Money Transfer Market Trends

Professor Arun Sharma
University of Miami
Arun Sharma – Background

• Vice Dean of Graduate Programs and Executive Education and Professor in the Marketing Department at the School of Business Administration, University of Miami.
• Specialization in Market Strategy.
• Started examining the money transfer industry in 1998 when Western Union asked for help with Latin America strategy.
• Worked with Western Union, MoneyGram, MasterCard, Visa, Walmart, Xoom and a large number of money transfer and Wall Street firms.
• Been a key note speaker at Money Transfer Conferences in the US, Europe and Asia.
• Advised sub-committees of Senators Markley, Heller, Warner and Kirk Committees on digital currency.
Research Methodology

• Projects (Three Year Confidentiality).
  • Interview with stakeholders.
    • Senior Executives in the Industry.
    • Regulatory Authorities.
    • Channels.
    • Bankers/Credit Unions.
    • In-country Visits.

• Current Presentation.
  • Project – Global Examination of Payment Systems and Money Transfer.
    • Global Scope.
    • Panel data.
    • Questionnaires.
    • Intercepts.
My Predictions from 2013-14 Presentations

• Short-term (1-4 years).
  • Growth will Come from Non-traditional Channels (Internet, Mobile, Smart Phones).
  • Growth of Technology, Corridor Specific and Niche Firms – Erosion of Margins.
  • Disintermediation Will Take Place and Compliance will not be a Barrier to Entry.

• Long-term (3-10 years).
  • Emerging Nation Firms that Provide Reverse Transfer (developing markets to developing and developed markets) will Emerge and Compete with Traditional Firms.
  • Mobile Money: A technology whose time has not come.
  • Bitcoin and Money Transfer: Never Going to Happen.
Models Used in Money Transfer
Traditional Market Distribution

- Mass Market: 60%
- Low End Market: 25%
- Premium Market: 15%

Price/Service Sensitive
Trust/Time Sensitive
Service Sensitive
The Business – 2010

Size of Market

Dollar Scale

Profitability of a Transaction

Segment

Our Current Market

Bottom of the Pyramid

Middle Class

High Income

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The Business – 2016

![Graph showing the relationship between size of market, profitability of a transaction, dollar scale, and market segments (Bottom of the Pyramid, Middle Class, High Income).]
Money Transfer Firms Market Share – 2010

Bottom of the Pyramid

More Educated/More Middle Class

High Income

Trust/Time Sensitive

Price/Service Sensitive

Service Sensitive

Money Transfer

Total Size of Market
Market Share Capture by Money Transfer Firms – 2020

- Bottom of the Pyramid
- More Educated/More Middle Class
- High Income

- Money Transfer
- New Money Transfer Market
- Total Size of Market
Trends in Money Transfer
General Megatrends in the Money Transfer Industry

• Technology.
  • Security.
    • Growth of Brand Names.
  • Reducing Cash.
    • Europe by Strategy, others due to cost and convenience.
• Mobility.
  • Asia and Africa.
• Internet Payments.
  • Europe and Asia.
• Credit Cards.
  • Visa and MasterCard Under Stress.

• Regulations – De-risking.
  • Reduction in Off-shore Transfer.
    • Denial of Banking Services (KYC), Correspondent Banking.
    • Low Impact of Panama Papers (Mossack Fonseca).
Are Trends Global?

• Three Areas – Three Different Market Movements.
  • Americas, Europe and Asia (China).
  • Trends are Different in Different Markets.
  • Regionalization (versus globalization of markets).

• Of the three large markets, Asia is the fastest to adopt technology and America is the slowest to adopt technology.

• Asia has the lowest level of enforced regulation, America has the highest level of enforced regulation.
USA – Technology

• Security.
• Reducing Cash.
  • Move to Cards.
• Credit Cards.
  • Visa and MasterCard under stress.
    • Move from high fees credit cards to low cost debit cards.
      • Legal Attacks.
      • New Technologies.
      • Growth of Alternative payment systems.
• Testing of Blockchain Technology (Bitcoin).
Some Alternatives to Traditional Domestic Money Transfer

- clearXchange
- Zelle
- Bank of America
- Capital One
- CHASE
- 1STBANK
- Frost
- US Bank
- Wells Fargo

- Venmo
- Square Cash
- PayPal
Mobile Payment Environment in the US is Just Emerging

**Chase Pay**
Based on QR codes, to launch in coming months

**Capital One**
‘Second look’ feature warns about unusually large tips

**Apple Pay**
More than 1,300 lenders allow their cards to work with it

**Android Pay**
Accepted at over 1 million stores

**Wells Fargo Wallet**
Launched in July 2016.

**Walmart Pay**
Works with retailer’s shopping app

**Samsung Pay**
Can be used at swipe-only and newer terminals

**Masterpass**
Can now be used for in-store phone payments

**CakePay**
Lets diners pay on phones without waiting for server
USA
Banking Regulations – De-risking

• Regulation (Costs = 4-5% of revenue).
  • Denial of Banking Services (primarily due to KYC).
    • Correspondent Banking.
    • Implications for Risky Industries – Cash checking, Money Transfer, Casinos.
  • Risk Avoidance.
    • Reduction in Wire Transfer.
  • Reduction in Off-shore Accounts for Tax Avoidance.
    • Low Impact of Panama Papers (Mossack Fonseca) – IRS focus had reduced offshore accounts.

• Permanent reduction in ROE?
• The vast majority (about 95%) of BSA (Bank Secrecy Act)/OFAC (Foreign Assets Control) compliance deficiencies identified by the FBAs, FinCEN, and OFAC are corrected by the institution’s management without the need for any enforcement action or penalty.

• The FBAs (Federal Banking Agencies) expect U.S. depository institutions to have robust BSA and OFAC compliance programs that include appropriate customer due diligence so that the institutions have a clear understanding of FFI (Foreign Financial Institution) risk profiles and expected account activity. This information helps U.S. depository institutions make informed decisions regarding the risks associated with their FFI relationships and the level and nature of suspicious activity monitoring needed to manage those risks effectively.

• Banks are expected to obtain and review sufficient information about their FFI relationships, including the types of customers the FFI serves and the markets in which the FFI is active.

• Criminal Enforcement In addition to FBA, FinCEN, and OFAC enforcement actions, financial institutions may also be subject to criminal enforcement actions by the U.S. Department of Justice. Criminal prosecutions for BSA/AML and sanctions violations are typically brought against financial institutions only when there is sufficient evidence of willful wrongdoing.
Latin America

• Banking Industry is Very Strong.
  • Changes will be Slow – Banking Industry will Block Competition.
    • Status Quo (compared to other regions).
    • Mobile Payments will come slowly.

• Changes will be Driven by US and European Banks.
  • US – Reduction in Correspondent Banking (Crisis in the Caribbean) and Bank Accounts.

• Developing Country to Developing Country Growth.
  • Mexico to Guatemala; Guatemala to El Salvador; Costa Rica to Nicaragua; Colombia to Ecuador; Brazil to Colombia.
Europe – Technology

• Reducing Cash.
  • To increase transparency (tax issues) and address negative interest rates.
    • Sweden has removed ATMs and made bank branches non-cash.
    • Removal of the €500 note.

• Internet Payments.
  • High Penetration – no checks.

• Mobile Wallets.
  • Limited Penetration.

• Credit Cards.
  • Mostly Debit Platform.

• Innovative Platforms.
  • Fintech in London
    • P2P rather than banks.
    • 37 State Licenses in the US without Banks.
Outsourcing of Money Transfer Functions – Currency Cloud

Payment Manager

**Fast and reliable payments to 212 countries**
The location for managing all your payment processes. Payment Manager offers all the features needed to fully automate your payments lifecycle. It also helps introduce greater control – to set multiple levels of permissions and authorizations – and to simplify workflows, thereby saving you time and ensuring compliance.

You can make payments virtually anywhere in the world in the currency of your choice. We offer a range of payment options to suit your business, and we can bulk multiple payments to the same destination to cut down on costs. Our banking network gives you Local Payments to 32 countries, which allows you to rest assured that your payment will arrive in full every time at low cost.

Compliance Manager

**Let us handle your compliance needs**
Managing compliance is complex. Using Currencycloud, you can outsource some of the core processes to a trusted, regulated entity. This can be as simple as setting up and storing your approved beneficiaries, to asking us to handle your KYC for you.
Europe Regulations – Impact on Money Transfer

• Increased Transparency for Tax reasons.
• Brexit will reduce regulation enforcement.
  • Denial of Banking Services (KYC).
    • Only UK, European Banks will go back to Normal.
• Off-shore Accounts for Tax Avoidance?
  • Low Impact of Panama Papers (Mossack Fonseca) – mostly political and not financial.
  • Europe always had offshore accounts.
Africa – Mobile Wallets

Adults reporting using a mobile phone for money transactions:

- **Kenya**: 68%
- **Sudan**: 52%
- **Gabon**: 50%
- **Algeria**: 44%
- **Congo, Rep.**: 37%
- **Somalia**: 34%
- **Albania**: 31%
- **Tajikistan**: 29%
- **Uganda**: 27%
- **Angola**: 26%

Africa – Developing Country to Developing Country Remittance

Estimated bilateral remittances between these four African countries, in millions of dollars for 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Remittances Sent</th>
<th>Remittances Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>$107M</td>
<td>$240M</td>
</tr>
<tr>
<td>Kenya</td>
<td>$59</td>
<td>$170</td>
</tr>
<tr>
<td>Tanzania</td>
<td>$137</td>
<td>$17</td>
</tr>
<tr>
<td>Rwanda</td>
<td>$169</td>
<td>$45</td>
</tr>
</tbody>
</table>

Source: The World Bank

Asia

- Reducing Cash.
- Mobile Wallets.
  - Asia is leading. Joining of Mobile and Internet.
- Credit Cards.
  - Growth of Union Pay.
- Limited Regulation, Ineffective Enforcement.
  - Very low levels of enforcement.
  - Low Impact of Panama Papers (Mossack Fonseca).
  - Largest Market for Bitcoin.
# Wing Mobile Wallet – Cambodia 2014 (Mobile Firm Agnostic)

## WING Service Fees

<table>
<thead>
<tr>
<th>Services</th>
<th>Fees in USD</th>
<th>Fees in Riel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash In</td>
<td>Free</td>
<td>Free</td>
</tr>
<tr>
<td>WING Tinh Card</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WING Bill Pay (DIGI, First Finance, KLD, OneTV, PPP, KTH...)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Out</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Out via ANZ Royal Bank ATM</td>
<td>$0.50</td>
<td>2,000 Riel</td>
</tr>
<tr>
<td>WING Bill Pay (AEON, GOODHILL...)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WING Wei Luy</td>
<td>$1.50</td>
<td>6,000 Riel</td>
</tr>
<tr>
<td>Wei Luy Xpress</td>
<td>$0.02</td>
<td>100 Riel</td>
</tr>
<tr>
<td>Balance Check</td>
<td>$0.25</td>
<td>1,000 Riel</td>
</tr>
<tr>
<td>Change Mobile Phone #</td>
<td>$1.25</td>
<td>5,000 Riel</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Services</th>
<th>Amount(USD)</th>
<th>Fees in USD</th>
<th>Amount(KHR)</th>
<th>Fees in Riel</th>
</tr>
</thead>
<tbody>
<tr>
<td>WING Bill Pay (EDC)</td>
<td>*</td>
<td>*</td>
<td>0 to 100,000 Riel</td>
<td>1,000 Riel</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>*</td>
<td>100,001 Riel up</td>
<td>2,000 Riel</td>
</tr>
<tr>
<td>WING-2-WING</td>
<td>0 to $25</td>
<td>$0.25</td>
<td>0 to 100,000 Riel</td>
<td>1,000 Riel</td>
</tr>
<tr>
<td></td>
<td>$25.01 up</td>
<td>$0.50</td>
<td>100,001 Riel up</td>
<td>2,000 Riel</td>
</tr>
</tbody>
</table>

*You can use your USD account to pay EDC bill with the actual exchange rates applied.*

Available on: [Logos of various service providers]

Source: [http://www.wingmoney.com/services-fees](http://www.wingmoney.com/services-fees) (June 2014)
China – Alipay Has a $400 Billion Mobile Internet Payments Business

- Low Usage of Credit Cards.
- Alipay (450 Million Customers)
  - A few taps on the screen to buy investment funds, split restaurant bills with friends and send cash to family members.
    - Scan a QR code that changes every 60 seconds.
    - Press the tile marked Yu’E Bao to park spare cash in an interest-bearing account or Ant Fortune to buy higher-yielding investments.
    - The group’s MyBank, its new online-only bank, said this year it had issued 870,000 loans at an average amount around $6,100.
- WeChat (760 Million Customers)
  - One minute to set up account (mobile number, national ID, selfie).
  - Microloans and Micro credit.

Alipay Accepted at Ingenico Terminals in Europe

WeChat Platform (760 Million Users)

**Personal Banker**
China Merchant Bank allows customers to check & repay balances and ask live questions via WeChat.

**Shopping Assistant**
Mogujie / Meilishuo (fashion discovery & shopping sites) give customers tailored suggestions via WeChat.

**Private Chef**
Hahajing (a chain deli restaurant) allows customers to order & deliver food via WeChat.

**Grocery Getter**
Xiaonongnv (a grocery delivery startup) prepares fresh groceries & delivers to your address via WeChat.

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WeChat’s Successful Banking Page

Manage money / invest in money market funds via WeChat Payment

Order taxi - powered by Didi - pay via WeChat Payment

New Year Lucky Money – fun / social game to incentivize users to link bank cards to WeChat Payment...

Find restaurants / daily group buy deals - powered by Dianping - pay via WeChat Payment
Paytm – India (20 Million Customers)

Recharge or Pay Bill for

- Mobile
- DTH
- Data Card

Prepaid
- Postpaid

Operator

Amount

Browse Plans of all Operators

Fast Forward It!

Proceed

Airtel Delhi NCR Plans

Top Up  3G Data  Special Recharge

Talktime

Validity

Talktime

Validity

Talktime

Validity

Order Details

Payment Details

Date/CVV, skip these fields

Save this card for future checkout

Complete Your Payment

Proceed securely

Your card details are secured via 128 Bit encryption by Verisign

Other payment modes

- Credit Card
- Net Banking
- ATM Card
- IMPS
- Cash Card

NOTE: While we support most recharges, we request you to verify with your operator once before proceeding.
Credit Card World Share – 2015

Global Cards in Circulation
Credit & Debit 2015

<table>
<thead>
<tr>
<th>Brand</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>UnionPay</td>
<td>53.1%</td>
</tr>
<tr>
<td>Visa</td>
<td>29.0%</td>
</tr>
<tr>
<td>MasterCard</td>
<td>15.3%</td>
</tr>
<tr>
<td>Amex</td>
<td>1.1%</td>
</tr>
<tr>
<td>JCB</td>
<td>0.9%</td>
</tr>
<tr>
<td>Diners/Disc.</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

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Purchase Transactions on Global Cards 2015

<table>
<thead>
<tr>
<th>Credit Cards</th>
<th>Share</th>
<th>Chg. in Basis Pts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visa</td>
<td>44.1%</td>
<td>-149</td>
</tr>
<tr>
<td>MasterCard</td>
<td>29.0%</td>
<td>-96</td>
</tr>
<tr>
<td>UnionPay</td>
<td>15.0%</td>
<td>309</td>
</tr>
<tr>
<td>Amer. Exp.</td>
<td>7.1%</td>
<td>-32</td>
</tr>
<tr>
<td>JCB</td>
<td>2.7%</td>
<td>14</td>
</tr>
<tr>
<td>Diners/Disc.</td>
<td>2.2%</td>
<td>-46</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debit Cards</th>
<th>Share</th>
<th>Chg. in Basis Pts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visa</td>
<td>65.0%</td>
<td>-307</td>
</tr>
<tr>
<td>MasterCard</td>
<td>24.0%</td>
<td>69</td>
</tr>
<tr>
<td>UnionPay</td>
<td>11.0%</td>
<td>238</td>
</tr>
</tbody>
</table>

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My Predictions from 2013-14 Presentation

• Short-term (1-4 years).
  • Growth will Come from Non-traditional Channels (Internet, Mobile, Smart Phones).
    • Yes (20% growth of non-traditional channels).
  • Growth of Technology, Corridor Specific and Niche Firms – Erosion of Margins.
    • Yes.
  • Disintermediation Will Take Place and Compliance will not be a Barrier to Entry.
    • Not in the US, Yes in Europe and Asia.

• Long-term (3-10 years).
  • Emerging Nation Firms that Provide Reverse Transfer (developing markets to developing and developed markets) will Emerge and Compete with Traditional Firms.
    • Yes. However, firms are not taking advantage of the opportunities.
  • Mobile Money: A technology whose time has not come.
    • No in US and Europe, Emerging in Asia.
  • Bitcoin and Money Transfer: Never Going to Happen.
    • Yes.
Summary – Three Areas, Three Models of Money Transfer

• USA
  • Heavy Regulation, Low Technology Penetration.

• Europe
  • Medium Regulations, Movement Against Cash.

• Asia
  • Low Regulation, Movement Away from Western Financial Systems.
    • Growth in Mobility.
Dr. Arun Sharma is Vice Dean of Graduate Studies and Professor in the Marketing Department at the School of Business Administration, University of Miami. Arun has a Ph.D. in marketing from the University of Illinois at Urbana-Champaign, an MBA from the Indian Institute of Management Calcutta and a Bachelor of Engineering degree. Prior to joining the academic world, he worked for three years in a services firm where he handled product management and sales management responsibilities.

Arun has extensive knowledge of the Money Transfer and Payment Industry through his experience in consulting and conducting seminars. He has worked for over two decades in this industry and he has conducted studies for multiple firms in the payment services industry. He has worked with industry leaders such as Western Union, MoneyGram, Xoom, Visa, MasterCard, American Express, and, large banks and payment processors in the U.S., Latin America, Europe and Asia. Arun has considerable payment industry experience in the following specific areas: Customer and Industry Trends; Emerging P2P Markets; Emerging Mobile Markets; Compliance Issues; Market Movements; Innovation Driven Firms; Country Strategies; and Customer Selection.

He has conducted a number of studies on innovative global, regional and country level strategies and has been a key-note speaker for multiple payment industry conferences in the U.S., Latin America, Europe and Asia. He has developed a Delivery-Value-Relationship model for the payment industry that is used by leading payments firms.

Arun has published extensively (over 85 refereed articles) and is on the review board of major journals and has received many excellence in research and excellence in teaching awards from the School of Business Administration at the University of Miami. He can be contacted at 305.284.1770, Fax: 305.667.2557 and email: asharma@bus.miami.edu.