

INTERNATIONAL MONEY TRANSFERS: ISSUES, AND DEVELOPMENT ON IT MODELS



a. Prevailing trends and types of IT based transfers

A point of departure to understand trends in IT based transfers requires looking at the role of suppliers, their business models, the demand side, the function of technology, and the regulatory environment

- i. The function of technology: the technology for payments operates at both front end and back end. Solutions vary for different business models;
- ii. Role of suppliers: In the remittance transfer industry suppliers relying on IT based transfers are relatively new and seeking to find a niche in the market, but are introducing innovation into the market at a time when current business models on cash to cash transfers are turning less profitable;
- iii. The demand side: Remittance senders and recipients are still unaware or unprepared to adopt front end technology based transfers
- iv. Regulatory environment: the compliance for front end technology based transfers is the same for typical money transfers, however, some countries restrict their operations as in the case of Japan and sms transfers

Functionality of technology

- ◆ Current technologies offer at least four advantages to the remittance and MFI industries: functionality, innovated value added competences, business and development impact, and cost effectiveness.
- ◆ The functionality of the technology works for the back or front end of the business or institutions, technologies are easily adapted to the current transfer platforms most institutions have.
- ◆ These technologies include data payment transmission systems through typical automatic clearing house (ACH) software platforms; prepaid, debit, or fully functionally multipurpose credit and debit cards; cell phones; and online transfers. These technologies permit firms to shift and transform their business into fully electronic based transfer systems with both back and front end capabilities.

Technology in remittance transfers

Data payment transmission applications	Back end	Front end
ACH Software platforms	International payment processing, settlement and data management	Card issuing (for close or open networks)
Online platforms		Card issuing (for close or open networks), online customer transfer
Payment system cards (prepaid, debit, store value)		Card issuing (for close or open networks)
Wifi (open and close networks)		Card or POS terminal
Mobile (SMS, etc.)		Data transmission through cellular phone

Front end IT based money transfer companies

- ◆ There are at least one hundred IT based money transfer companies worldwide predominantly working on i) online payments, ii) card based or iii) mobile transfers. Examples include Obopay, Paypal, Xoom, Ikobo, Paycash, Cyphermint, Greendot, Celpay, or G-cash.
- ◆ Prepaid cards are one promising product emerging to serve underbanked consumers who are also migrant remitters: Visa estimates that on a global basis, \$3 trillion in payments can be handled best using prepaid payment products.
- ◆ In 2005, US\$14 billion prepaid based transfers took place, of which \$3 billion were “cash access” cards and \$6 billion payroll and benefits cards among predominantly low income individuals;
- ◆ Companies in this side of the industry are predominantly small businesses; large MTOs are yet to enter in the market but all are exploring ‘next steps’ in IT front end money transfers.

IT based business models in the remittance transfer industry

Technology and remittances intersect four ways:

1. Money transfers companies adopting technology intensive business models;
 2. Financial banking and non-banking institutions adopting/expanding technologies to integrate money transfers;
 3. Technology firms making mobile telephones into multifunctional banking devices;
 4. Money transfer companies adopting back end technologies to support innovative business models.
- These four ways are not mutually exclusive because many businesses adopt a combination of technology practices.

1. Front End Technology Intensive Business Models Among MTOs

In the first case an increasing number of companies are adopting technology intensive strategies as the critical component of their business models; distributing stored value or debit cards for money transfers is one key example. Businesses and some analysts argue that card based transfers represent an important step forward towards financial assimilation. The choice of adopting in the near future card-based systems for remittance transfers may become more likely. Four factors may explain this possible shift: increased competition, shifting preferences on the demand side, changing dynamics in the receiving countries, flexible technologies, and costs. These factors may be converging in the direction of developing transfer mechanisms that offer flexible, multi-service, and value added components to sending and receiving ends slowly transforming a cash to cash business into one of account to account transfers

2. Financial Service and Remittance Technology Integration

Financial institutions increasingly modernize their technology systems, software platforms, and new hardware equipment in order to meet the demands of ever changing consumer preferences. Some institutions are changing their business strategies by integrating their traditional financial services with money transfers through advance technology systems. For example, on the back end microfinance institutions are reconciling and adapting their banking software with money transfer platforms that either link through an interface or are fully modified to include money transfer modules. Financial service innovation may include voice over IP or card based transfer and distribution in the front end of the technology for the consumer.

3. Mobile Phone and Banking

In many countries and businesses worldwide, mobile phones perform as back and front end interfaces among consumers, banks, and retailers in a domestic and international market of sending and receiving money. The functionality of the interface for a financial transfer is done through the technology back end by loading money (from a vendor or a stored value account) into the SIM card of the phone. At the front end, the consumer uses the software interface of the mobile phone to transfer funds through the internet or by sending a SMS.

4. MTO Business Innovation at the Technology's Back End

Like some financial service institutions, such as banks or microfinance institutions, there are an emerging number of MTOs who are adopting middle of the road approaches to technology and innovation. Specifically, with the help of technology devices and platforms, MTOs are developing business integration for a range of services that meet the demands of consumers. The business model is one of horizontal growth by expanding products to one client, from remittance transfer, check cashing, short term and long term credits, to back end alliances with financial service institutions on the distribution side. These models focus on financial service integration but rely on technology applications as an open source for expansion and longitudinal deepening. Thus, rather than entering directly on the front end technology, they build business loyalty first and later encourage consumers to adopt IT based banking products such as card based transfers.

Debit card money transfer models

1. “Card-to-cash” model: the recipient has the ability to retrieve the transferred funds directly in cash. This is the preferred model for consumers because it is convenient for the recipient and it most closely replicates how remittance transfers generally work today. This is a difficult business model to create from scratch, as it requires building a disbursement network in the receiving countries.
2. “Dual-card” model: two cards are issued with access to the same account. The disadvantage to this approach is that the recipient is charged every time they withdraw funds. Further, clients tend to want customer service support that is usually absent or inadequate.
3. “Sub-account” model. Two cards are issued where the primary cardholder transfers funds to a sub-account which is accessible to the recipient cardholder.
4. “Recipient-only” card model. The sender purchases a prepaid debit card in the U.S., which is either sent directly to the recipient or issued in the recipient’s country. The sender can then reload funds onto the card.

About integrated mobile and banking technology

- ◆ Mobile phones can act as back and front end interface between consumers, banks and retailers in a domestic and international market of sending and receiving money. The functionality of the interface is as follows:
- ◆ Back end: Money is loaded from a vendor or a stored value account (SVA), typically known as store value card, into the SIM card (subscriber identity module) of the phone and the amount registered in an account system integrated into the mobile phone. The MTO or bank has an agreement with a mobile phone company to operate the transfer. The mobile phone operates through a software platform to interface with the retailer. This is usually a Java enabled platform. Sometimes the phone company directly offers financial transfer operations. The service provider signs up a number of retailers, banks, and other parties to honor the transfer technology by adopting the account system that can register transactions between the client and the store.
- ◆ Front end: Using the software interface in the mobile phone, the user can transfer funds in several ways. One is by sending a SMS (Short Message Service) to a recipient, retailer, or SVA to pay by authenticating the transaction with a PIN. Another is by making a virtual transfer, which requires access and account numbers. Either way the service provider instantly transfers the money to the beneficiary's account (a merchant or individual).
- ◆ *The mobile phone functions as virtual wallet. Operating costs are varied but generally lower than typical MTO wire transfers.*

iii. The demand side for card based transfers

Remitters are shifting preferences yet are still conservative.

- Consumers are expressing interests in value added products, not only remittance transfers.
- Financial product demand is evident and increasing in areas such as housing, health insurance, education, and bill payments.
- Nevertheless, conservatism prevails; consumer use of stored value products is limited despite its substantive benefit.
- Conservatism may be influenced by income, legal status, lack of familiarity or awareness, and financial access, among other factors.
- Lack of payment networks on the receiving side, such as ATMs and electronic payment instruments, is also a disincentive.
- Among those using remittance cards, banking access is less of a problem than user awareness.

b. Company cases - IT based remittance transfer businesses

- ◆ There are at least one hundred companies offering front end IT remittance transfers, particularly in the form of card, online or cell based transfers, or a combination of each.
- ◆ Most of these companies are small businesses competing with major MTOs.
- ◆ It is probable that in each corridor there are at least two small and one globally IT based remittance companies.
- ◆ Examples of companies operating globally are Payquik, Xoom, and G-Cash.
- ◆ Four companies with an emerging presence are reviewed: Xoom, G-Cash, Cyphermint, Ikobo, MFIC.
- ◆ These companies share some important characteristics, particularly, innovation, strategic business approach, and increasing revenue growth.

Cost of infrastructure

- ◆ The cost of enabling this interface technology is not large provided that a) MTOs, mobile phone companies, and banks have the capability to host the software platform; b) there is investment capital and a marketing strategy to sell the product; c) vendors and providers find an acceptable cost effective revenue solution to this product.
- ◆ Developing the platform and integrating the interface in the cell phone may be similar to the development of a payment platform with an added feature.
- ◆ Currently the market for payment system platforms ranges between \$250,000 and \$350,000.
- ◆ The implementation costs of the hardware is the critical issue: enabling the platform depends on how origination and distribution of cash will take place:
 - ◆ cash transfer
 - ◆ ATM mobile [wireless] enabled terminal;
 - ◆ POS mobile [wireless] enabled terminal
 - ◆ Account deposit
 - ◆ POS mobile terminal

c. Challenges and Opportunities

◆ Challenges

- ◆ Expectations
- ◆ Distribution
- ◆ Regulation
- ◆ Scale

◆ Opportunities

- ◆ Market size and cross-selling
- ◆ Bill payment
- ◆ Overdraft protection
- ◆ Savings
- ◆ Credit services
- ◆ Loyalty/reward programs
- ◆ Non-financial services, including travel services, telecommunications, shipping and catalog sales

Distribution: Merchant 'bankarization'

- ◆ The critical challenge to implement innovative IT based payment systems lays on the way in which a payment network is integrated to merchant intermediaries, that is, financial and non-financial service suppliers, such as banks, retail stores, utility companies, etc.
- ◆ The end user of the IT application will demand its use provided that the instrument is functional, accessible, affordable and user friendly.
- ◆ Functionality will be achieved through the implementation of tools that are easily linked to different payment networks and environments and serve the demands of consumers;
- ◆ Accessibility is achieved by implementing the device across a reliable and consumer based merchant network that accepts the payment instrument;
- ◆ Affordability is obtained by providing consumers and intermediaries with instruments that are not costly or lack transparency;
- ◆ User friendly involves the ability of the device to be manipulated by the average consumer without resorting to ongoing consumer support.