



KEY TRENDS IN THE MONEY TRANSFER INDUSTRY FOR 2016

Abstract

2016 promises to be an exciting year for the money transfer industry, with the possibility of new opportunities in terms of newer ways to reach the customer, and newer markets to cater to. This would translate to the emergence of new business models and business alliances. The year is likely to see incumbent players challenged by newer players with new market offerings.

As we enter the new year, it seems like an appropriate time to do a little exercise in crystal gazing and attempt to predict the key themes that are likely to dominate the money transfer industry in 2016.

The total size of this industry was around US\$580 billion in 2014 and is expected to grow to around US\$600 billion by 2017. The following are the main trends that are likely to dominate the money transfer industry in 2016:

1 Existing business models under pressure from newer business models

2016 will see sustained pressure on the existing 'brick-and-mortar', agent-based business models and continued focus on digital modes of money transfer. Today brick-and-mortar-based cash services roughly account for 47% of total remittances (source: Remittance Price Worldwide (RPW)). This number is likely to reduce significantly with the proliferation of smartphones that make online transfers more convenient and cheaper. This shift presents a business as well as a technological challenge for existing companies which require a robust technology platform that can support both traditional as well as the newer modes of servicing the customer.

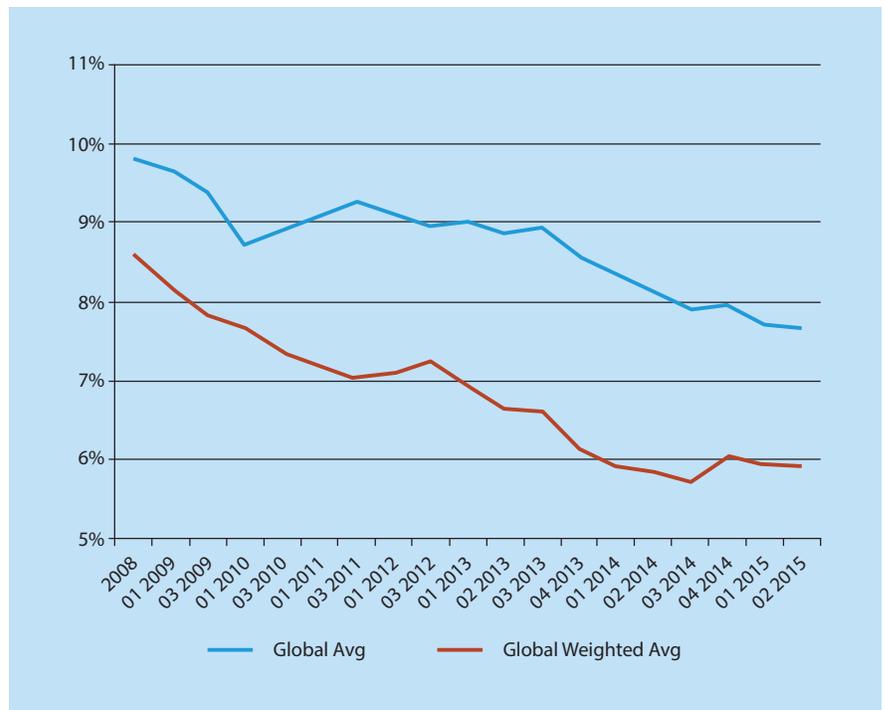
2 Decreasing remittance fees

Global average total cost of sending remittances reduced from 8.93% in 2013 to 7.52% in 2015 (source: Remittance Price Worldwide (RPW)). This is a significant drop since cutting prices even five percentage points can save up to US\$16 billion a year. This downward trend is likely to continue for various reasons:

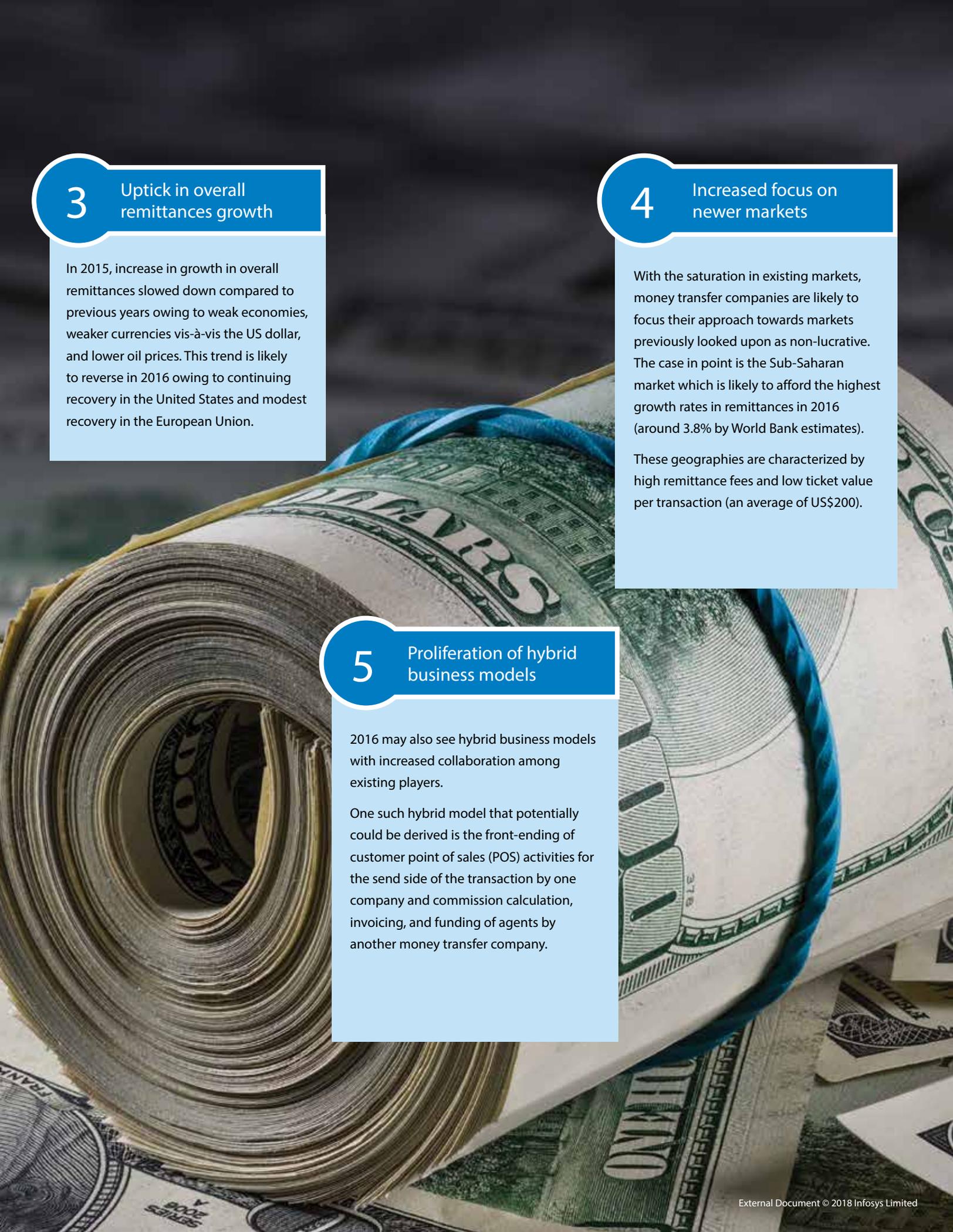
- Online Services currently offer the cheapest remittance options, around 5.32%. As the focus shifts to digital means of money transfer, the average cost of money transfer is likely to see further decline.

- Focus by G20 economies to reduce remittance costs to 5% to aid developing nations. This has been a recurring theme in various G20 summits ranging from Brisbane, Australia, in 2014 to Antalya, Turkey, in 2015. India has urged the G20 nations to define a target date before 2030 to reduce the high costs of transferring remittances.

The below figure shows the decrease in remittance fees over the last few years for sending an equivalent of US\$200 (source: World Bank).



This downward trend in remittance fees directly impacts profitability of traditional, agent-based businesses.



3 Uptick in overall remittances growth

In 2015, increase in growth in overall remittances slowed down compared to previous years owing to weak economies, weaker currencies vis-à-vis the US dollar, and lower oil prices. This trend is likely to reverse in 2016 owing to continuing recovery in the United States and modest recovery in the European Union.

4 Increased focus on newer markets

With the saturation in existing markets, money transfer companies are likely to focus their approach towards markets previously looked upon as non-lucrative. The case in point is the Sub-Saharan market which is likely to afford the highest growth rates in remittances in 2016 (around 3.8% by World Bank estimates).

These geographies are characterized by high remittance fees and low ticket value per transaction (an average of US\$200).

5 Proliferation of hybrid business models

2016 may also see hybrid business models with increased collaboration among existing players.

One such hybrid model that potentially could be derived is the front-ending of customer point of sales (POS) activities for the send side of the transaction by one company and commission calculation, invoicing, and funding of agents by another money transfer company.



6

Increased focus on Anti-Money Laundering (AML) initiatives

The World Bank and the International Monetary Fund (IMF) estimate the volume of money laundering to be between three and five percent of GDP, equivalent to approximately US\$2.2 trillion to US\$3.7 trillion annually. There are several AML regulations that money transfer companies need to comply with. Some of the more important ones are the Bank Secrecy Act, the US Patriot Act, and the Office of Foreign

Assets Control and International Sanctions Programs.

As the scourge of terrorism continues to ravage the world, money transfer companies will more likely be required to comply with stricter anti-money laundering initiatives. This may mean additional validations during placement, i.e., the stage at which illegal funds are introduced in the financial system, or during layering which involves disguising the audit trail of

transactions to make it difficult to identify the original source of funds. This may mean additional validations at the POS, meaning more procedures for agents and customers alike. This could additionally lead to greater checks and balances for digital modes of money transfer.

Increased focus on AML initiatives may regrettably increase the remittance costs for the money transfer companies.



7

Consolidation in the money transfer industry

One of the big acquisitions of 2015 was that of Xoom by PayPal for around US\$890 million. This acquisition signals the trend of established players entering the lucrative money transfer space.

Another significant acquisition that was completed in 2015 was that of Travelex by UAE Exchange for around £1 billion.

This acquisition signals the intent of companies to no longer remain just money transfer players but become generic money management players.

This trend of money transfer companies to diversify into other money management areas may lead to further mergers in 2016. This trend may be

more pronounced for companies with traditional agent-based business models as they look to diversify into new revenue streams.



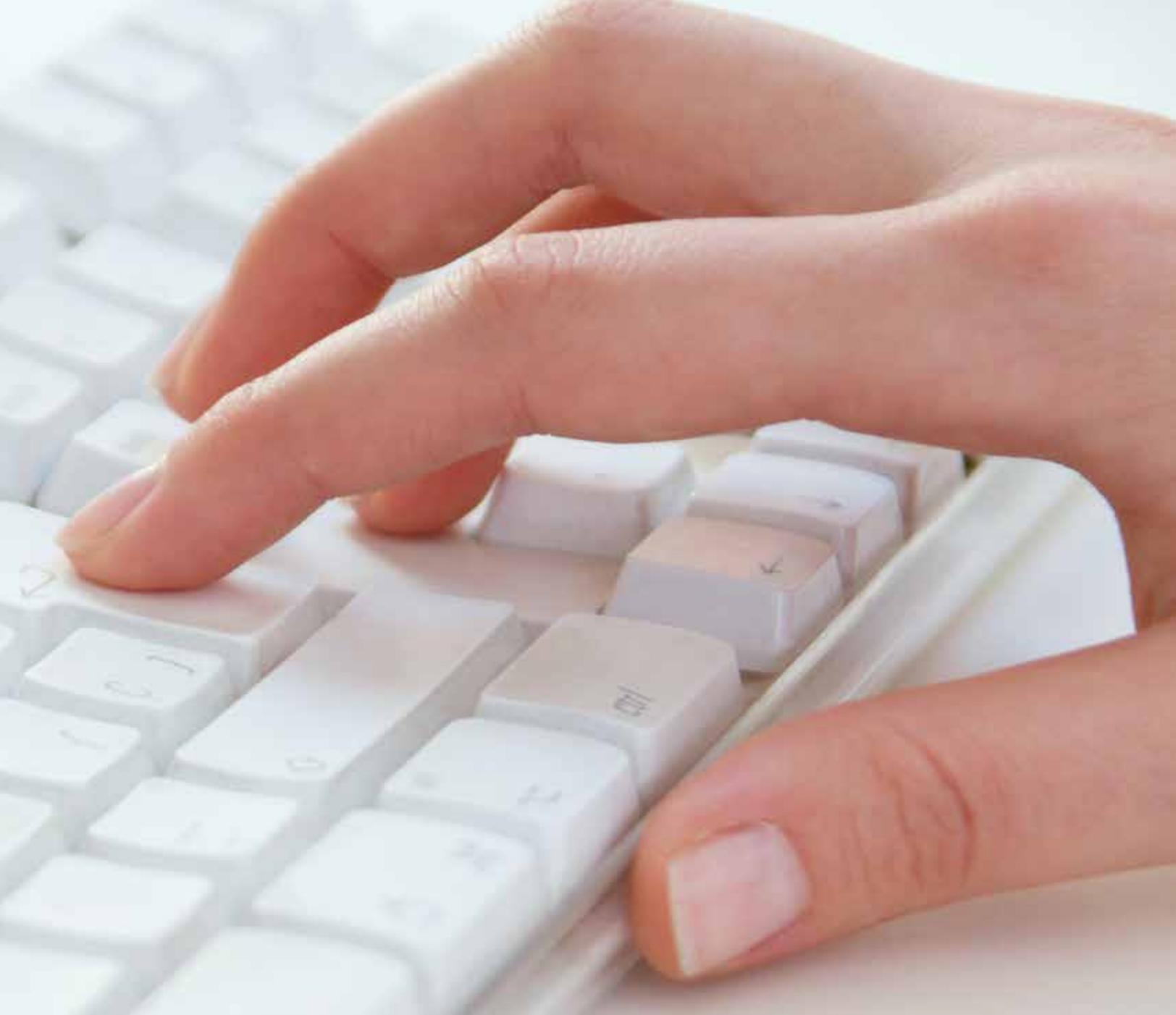
8 Exploring social media platforms for money transfer

This last prediction seems a little far-fetched but is not entirely out of the realm of the possible. In fact there are already some early entrants in this field. XOPO, a remittance app by XpressMoney, allows users to make cross-border payments via various social media platforms like Facebook and WeChat. In fact, Facebook already offers local currency payments API

to simplify purchase experience, improve payments flow, and make it easier to price virtual goods globally. This logic can be extended to facilitate money transfer across Facebook users.

According to the World Bank, 90% of money transfer happens between friends and families who are most likely connected on social media. This connection between

send and receive parties presents huge potential for social-media-based money transfer. This seems like a win-win situation as it provides social media players an additional opportunity to monetize their consumer base.



Late 2015 saw a new collaboration between a major money transfer player and a messaging-based communication player. This partnership will enable the money transfer player to support peer-to-peer (P2P) payments inside the messaging app. 2016 may see increased focus in this area with more money transfer companies forging partnerships with social media players to

offer social-media-based money transfer solutions.

In summary, 2016 promises to be an exciting year for the money transfer industry wherein companies are likely to present differentiated offerings to newer markets with the objective of improving both their revenue and bottom line.

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