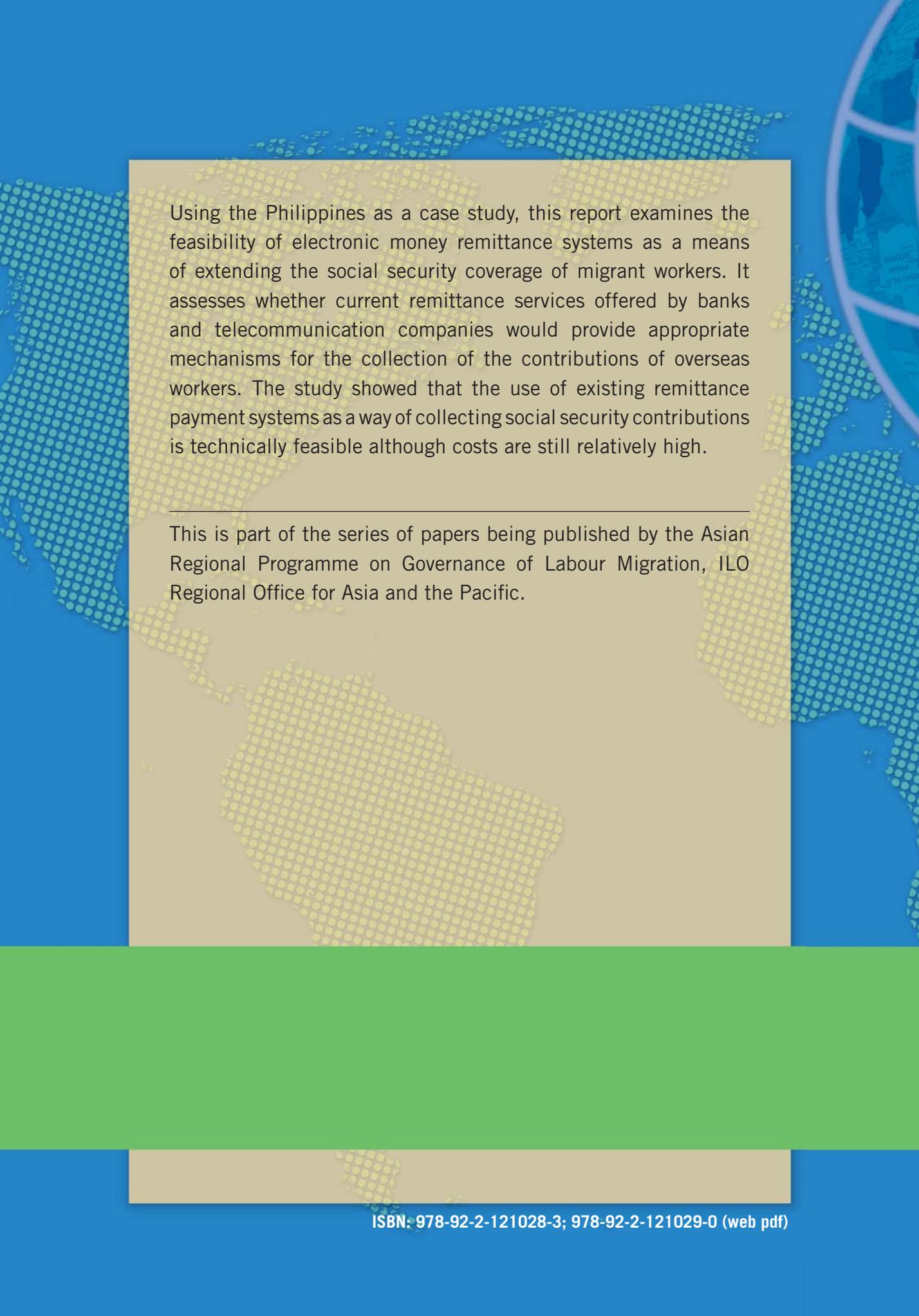
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Using the Philippines as a case study, this report examines the feasibility of electronic money remittance systems as a means of extending the social security coverage of migrant workers. It assesses whether current remittance services offered by banks and telecommunication companies would provide appropriate mechanisms for the collection of the contributions of overseas workers. The study showed that the use of existing remittance payment systems as a way of collecting social security contributions is technically feasible although costs are still relatively high.

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