

INTERNATIONAL MONEY TRANSFER – THE NEW AND THE CONSTANT

A roundtable discussion report by Money Transfer International

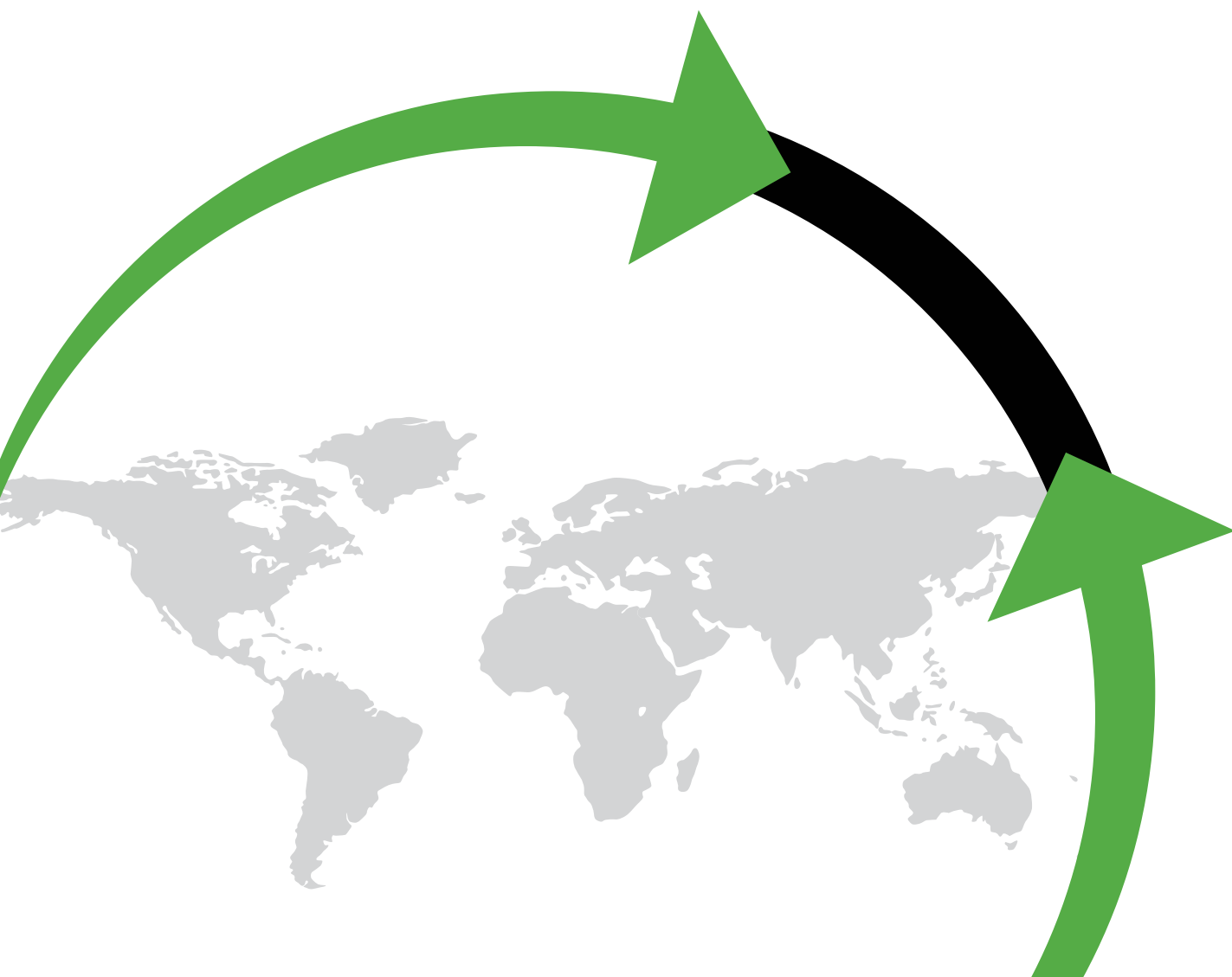


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WELCOME NOTE



Lady Olga Maitland, chief executive,
Money Transfer International

The term ‘remittances’ has come to define foreign workers sending money home and this market is now a mature one, exceeding inflows into developing countries by foreign direct investment and official development aid. However, the appetite for transferring money internationally has now extended far beyond itinerant workers. Today, a vast and diverse cross-section of senders and receivers makes up the money transfer maze.

To achieve collaborative foresight into this growing and diversifying market, with the support of our partners Sun Microsystems and Computacenter, Money Transfer International (MTI) brought together 12 thought leaders representing many corners of the industry – and the globe.

Participants included senior representatives from both global and local banks from both developed and emerging economies, a regulatory body, an inter-governmental agency, a national payments council, a foreign exchange firm and a payments services provider. The roundtable was chaired by Chris Skinner, chairman of the Financial Services Club.

Together, under Chatham House rules, we considered the changing dynamics, as well as the challenges and opportunities facing this sector over the next year and the next decade. The fascinating debate that ensued has been summarised in this report; and the insights, opinions and anecdotes of the participants have been consolidated.

The word echoed perhaps most frequently during the discussion was “trust”. One of the very few consensus points of the evening was the fact that trust is critical and that trust has shaped the industry into what it is today. Participants also agreed that the role of a trade association is to bring about collaborative best practice efforts. In fulfilling this role, I see MTI as being a necessary ambassador of trust in this evolving industry.

INTRODUCTION

Participants were attracted to this roundtable discussion because international money transfer is something that simply cannot be ignored, given the size of the market today. 200 million people, representing 3% of the world population, live outside their country of birth.

Several noted that recent media coverage surrounding migrant workers' return to their home nations in light of the economic downturn has been vastly over-hyped. They argued that there are still many flourishing economies – including Dubai – where such individuals need access to financial services. From a recipient standpoint, participants highlighted the strong dependency on remittances by many developing nations.

Neil Burton, director of product service strategy at Earthport, pointed out that the senders of many cross border low value transactions no longer fit the migrant worker profile. There is no material difference between a remittance and a cross-border retail payment. In the UK for example, according to World Bank data, approximately \$4.6 billion is sent from the country each year, whereas \$7bn comes into the country.

This suggests that remittances are no longer solely about supporting people in the developing world. In many cases today, remittances are also made for charitable and trade reasons and can therefore have a very powerful impact, especially if directed for maximum benefit. Findings of a recent World Bank report indicate that the rate of return to each dollar of aid directed toward promoting trade is nearly \$700 in additional trade.

This discussion covered pertinent industry issues including how the global uptake of mobile, internet and social network communications is dramatically changing the landscape. Interestingly, participants' perspectives also suggested that, in spite of technology being more affordable and accessible, the old world of payments – face-to-face contact and cash-based transaction – continues to command a foothold, albeit a weaker one.

The debate turned to the roles that financial institutions and regulatory bodies are currently playing, as well as their future potential impact. This led to dialogue about the ongoing problem of the unbanked and financial exclusion in the latter part of the discussion. Participants offered some sound suggestions of how this can be tackled, including how transferred monies can be used for trade reform.

“From our point of view, the most significant change in this industry in the last decade has been the sheer quantum of transmission that has taken place.”

Ransford Smith, deputy secretary general, Commonwealth Secretariat

Quick facts

200 million people, representing 3% of the world population, live outside their country of birth.

Approximate percentage of GDP that remittances represent:*



Findings of a recent World Bank report indicate that the rate of return to each dollar of aid directed toward promoting trade is nearly \$700 in additional trade.*

*According to participants of the roundtable discussion

MOVING MONEY, EVOLVING DYNAMICS

It's difficult to keep up with the wealth of disruptive money transfer means and methods in operation today. One participant said that what has muddied the waters most is the number of new entrants to the market in the last three years, which has made it very difficult for people to know what they are buying. However, the fact-based comment that summed up the technological transformation in the industry most clearly was this: Today 80% of remittances to the Philippines are made electronically. Ten years ago, 80% of remittances to the country were made by physical movements of cash.

Examples of how the market is rapidly changing through mobile development were put forward, including how the M-PESA has seen parts of the African market go from having very little payments infrastructure to being 100% wireless. The table's chair, Chris Skinner, deemed this a revolution, claiming that banks in Africa conceded that if they didn't offer a mobile transfer mechanism, customers would leave them. This mobile service now transfers more than 10% of funds between Kenyan and non-Kenyan citizens.

Another participant argued that, in many cases, such contactless payment services didn't set out that way – their usage has largely been determined by how people have chosen to use given instruments. This unintended consequence is putting pressure on mobile operators, which didn't intend to become informal retail banks.

Another delegate suggested that the increasing acceptance of contactless services by senders and recipients could mean that they take even more market share away from the money transfer agents. However, another participant claimed that services offered by mobile operators would still require some level of bank involvement to be truly successful.

Burton turned the conversation to the impact of social networking, arguing that while generation Y is excited by mobile payments, generation X is using technology in even newer ways. Another participant asked: "Are we the right people to be at this table or should it be our kids?"

A discussion about the average age of a remittance sender followed, with the consensus being that it was over 30 and therefore just a short matter of time until active social media users were remittance senders. At this point Skinner argued that the profile of the average Facebook user today was actually a mother of over 40, communicating with her extended family.



"Technology is at the heart of this industry. It's therefore paramount that people involved with international money transfer understand how technology is used and the impact it has."

Olga Maitland, chief executive,
Money Transfer Internationale

Pieter Heyn, global industry manager for banking at Sun Microsystems, posed the scenario of schools in developing countries using social networking sites to appeal for aid and communicate with supporters. Skinner suggested many people are already using peer-to-peer portals such as Kiva to make international microfinance investments without any bank involvement.

It was claimed that you cannot under-estimate the cash-side of money transfer, which led to the question: Is cash dying yet? Most participants agreed that cash-based remittances are still alive and well and offered some anecdotal scenarios, including:

- People in Nigeria transferring money through the driver of the bus headed for the next country.
- Planes leaving Heathrow for Pakistan carrying more cash than the value of the plane.
- People ignoring the bureau de change at Manchester Airport because they can get better exchange rates for their pounds in the destination country.
- Workers in Saudi Arabia driving to the cities and acting as a team to find the best exchange rates.

Mark Smith, director of developing markets at Travelex, stressed that, "You cannot ignore the impact of how countries' parallel markets influence cash payouts in foreign currencies. Many countries encourage payouts in hard currencies as it can have a positive effect by reducing the parallel market rate differential."

Another participant suggested that the biggest change to come will be the creation of a single global identity for citizens of planet Earth and that this would eliminate all complications. Others were unconvinced this would happen in the next decade but generally agreed that the payments industry is moving at a faster pace.

Analyst prediction

Gartner predicts that by 2013, person-to-person lending will soar at least 66% to \$5 billion of outstanding loans, driven by a combination of people shunning their banks and being shunned themselves.

"Smart mobile internet is pervasive among the emerging market – not just the emerged. If we don't take this onboard, we're missing a trick."

Chris Skinner, chairman,
Financial Services Club

A BUSINESS FOR BIG BANKS?

The role of global banks in the money transfer playing field was also debated. Representatives from such banks noted that they have traditionally steered away from this business.


One delegate gave the following scenario to explain the reasoning. “We make 1% of the value of each transaction, but if we get one transaction wrong it could cost us over \$100m in lawyer fees and \$1-2bn of lost business. For ten bucks, who’s going to risk that? Big banks have a role to play but it’s not bringing the people from a remote village into mainstream banking – that’s a job for another type of institution. Regulation is against us, the market is against us, reality is against us.”

Olga Maitland challenged the global bank representatives, asking whether they may be missing a trick. She suggested they take heed of the upfront money opportunities offered by remittances, noting that the skill is in handling this in a cost-effective way, as has been achieved by many regional banks. Another participant argued that these institutions need to take a long-term view and posed the question: “If you get disconnected from the market and it continues to grow, how bad will you feel about it?”

One perspective was that these banks struggle to gain trust because, unlike other transfer methods, their infrastructure makes it difficult to transfer funds within seconds. Speed therefore becomes synonymous with trust. Another response was that banks may not be needed at all for this business, unless the local regulator specifies that the money must be sent through a regulated organisation. Other comments included:

- You can’t cross-sell products to remittance senders, the revenues are poor.
- It’s a very labour-intensive activity for a bank to take all this data in.
- Large banks are best positioned as intermediaries and infrastructure providers.
- Banks in domestic markets should provide the services to remittance senders and recipients.

Following this final comment, a representative from a local bank which also serves unbanked citizens through pre-paid cards, explained that they rely on the correspondent and clearing services from the large banks. This is because they simply do not have the level of infrastructure capability enjoyed by the banking giants.



“We make 1% of the value of each transaction, but if we get one transaction wrong it could cost us over \$100m in lawyer fees and \$1-2bn of lost business.”

Participant of the roundtable discussion

THE REGULATORY BALANCING ACT

When considering the regulation of international money transfer, a representative from a regulatory body commented that regulation is unfortunately always going to be behind the game, while technology is leading it. An example that came to light was that the European Payments Council is trying to work with the mobile community to create standards for mobile transactions, though there is little interest at present from many mobile operators.

The same regulatory representative expressed frustration with the remittance industry's obsession with money laundering and financial terrorism, arguing that more perspective is needed so that people can carry out legitimate activities without huge compliance costs. Anti Money Laundering and Know Your Customer regulations therefore need to be more risk-based and proportionally-focused.

On the topic of recording transferred money through official systems, there were varied views as to whether it is the regulators or security forces pushing for this. One participant stressed that it is the security forces, claiming that regulators simply want regulation to be applied in the correct way. Another noted that sometimes regulators do things which have unintended consequences, but also acknowledged that firms need the regulatory environment to work in their favour.

Regarding the informal remittance market, one participant was of the opinion that we are just one terrorist financing scandal away from a succession of global initiatives coming in to over-regulate. This could shift the balance from the benefit of informality to the benefit of formality. Another noted that regulation should be helping to create new innovations, as well as more efficient and inclusive services.

THE STRIVE FOR INCLUSION

Directing the conversation to financial inclusion, Maitland offered the example of how a bank in Dubai opened its doors for 12 hours a day, seven days a week. The result was that its business increased significantly because migrant workers were able to use its branches. She posed the question: "Why aren't we doing more to attract the people going to the informal market?"

In response to this, one participant commented that regulation should be playing a role in getting the excluded into the regulated economy, preventing them from being serviced by criminals. Another suggested that microfinance players are central to addressing this problem and that it is these organisations – rather than the big banks – that will bring about the necessary level of inclusion.

Alex Milan, managing director of Philippine National Bank Europe, advised the group how it is helping its overseas citizens by enabling them to open both banking and savings accounts abroad in the Philippine Peso. He explained that such a service means that these migrant workers will no longer be dependent on money transfer agencies and means they can then benefit from better rates. Milan said: "We want them to go from remitter to account holder. This will help them save money for the future."

"Regulation should be intelligent, risk-responsive and proportionate. We need more lateral thinking among regulators."

Dominic Peachey, technical specialist,
Financial Services Authority

Commenting on the commercial aspect of financial inclusion, one participant pointed to the work of Absa in South Africa, arguing that its efforts were for the purpose of stronger government relations rather than revenue generation. The participant observed that governments are very influential so firms were under pressure to demonstrate corporate social responsibility. Another commented that if firms find themselves operating in hostile environments, they simply won't be able to make as much money.

Participants also debated how the importance of financial inclusion can be escalated and who would need to be influenced. Rather than being governments and regulators at a country level, many agreed that this was an issue for the G20.

One participant then offered the following three ideas of how we could potentially build towards financial inclusion:

1) Securitisation of flows at a country level

This is where a bank loans funds to governments by securitising the flow of remittances into a given country. According to the participant this can help create financial inclusion at a country level since the loaned funds would be intended for developmental purposes. However, this approach can be high-risk and there would certainly need to be some kind of safety net.


2) Securitisation of flows at personal level

This is where a bank securitises the flow of remittances into a microfinance organisation. In turn, this firm can lend money to an individual or family, safe in the knowledge of what is being remitted to them by overseas senders.

3) A global pension scheme for itinerant workers

Research shows that itinerant workers seldom contribute to pension schemes. This concept would enable people to contribute to a pension scheme, which can then be paid out in any country. The participant pointed out that this would need to be carried out under the sponsorship of an international or supranational organisation to give individual contributors confidence of security.

The participant concluded that the first two suggestions could be very powerful if implemented and used appropriately. However, while the technology is there, banks do not necessarily have the risk appetite to implement such initiatives. Overall, there needs to be more cooperation from a number of bodies to make this happen. Indeed, participants strongly agreed that to truly bring about positive change in this industry, in terms of sound governance and transparency, there must be a collaborative effort.



“Poor people are still being denied opportunities to improve their lot.”

Olga Maitland, chief executive,
Money Transfer International

CONCLUSION

As the discussion drew to a close, Paul Smee, CEO of the UK Payments Council, offered a strong concluding statement: “I used to regulate TV when people said it would cease to be an economic and social force due to the internet. Ten years on, a report recently revealed that people watch the same amount of TV today as they did ten years ago. As we look at how the market changes, we must therefore also look at the constants – the thread that links the remittances industry 10-15 years ago to today. It’s something to do with convenience, trust, continuity.”

Many participants concurred that the money transfer industry is, indeed, based on trust. When asked to define trust in this respect, several participants were of the opinion that it is largely nationality-based. One commented that a Filipino migrant in London would rather go to a Filipino bank to transfer money than go to another nationality.

Someone noted that Hawala works on trust, with another arguing that this was a “shabby trust”. By using a cultural hold it makes people feel they cannot go to the formal sector. Maitland argued that Hawala should be challenged and that mobile payments could well be the catalyst that moves people away from this system.

To further drive towards greater levels of trust in the industry, it was suggested that an international register is drawn up, documenting approaches to money transfer by each country and organisation involved. This could help address the issue of siloed operations that lack standards, creating increased transparency. Pieter Heyn also proposed that a forum be created to facilitate knowledge share by documenting the broad spectrum of money transfer schemes taking place globally.

One participant stressed that this industry was about person-to-person value transfer and the fundamentals of how we communicate. Another noted that communications, and therefore remittance behaviour, changes according to life circumstances. For example, if a migrant leaves their country at the age of 25, by the age of 40 – when they may be married with children – they will likely send less money to their country of origin. This is a natural consequence of their changing responsibilities. On this note, another participant summed up the discussion by claiming that international money transfer services are about what serves people best – physically and intellectually – at given points in their lives.

The roundtable closed with much food for thought regarding the constants as well as the new and evolving nature of this industry.





Money Transfer International

www.moneytransferinternational.org

Money Transfer International is an international trade association dedicated to promoting the development and interests of the global remittances industry. It is a not-for-profit company limited by guarantees and incorporated in the United Kingdom. Members of the MTI board of directors are drawn from all sectors of the payments industry. The association has offices in London, Singapore and Beijing.



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