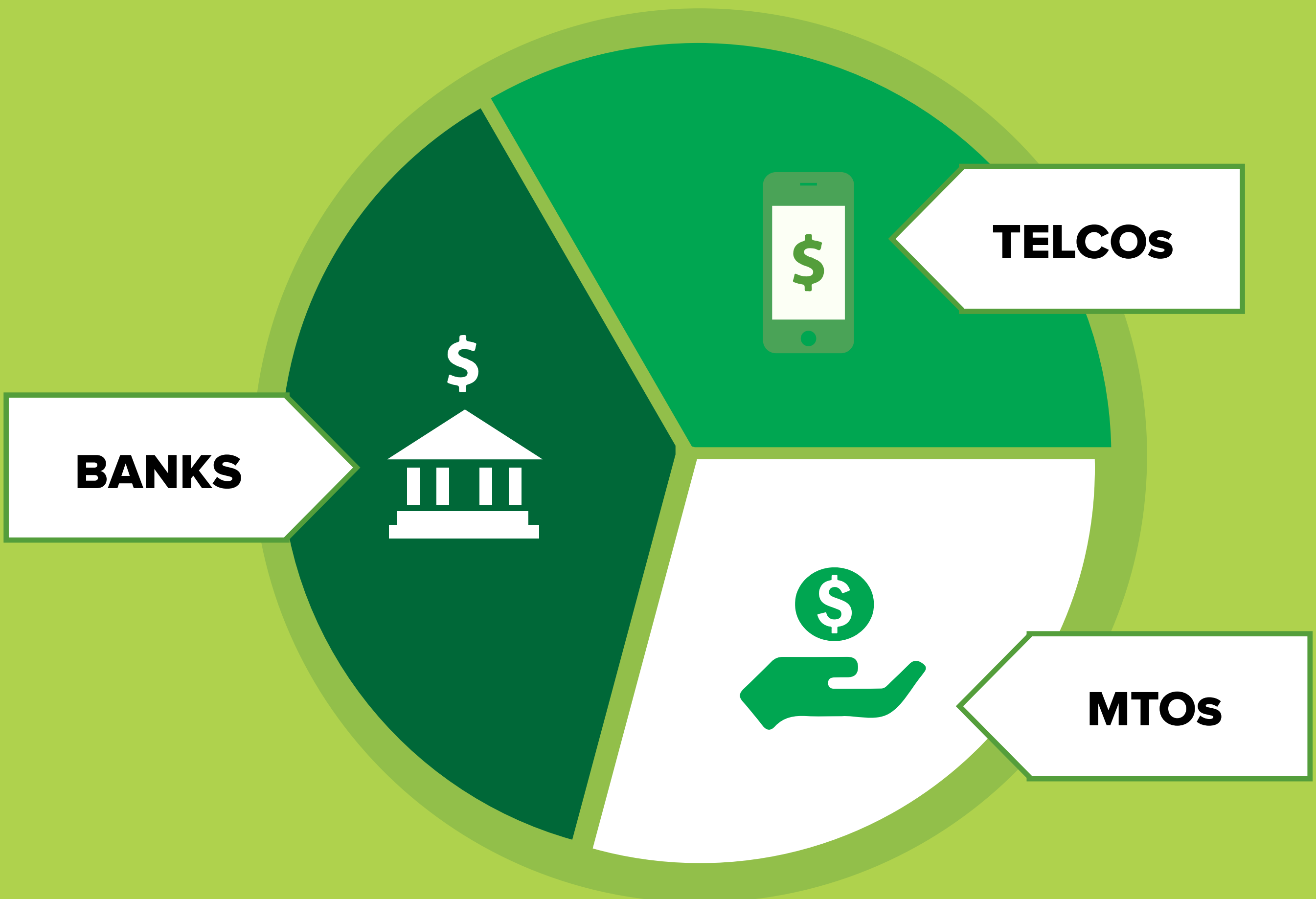
ARE TELCOS, MTOS AND BANKS ON A COLLISION COURSE OVER REMITTANCES?



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May 2015

Are Telcos, Money Transfer Companies (MTOs) and Banks on a collision course over remittances?

(English version)

The information herein is based on the author's experience and knowledge of the industry. The internet references were all accessed in September 2014 and the Appendixes were added for the 2015 edition

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Introduction

The international money transfer market has been growing exponentially. Despite rising anti-immigrant sentiment in many developed destination countries and the deportation of migrants, the reported remittance volumes continue to grow. Deportations in Saudi Arabia are close to 400,000 migrants since November 2013, mostly from Ethiopia, Egypt and Yemen; the US deported a similar figure in 2013 (mostly migrants seeking entry from Mexico and Central America). Remittances to developing countries reached the $400 billion mark in 2013, up 3.5% from 2012 according to the World Bank. Growth in remittance flows to developing countries is expected to accelerate to 8.4% per year over the next three years, raising the volumes to $436 billion in 2014 and $516 billion in 2016[1]. Global remittance flows, including those to high-income countries, are estimated by the World Bank at $542 billion in 2013 reaching an estimated $681 billion in 2016[2] . And it is always important to remember that remittance expert Dilip Ratha estimates that 'unrecorded flows through informal channels are believed to be at least 50% larger than recorded flows'.[3]

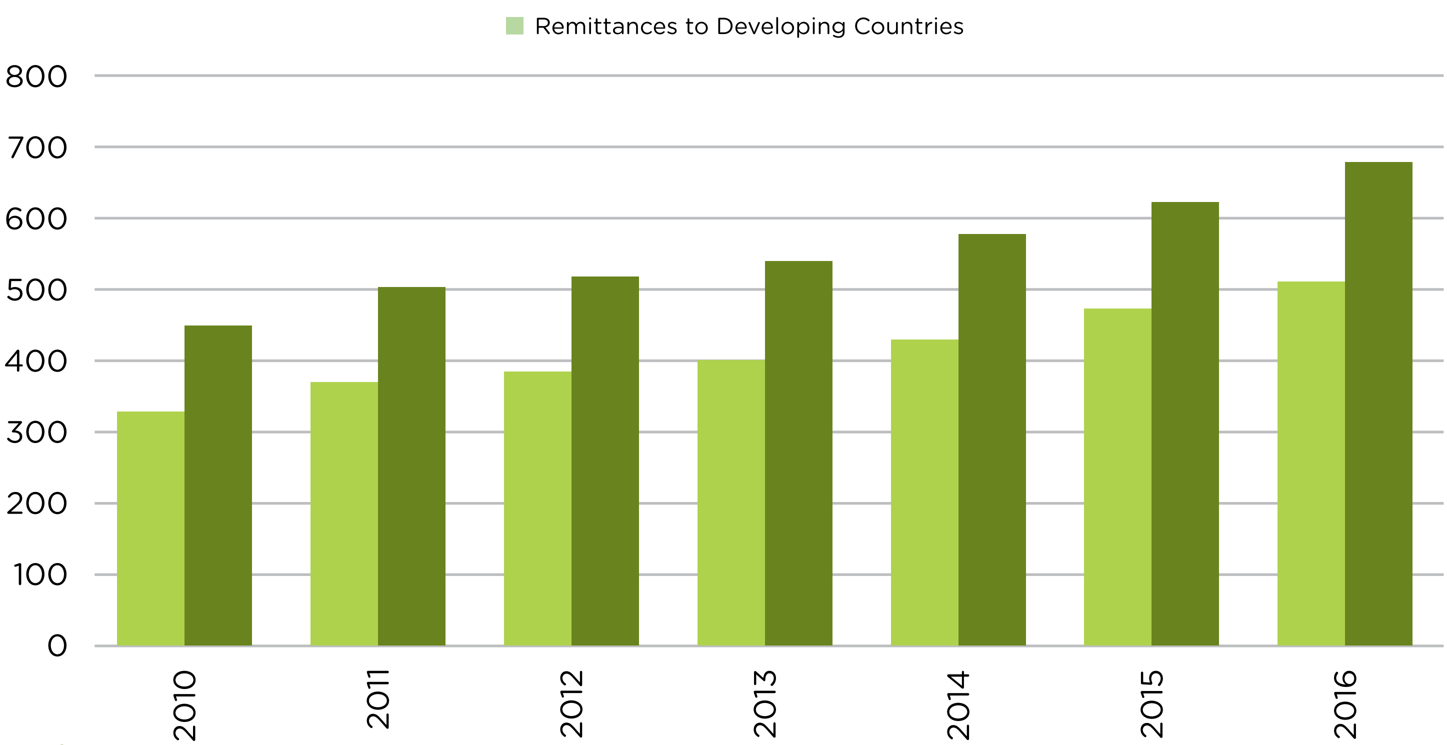
At the same time, the average total cost of sending remittances has been falling. The World Bank reported that the global average fell in the first quarter of 2014 below 8.4% from 9% a year earlier. If you take the global, dollar-value weighted average, prices dropped to 5.9% at the end of 2013, from 6.9% the previous year. It is still quite a way from the 5% target that the World Bank had in mind some years ago and more so in some corridors such as Saharan Africa where the cost is closer to 12%.

> This large market is still dominated by Money Transfer Operators. Global Tier 1 companies such as Western Union and MoneyGram and Tier 2 companies such as Xpress Money and RIA Envia.

Current Market Landscape

This large market is still dominated by Money Transfer Operators (MTOs). Global Tier 1 companies such as Western Union and MoneyGram and Tier 2 companies such as Xpress Money and RIA Envia. There are a large number of Tier 3 companies, some of them quite large in their own markets such as Contact in the CIS countries, Xoom, Dolex, Uniteller and Viamericas in the US, etc. There

World Bank estimates and projections for remittance flow



are a large number of Tier 3 companies, some of them quite large in their own markets such as Contact in the CIS countries, Dolex, Uniteller and Viamericas in the US, etc. But, on the payout side of the equation, the picture is not as clear. The local Banks in a large number of countries dominate the market as correspondents of these MTOs by delivering remittances to beneficiaries through branches and agents. Good examples are Bancolombia in Colombia, Banrural in Guatemala, PNB,

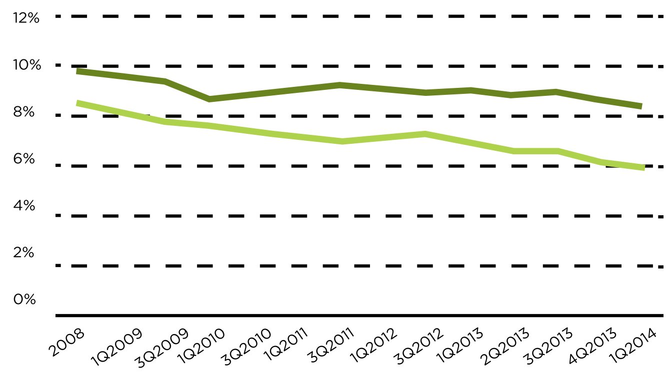
"Half of transfers to Africa are going to mobile handsets, either as money transfers or airtime credits"

RCBC and other banks in Philippines, Russlavbank in Russia, just to name a few examples.

In certain markets like Africa, Telecom Operators are growing their importance in the remittance market causing major disruptions such as M-Pesa (Safaricom) in Kenya. Ismail Ahmed, CEO of WorldRemit in the UK estimated that *"half of transfers to Africa are going to mobile handsets, either as money transfers or airtime credits"*.[4] The business of international "airtime credits" or "top-ups", which is really the gifting or crediting of mobile airtime by migrants to the mobile phones of friends and family members back home can be considered a form of money transfer. These in-kind "value transfers" are increasing in number with vouchers and other systems being developed by retail chains, something that companies such as TransferTo, Prepay Nation[5], Ding (former ezetop) and others are very actively engaged in. Telcos are making their inroads in the remittance market in the Middle East, Asia and Latin America. Another form of a value transfer transaction is to send gift cards that are purchased in US retail stores and are then sent electronically and validated by the recipient with ID and a secret PIN which is given to the retail store clerk in the receiving country. This International gift card is typically for a specific use such as groceries or gas. Technology is making this industry truly unique and on the verge of major transformation.

I have to mention Cards and ATM networks also, which may be seen as only channels,

Total cost of sending $200, including fees and exchange rate margins (%)



Source: Remittance Prices Worldwide, the World Bank.

but for me they are the sleeping giants of the remittance world. There have been unsuccessful attempts to leverage their power in this sector with promising solutions such as Nexxo[6] (acquired by MoneyGram) and HalCash[7] who seem not to be quite there yet. There has been a debate on the use of Cards for remittances but I think with the movement of Cards into eWallets and mWallets, specially pre-paid, there might be a business case for these solutions in the money transfer market.

Friction Points

But there are other factors strongly influencing the remittance market besides cost structure and pricing, agent and branch networks, technology, customer behaviors, etc. And these are regulation and interoperability, both creating friction between the market players.

Let's look at **Regulation** first – and I lump here Compliance & Risk Management – which drives regulation as much as does the politics and the balance of power between the Banking & the Non-Banking Financial Services sectors, which are not always very evident in the day to day evolution of the payment market.

There are skirmishes and out-right battles going on all over the world with regards to these issues but the friction points are fragmented in nature, every country a different battlefield with some similarities here and there and with different outcomes, some of them probably temporary in nature as governments weight in. I have to quote Dan Baker from the Technology Research Institute

(TRI) that said: *"Few topics are as muddled or wrapped up with as much hype as telecom's potential role in mobile money and mobile payments"*.[8]

> "Essentially, we can have a banking system with the current rules and regulations about money laundering or we can have a banking system that can handle remittances […]. But what we cannot have is both

The article by Tim Worstall in Forbes last year makes the problem of remittances for banks perfectly clear: *"Essentially, we can have a banking system with the current rules and regulations about money laundering or we can have a banking system that can handle remittances […]. But what we cannot have is both: for the regulations are too expensive to allow the sending of small remittances […]"*.[9]

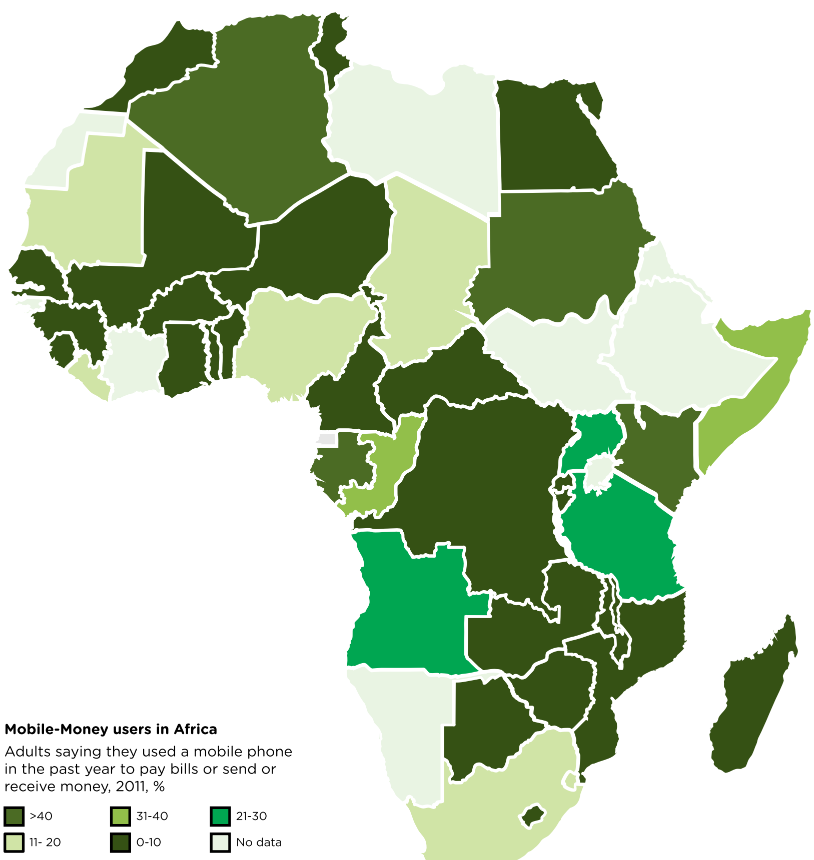
Regulators also can decide to impose taxes to "create a level paying field" like did the Central Bank in Zimbabwe at the end of 2013 after forceful pressure from the Bankers Association of Zimbabwe (BAZ) which imposed a transaction tax of 5 cents, same tax that POS and ATM transactions pay.[10]

Let's first summarize the issues that are driving the collision:

1. Banks moving away from the remittance market: Regulatory pressure have made a number of Banks discontinue their money Transfer/ Remittance Operations. Examples in the US and Mexico are a good illustration of that. A July 2014 NY Times editorial highlighted the issue in an editorial piece entitled *"Migrants and the Middlemen"*[11]. Global Commercial Banks that own banks in several countries have discontinued or minimized their remittance operations significantly. Local Commercial Banks that explored the market in the 2000's have decided that it is not a market where they want to invest. Other commercial banks that still operate in the market are always costlier than MTOs[12]. Cognizant stated in November 2012 that *"banks must and will take a fresh look at the remittance business"*[13]. The remittance market is in a flux and conditions shift constantly.

> "The regulatory risks and associated costs are so great that they [Banks] can't afford to retain these type of accounts. In addition, most MSB accounts are not very profitable for the bank"

2. Banking Discontinuance: MTOs as well as Non-Bank Financial Service Companies (NBFCs, MSBs in the US) are facing major troubles since their local Bank Accounts are being closed. Banks have become decisive in the survival of many MTOs. Problems in UK with Barclay's closures and in the US have made the news but this problem is all too common in Latin America where MTOs have had to close or sell (Colombia, Costa Rica, Mexico, Honduras, etc.). *"The regulatory risks*



Mobile-Money users in Africa
Adults saying they used a mobile phone in the past year to pay bills or send or receive money, 2011, %

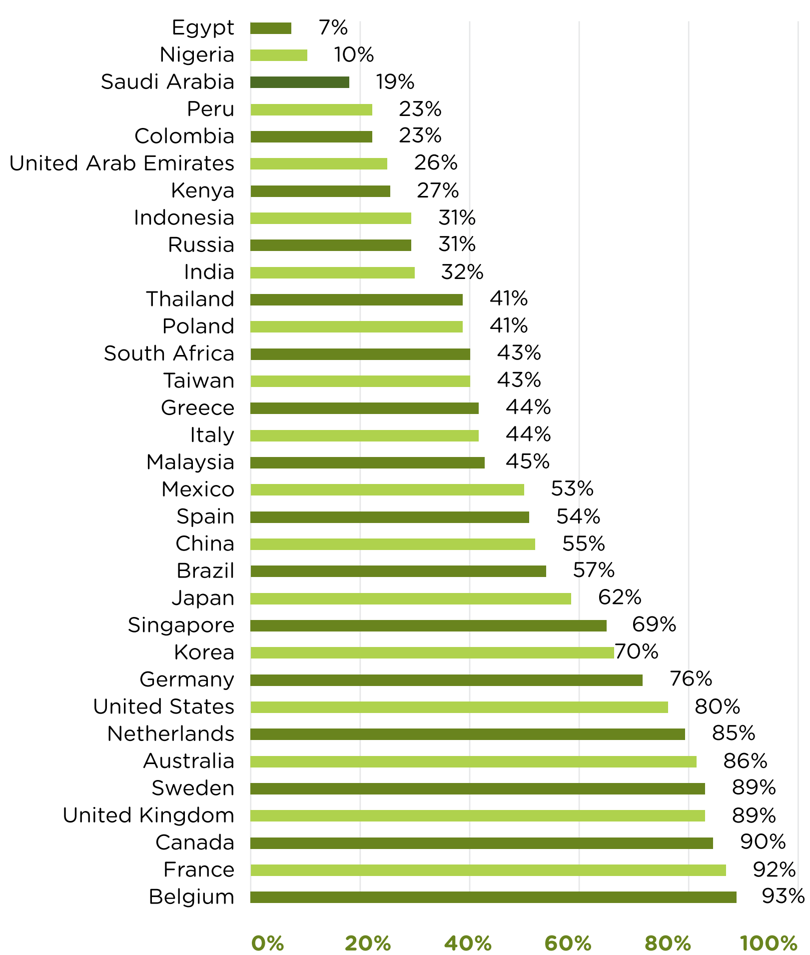
Source: World Bank

and associated costs are so great that they [Banks] can't afford to retain these type of accounts. In addition, most MSB accounts are not very profitable for the bank"[14]. The inability of foreign MTOs to get accounts in

> Telcos feel they know much more of their client, for billing purposes, and can much better track their client's behavior and financial transactions.

markets such as the US and the UK, where they used to trade their Dollars, Pounds & Euros has killed their forex business that was paramount to their remittances operations. The World Bank has been following this issue very closely, even questioning itself how to play a role: *"the World Bank can work with commercial banks and government regulators worldwide to streamline the anti-money laundering regulations that are at the root of the commercial banks' hesitation in staying in the remittance business"*.[15]

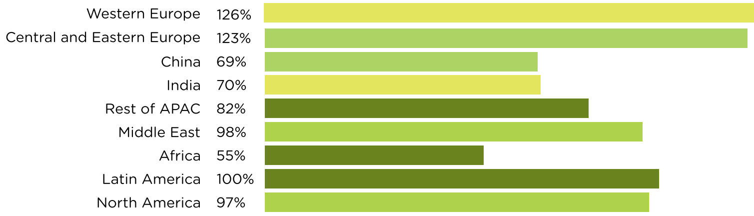
% of non-cash payments

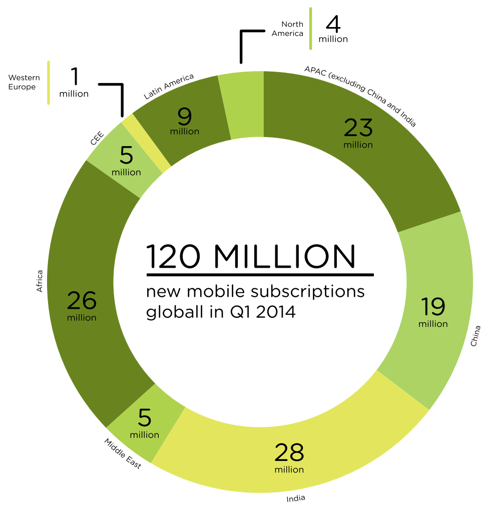


3. **Know your client (KYC)**: To KYC, banks have to make remittance users, bank account holders, an expensive proposition. MTOs have done a decent job in slowly increasing the amount of information collected from the sender (Beneficiary KYC is often greater as you make sure the identity is confirmed before the funds are paid) as well as lowering the thresholds for seeking more information. Telcos feel they know much more of their client, for billing purposes, and can much better track their client's behavior and financial transactions. Of course, prepaid phones are another matter. It is true that for doing financial transactions Telcos will need to get collect more information.

> The success of Telco remittance services linked to the mobile penetrations rates make Telcos more and more bold in pursuing the provision of financial services.

4. **The war on cash continues**: Less and less people and institutions want to use cash and new fronts are being opened worldwide[16]. Not only is a generational issue, but cash is becoming specially inconvenient and expensive. *"The burden of cash usage on national economies is substantial, representing as much as 1.5% of GDP. Heavy cash usage may also be an indicator of other economic problems"*[17]. The more you use cash, the less banking institutions want to deal with you for cost and compliance reasons. The disappearance of cash is not as fast as some have predicted and they are innovative solutions to the handling of cash plus cash-to-cash remittances are still number one above account-to-account. A Better than Cash Alliance[18] Report gives a very detailed analysis on how the digitization of payments, transfers, and remittances can benefit financial inclusion, but





also increase transparency, individual's risk management, privacy and control and in the long run save money to the customer and the society as a whole[19].

5. **Everybody owns a mobile phone**: The International Telecommunication Union (ITU) has predicted that in 2014 there will be as many mobile-cellular subscriptions as people inhabiting the planet, with the figure set to nudge past the seven billion mark. By the end of 2013 overall mobile penetration rates reached 96% globally, 128% in the developed world, and 89% in developing countries[20]. The success of Telco remittance services linked to the mobile penetrations rates make Telcos more and more bold in pursuing the provision of financial services. Millicon's Tigo has a wallet-to-wallet cross border remittance service between Tanzania and Rwanda and Orange Money International Transfer service allows Orange Money customers to transfer money between Mali, Senegal and Cote d'Ivoire[21]. If regulation allows direct wallet-to-wallet cross border remittance services will grow exponentially.

6. **Who owns the client?** With remittances there is always two clients in every one transaction with more power to the sender than the beneficiary, but not quite completely. In the sending markets he remittance client is largely "owned" by MTOs. But Telcos "own" that client too as international call volumes continue to rise, well over 550 Billions of minutes in 2013 with growth rates between 5 to 10% per year. It is important to mention that Skype has seen its traffic growth tremendously with half of the annual growth in minutes of the international volume of calls. In my view remittance clients are more loyal to their remittance provider in the sending markets but probably more loyal to their mobile provider in the receiving market. Banks do not own the remittance client although there are numerous banks making inroads there too.

7. **Transaction Costs**: Even though technology has decreased the costs of MTOs and closures and M&As have increased the volume of transactions, decreasing the overall cost per transaction, regulatory pressures and banking fees have increased the costs tremendously. Prices in mature markets won't be coming down soon and may as well increase. For Bank's remittance products the costs are much higher and even Banks in paying markets are now taking a hard look at remittances finding out that revenues are much less than what thy estimated. The remittance fees they pay correspondents plus the Forex gains in other departments are not enough to cover costs. Bank & MTOs have little flexibility here. Telcos on the other hand are looking for other sources of revenue as their telecom revenues are flat even when their traffic keeps going up. Plus, Telcos are used to small margins per transaction volume.

8. **Branding**: Few MTOs really understand the value of branding in the world today. Besides Tier1 and some Tier 2 MTOs, most companies are not leveraging their brand power from the Brick & Mortar space into the digital space, making themselves obsolete

"… broader adoption of digital payments—with regard to both remittances and other payments—can significantly advance the global financial inclusion agenda" now and more so in the future. Marketing and branding expenditures are close to zero to the majority of MTOs in the market. Tier 1 and Tier 2 Telcos have well established brands and manage their marketing dollars wisely. Banks on the other hand have been losing PR status, as the media keeps on reminding the public of the greed that caused the financial crisis and the lack of convictions of banking executives as well as the gradual increase in banking fees.[22]

9. Financial Inclusion: Governments are moving away from believing that Banks are the only solution for the financial inclusion of the poor in developed and developing countries. The case of Kenya is very interesting to watch: "*In 2010, the number of bank accounts in Kenya as reported by The Central Bank, was about 10.6 million, almost at par with mobile money subscribers. By 2012, mobile money subscribers had overtaken bank accounts by about 3 million*".[23] Terms such as the *"unbanked"* are becoming obsolete. As of June 2013 at least nine countries had more mobile money accounts than bank accounts, compared to just four countries in 2012[24].

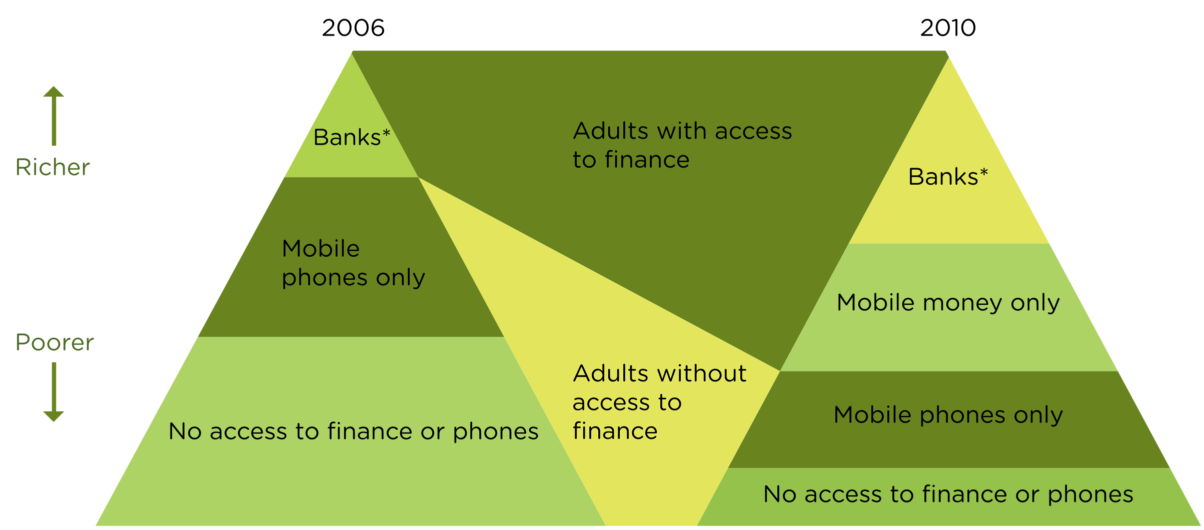
India is also a very interesting to follow as the Reserve Bank of India has proposed major reforms to boost financial inclusion[25]. There are numerous examples that financial literacy can come from first, making cash transactions digital and then moving users to others simple savings, lending and credit transactions. Mobile Banking is a solution that banks are developing at an accelerated pace to keep themselves relevant in this space.

As the recent report "The Opportunities of Digitizing Payments" states: *"… broader adoption of digital payments—with regard to both remittances and other payments—can significantly advance the global financial inclusion agenda"*.[26] When governments decide where to disburse their subsidies (mWallet, Bank Account, a pre-paid card) it strongly influences customer use and behavior and what companies are better suited for lower costs and provide dependability.

Battlefields

Let's examine some "battlefields" giving a few examples, without lengthy analysis of each situation, while providing links for further

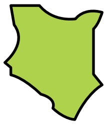
For adult population (aged 15 years and over)



	June 2006	March 2010
Total Population	36.6 million	39.4 million
Adult share of total population	57%	58%

*Includes other financial institutions.
Source: World Bank staff estimates

examination of each particular circumstance. I will encourage other colleagues to give examples on particular countries that prove or disprove my vision.



Kenya

The recent move by Equity Bank to apply for an MVNO license is considered to be a turning point in the telecommunications industry in Kenya. “*Equity Bank has been affected by the advent of mobile money in the country and efforts by the bank to partner with Telcos have not met expectations and the bank has admitted to its frustrations. Safaricom’s M-Pesa targeted the under-served and unbanked population that had been the key driver of Equity’s exponential growth*”.[27] I have to add that both, Equity and M-Pesa are heavyweights in the remittance market in Kenya. M-Pesa is seeking regulatory approval to launch M-Pesa-to-M-Pesa international transfers in 2015. Currently, M-Pesa is used in Tanzania, South Africa, India, Lesotho, the Democratic Republic of Congo and Romania.[28]

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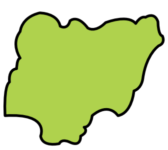

Nigeria

I have to let John Owens, Senior Policy Advisor at the Alliance for Financial Inclusion in Bangkok explain the issue: *“MTN had to suspend its mobile money service in late 2012 since the Central Bank’s guidelines prohibit mobile network operators (MNOs) from playing a lead role in any mobile money service in Nigeria. After seeing the virtual monopoly created by Safaricom’s MPESA in Kenya, the Central Bank of Nigeria decided to only allow bank-led and non-MNO led third party operators to operate mobile money services in Nigeria.The Central Bank of Nigeria clearly felt that a dominant MNO-led mobile money issuer could quickly create a monopoly and pose a systemic risk for the country”*.[29] After 3 years this Banking-led initiative is failing and a recent article shows that the strategy by the apex bank to connect the “unbanked” population with the formal banking system has not been successful.[30]

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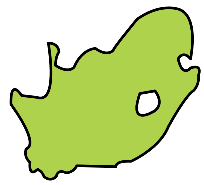
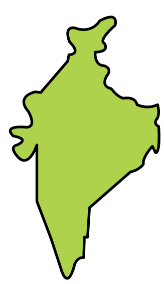


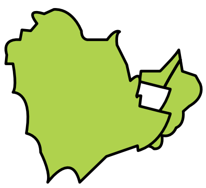
South Africa

This battle will be very interesting to watch as it *“pits two companies that are both No. 1 in their industries in South Africa. Standard Bank has 31% of the nation’s banking assets; Vodacom [M-Pesa] controls more than half the wireless market. Standard Bank has a market value of 181 billion while Vodacom is worth 167 billion rand”*.[31] CEO Shameel Joosub conceded that ‘M-Pesa have blossomed in east Africa, while in South Africa they have struggled because of regulation’. Regulations have been eased but at the same time First National Bank (FSR) acquired a full telecommunications license in order to compete. The CEO of FSR Michael Jordaan commented: *“We do see convergence between these two industries. What we’re doing to Telcos is going to be far more disruptive than what Telcos are going to do in banking”*. In the remittance sector if M-Pesa leverages its operations in the neighboring countries (important remittance corridors to SA) and its international correspondents it could be the clear winner in the sector.



India

The news are fresh and the battle will slowly move from politics to the market. The electoral victory of PM Modi is making the drive for banking deregulation as the Reserve Bank of India (RBI) announces that it will allow telecom companies, retail chains and NBFCs to set up banks. This idea has been championed by well known, respected and controversial Indian economist Raghuram Rajan, RBI's governor[32]. Just a few days ago the GSM industry body, Cellular Operators Association of India (COAI) urged the RBI to allow their fully-owned subsidiaries to function as payments banks[33]. Telenor's Mobile Financial Services for Everyone article discusses their remittance services in Pakistan and Malaysia[34] but its Uninor operation in India has not yet moved into mobile money services.



Middle East

In a remittance market dominated by MTOs, Telcos are already making the leap to capture a share of the market. Matthew Reed from Inform Telecoms and Media said in an interview: "*In the GCC there would seem to be quite good prospects for mobile money transfer services that allow expatriates living and working in the GCC to remit money to their home countries"* and then added how regulation might soon weight in: *"The Central Bank of the UAE has agreed to a road map with banks and telecoms companies to develop a common payment system in the country and improve mobile banking services"*.[35] In Quatar, Ooredoo, who is also present in Turkey and Indonesia, partnered with Qatar National Bank (QNB) and MoneyGram to provide mobile remittances to its mWallet users.[36]

> *"The Central Bank of the UAE has agreed to a road map with banks and telecoms companies to develop a common payment system in the country and improve mobile banking services"*

Spain

In 2010 Telco giant Telefónica acquired a money transfer license from the Banco de España trying to leverage its control over "locutorios" calling centers where migrants take a cabin to make calls to their families, MTOs large agent base in the country. After almost three years in the market they decided to close shop frustrated by its inability to enter the market with significant numbers[37]. Bad timing and many mistakes, really: the crisis with its large drop in remittances coming from Spain killed the project. I think they will be more successful with its new venture on mobile payments. This fiasco follows similar failures by Banking giants BVBA with Dinero Express, with less than 4% of the market and Banco Santander with Santander Envios with less than 2% of the market share in a market owned by Western Union (30% in 2012), MoneyGram (12%), RIA Envia (9%), Small World (7%) who moved to second place after merging with Choice (who had taken up Master & Geomil) and taking over Unigiros[38].

Latin America

In countries such as Colombia, Peru, Brasil, Guatemala, the government has stepped-up to issue regulation in order to control de market. I have to say that regulations do favor Banks in this region whose political power is still engrained in the political classes and still seen as the protective backbone of the economy. Regulations are similar in the region with a few variations. Regulation has made easier the ability to increase banking penetration through agents (a Telco stronghold and to offer simplified banking accounts to allow for mobile money wallet account openings with minimal requirements (National ID number and phone number even). Telcos fees have also been regulated[39]. Remittance payments have also been allowed by regulators. In Government and Banks in Colombia are advertising the results of their financial inclusion programs using mobile wallets; government subsidies disbursements to these wallets have been key in customer adoption[40]. A new wave of e-money[41] might disrupt all these agreements if the bank-telcos agreements are not successful in increasing financial inclusion, a must for most center-left governments in the region. The battle is being controlled and we must wait and see the next movements.

Canada

"Rogers becoming a bank is the most disruptive event to hit the Canadian banking industry since the introduction of debit cards in 1990. Depending on how successful Rogers Bank is, Telus and Bell may follow suit and apply for banking licenses so they can issue credit cards. That is seen as a highly disruptive game-changer, as Rogers, Telus and Bell collectively have as much customer reach as all of the Canadian banks combined".[42] mWallet Zoompass, the joint venture of these three Telcos announced a strategic alliance with Western Union to allow domestic and international remittances to their mWallet users but was not successful , eventually selling it in 2012 to Paymobile.[43]

United States

In an interview that Dan Baker (TRI) – quoted earlier – with Dave Birch at Consult Hyperion, Dan touched upon the politics of this collision in the US: *"The bankers have a vested interest in keeping the cards and blocking the phone companies and retailers from gaining greater market share in financial transactions. And in the U.S., the bankers have a lot more regulatory clout than Telcos"*. Dave gave a very perceptive answer: "*Not sure I agree with you on that. Bankers have run into some pretty major problems and they played their hand rather badly: Lots of people hate the banks. The retailers were smart. [...] And the regulatory battle has been largely between the retailers and banks. The Telcos have been relatively minor players, even though their influence is growing".*[44] In the US, technology giants Google and Facebook as well as Online Retailer Amazon have all gotten Money Transmitter Licenses, and you need one license in every state, not an easy undertaking. Apple will certainly move into this space. These are the sleeping giants of the payment world although their place in the remittance market is years ahead I presume. The US Domestic Market is huge. Tier 2 and Tier 3 Telcos such as IDT have been also seeking and analyzing the need for Money Transmitter Licenses.

Interoperability and Interconnection

A Mondato article in May 2014 outlined these four issues: *"Four obvious barriers exist that have up until now inhibited the growth of the MFS remittance market: the international interoperability of mobile wallets; the regulatory environment; problems of scale; and acceptance of and trust in a new remittance medium on the sender's part"*.[45] Let's take now the issue of the international interoperability of mobile networks and their mobile wallets.

The best document on this issue is entitled *"The case for interoperability: Assessing the value that the interconnection of mobile money services would create for customers and operators"* by Neil Davidson and Paul Leishman for the GSMA Mobile Money for the Unbanked[46]. It points out to the theory that *"that customers would be more inclined to adopt and use mobile money services if mobile network operators (MNOs) interconnected their competing platforms that, today, are so-called "walled gardens". In an interconnected environment, a customer affiliated with one operator's mobile money service would have the ability to send money electronically to the wallet of a customer affiliated with another operator's service"*. But the paper states that domestic mobile money interconnection is a feature of questionable value to consumers and expensive to implement. But it has been mandated by regulation in certain markets, the case of Uganda[47] and Rwanda[48] and it has

"The bankers have a vested interest in keeping the cards and blocking the phone companies and retailers from gaining greater market share in financial transactions."

also been agreed, the case of Tanzania[49], as well as the agreement in April 2014 of nine mobile network operators across Africa and the Middle East to work together to accelerate the implementation of interoperable mobile money services[50].

Bridges: Is there a case for merging paths?

Interconnected payment networks can create the bridges that merge paths and provide the connection that different players in every corner of the world need to provide international money transfer services. MTOs have been, since the very beginning of the industry, the international bridges for money transfers. Every major MTO has in its network other MTOs, forex firms, cash networks, retail businesses from large chain to small mom-and-pop stores – as well as Bank and Telcos. Interconnecting those networks has not been easy, nor inexpensive for MTOs and I do believe they don't get the credit that they deserve from government, regulators, to multilateral agencies.

Western Union has been for at least the last 10 years the great remittances interconnector. It has grown its correspondent and agent base to more than half a million and *"moved $82 billion in 242 million consumer transactions and handled an additional 459 million business transactions last year [2013]"*.[51] We have to remember that Western Union was a communication company that delivered its last telegram in 2006 and that its first mobile money services began in 2008 when its clients were able to send mobile money transfer transactions from Hawaii, the UAE, Hong Kong and Singapore to Globe Telecom and Smart Communication mobile phone subscribers in the Philippines.[52]

To keep being the bridges and stay relevant MTOs need to up their game with technology investments and the provision of digital money transfer services; that is not easy when for most of the past decade the investment has gone into compliance[53] with very little to show up for, now that banks are turning their backs to providing them services. Other companies have been moving into this space, providing technology bridges, mostly, but in certain cases, even financial bridges too. These bridges can be in the front-end, facing the customer, or in the back-end.

Homesend[54], a joint venture created by MasterCard, eServGlobal and BICS enables B2B cross-border and cross-network remittances, bridging the gap between finance and telecommunication service providers and enables consumers to send money to and from mobile money accounts, payment cards, bank accounts or cash outlets – regardless of their location or that of the recipient. It is hub that includes both transaction processing and settlement[55]. Earthport is also integrating payment systems across the globe *"with a "Global ACH service that is low cost, easy to use"*[56] offering Banks[57], Postal Union[58] and MTOs such as Azimo[59] and Kyodai[60] its services to *'expand low cost remittance services to the developing world'*.

In P2P cross-border and cross-network remittances, Vancouver- based Mobetize enables telecom operators, MNO's and MVNO's to integrate mobile financial services with their traditional telecom service offerings, bridging the gap for Telco and MTOs clients to easily use each other services. In very recent news the company announced plans to develop and launch the first mobile money transfer service to be funded via payroll for expatriate workers in the UAE[61].

> MTOs have been, since the very beginning of the industry, the international bridges for money transfers.

"Telecoms worldwide are in a race to provide services that will generate new revenues and lower churn to recognize ROI on infrastructure spend. Financial services delivery is very well suited to mobile devices. Consumers can check balances, pay bills, send money, gift products and services and make retail purchases all on a ubiquitous device. For telecom operators, financial services is literally where the money is. It is highly desirable to combine telecom services with financial services as a way for telecoms to move beyond commoditized voice and data services and differentiate their product offerings to increase revenues and improve customer retention".[62] Keep in mind telecom customer billing systems are much like bank systems which manage sensitive customer data, provide transactional processing and track consumer behaviors. The change telecoms can bring to the delivery of retail

financial services, triggered by technology and convergence will be profound. Almost by accident, mobile operators have built networks and are uniquely positioned to deliver person-to-merchant and person-person payments. With the right vision, telecom companies can attack one of the bank's greatest strengths – control of the payment ecosystem.

"Telecoms worldwide are in a race to provide services that will generate new revenues and lower churn to recognize ROI on infrastructure spend.

If you are sitting in the US or some other developed markets you probably see this scenarios in the very distant future. Check you world vision.

Similarly, there are bridges that are being tended using some of the newer blockchain protocols that virtual currencies have introduced: the case of Ripple Labs. Arunjay Katakam and Gunnar Camner co-wrote this blog post that summarizes the value proposition of Ripple to allow *"point-to-point transactions between participating FIs (e.g. banks, payment processors, money transmitters and mobile money providers) while Market makers (e.g., hedge funds, currency trading desks) provide liquidity for settlement and foreign currency exchange"[…] 'Ripple uses cryptography similar to the bitcoin blockchain – a distributed public ledger confirming all transactions in the network – which promises to reduce costs and time significantly"*.[63] This payment and currency exchange system *'erases the barriers between fiat currencies while also embracing digital currencies and other representations of value'*.[64] I want a front-seat to watch how this ecosystem develops and grows. It already involves a Bank[65], a Money Transfer Company[66] and soon other FIs.

Maybe the collision course can be avoided with the right partnerships and the right strategy. Maybe regulation will mandate partnerships as it is happening in some markets. This will play out in different ways in regional/country markets but certainly remittances, and remittance customers, will end up benefiting from it.

A buzzing sound in remittances: virtual currencies

I can't finish without mentioning that while all this plays out there is an increasing buzzing sound in the payment world, which bitcoin and other virtual currencies – and their protocols - are making. And, the regulation of them is also another battle that technology firms are ready to take on to defend their increased power over society and to marshal their new view of a world where digital transactions can be as easy and prevalent as email is today. As Andy Yee stated a few days ago, *"Bitcoin holds potential to act as "the Internet of money" if regulated correctly"*.[67] But as Pete Rizzo knowingly wrote in March 2014 in his article entitled *"Why Bitcoin Faces an Uphill Battle in the Remittance Market"*[68] where he cites opinions of Juan Llanos, a remittance expert which was an MTO compliance officer, and Andrew Brown, head of compliance at Earthport. In the article, both regulation and "bank discrimination" are cited as the barriers to entry, but it concludes with a quote from Juan Llanos: "I see the evolution of remittances from the regulated intermediaries of today to truly peer-to-peer remittances happening very soon."

A final note must mention the changes that Google, Apple and Amazon can bring to the money transfer industry when they get their strategies together in the US, as this is the market where they seem to want to approach first. Google Payments and Amazon Payments have money transmitter licenses in all the US states that require one. But whether Google[69] or Apple should or will become banks are also part of the debate. David Weidner wrote a few days ago: *"Don't think an iBank or Apple Bank or Google Bank is possible? It's not only likely, it's inevitable and closer than you think"*.[70] And why PayPal, who offers an international personal payments service, has never made a concerted push on the remittance market, is also an intriguing question.

We have recently published a document entitled "Remittances & Blockchains" where you can find a detailed report on this new money transfer frontier. You can download it from here: http://bit.ly/mtbitemea15

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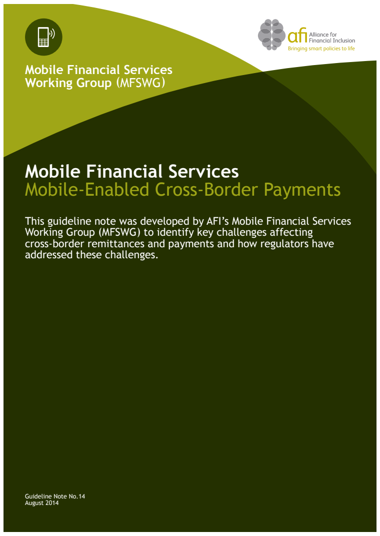
APPENDIX I

SUMMARY & COMMENTS OF THE MOBILE FINANCIAL SERVICES WORKING GROUP (MFSWG) 2014 GUIDANCE



In the 4Q of 2014, the Mobile Financial Services Working Group (MFSWG) of The Alliance for Financial Inclusion (AFI) - a global network of financial inclusion policymaking bodies, including central banks, in developing countries, published this document, http://bit.ly/1PCYJpr , a most read for Remittance Service Providers (RSPs).

The MFSWG recognizes the potential of mobile financial services (MFS) and the potential of remittances as a financial inclusion tool. In the document the group states: "Mobile-enabled electronic money (m-money) offers the potential to lower costs and increase convenience for low-value cross-border payments. Migrants working across borders could easily and conveniently send small sums home to loved ones without the inconvenien-ce of traveling to a branch or agent. In addition, small traders would no longer need to carry large sums of cash, regularly visit banks or foreign exchange bureaus to exchange currency, or find themselves with excess or insufficient foreign currency".

The MFSWG document or guideline contains:

A. A brief description of four different mechanisms for facilitating mobile-enabled cross-border payments.

B. A discussion of two types of mobile-enabled cross-border payment services: remittance reception and remittance sending as receiving.

C. Key challenges affecting these services and how regulators have addressed these challenges

D. Two short case studies highlighting experiences with these services in AFI member countries: Philippines & Malaysia and Rwanda & Tanzania.

A. Four mechanisms for Facilitating Mobile-Enabled Cross-Border Payments

1. Connecting to a global, regional or national remittance service provider (RSP): MFSPs can serve as agents of a global RSP or connect to regional or national RSPs directly licensed in the target country, such as banks or other licensed RSPs.

2. Connecting to a mobile money transfer hub: In our document we called them Bridges, like HomeSend – Mastercard also metioned in the guideline, an alternative designed specifically for MFSPs.

3. Connecting to individual mobile money providers directly: As an alternative to working through a global RSP or hub, an MFSP can agree to connect directly to another MFSP.

4. Connecting to affiliate MFSPs: Technological integration may be relatively simple if affiliates in different countries already use common hardware and software.

B- Mobile-Enabled Cross-Border Payments — Receiving Funds

The guidance highlights the fact that most of the mobile remittance services that have been rolled out so far are focused on the receiving end of a remittance transaction. Remittance collection to vast numbers of Financial Institutions, Bank and Non-Bank, Retail Chains, Agent Networks are very well established globally.

Recently reloadable prepaid cards have also been used for remittance payments. The guideline shows how a reloadable prepaid card in itself a m-money wallet with the same convenience factors: no need to visit a branch or an agent and they can facilitate payments for goods and services in merchant stores as well bill or tax payments.

C- Mobile-Enabled Cross-Border Payments — Sending and Receiving Funds

Services in sending countries that use an m-wallet to initiate a cross-border transfer have been slower to develop. As regional m-money ecosystems have developed, the demand for sending funds between countries has increased, especially in neighboring countries with significant regional trade and migration. Cross-border payments are already being sent informally, on a small scale, through mobile channels since user can access their m-money wallets while roaming internationally, and unlicensed 'agents' have begun to provide informal cash-in services in some markets across borders.

The guidance notes that the high level of m-money adoption among countries in East Africa has caused a strong demand for these services in the region.

"The first mobile-to-mobile cross-border payment service involving two countries with different currencies was launched between Malaysia and the Philippines in 2007. This was followed by another launch in February 2014 between Tanzania and Rwanda. In West Africa, Orange has launched mobile-to-mobile services (linking Côte d'Ivoire, Mali and Senegal), as have MTN and Airtel (linking Côte d'Ivoire and Burkina Faso)".

D- Key Regulatory Issues for Mobile-Enabled Cross-Border Payments

If you are a regulator this section of the guidance is of particular interest to you. The risks related to cross- border payments are also present in mobile remittances with added concerns, especially in areas regarding transparency and consumer protection. But compared to receiving funds into an m-money wallet, sending funds from an m-money wallet raise more challenging regulatory issues. As the guidance states: "Unless the m-money wallet is merely serving as a channel to transfer funds to the RSP, the m-money wallet provider would need to receive an RSP license".

It is important to note that in many countries there are greater restrictions and regulatory requirements on outgoing remittances than on incoming ones.

In Table 1 of the guidance key issues that regulators may need to address in countries seeking to facilitate remittances via an m-money wallets are highlighted:

1. Settlement
2. Differences between international and domestic KYC requirements within a country
3. Differences in KYC requirements between sending and receiving countries
4. Ongoing AML/CFT customer identification requirements
5. Differences in transaction and balance limits between countries
6. Liquidity management:
7. Consumer protection — disclosure, transparency and dispute resolution
8. Infrastructure for sending/receiving funds
9. Exchange control authorization or reporting requirements
10. AML/CFT record-keeping requirements

D. Two short case studies: Philippines & Malaysia and Rwanda & Tanzania

The guidance examines these regulatory issues and provides details on how these four countries have addressed them. It is clear that we are in the initial phases of these regulations becoming standardized and widespread.

Final Notes about the Guidance

While reading the guidance, it is important to note that Banks and Non-Bank Remittance Service Providers (RSPs) are demanding fairness in the application of regulations in order to provide common rules and a level playing field in the provision of remittance services.

Telcos can limit the use of their channel (the mobile network) to competing RSPs much the same as now Banks limit the use of banking services to Money Transfer Operators (MTOs). Will the regulator intervene in these cases?

Another issue is that mobile apps can provide remittance services on top of any smart phone and across any mobile money operator's network. Will those apps be "allowed" by Mobile Money Operators?

We will see institutions partnering with each other, Banks and Telcos, MTOs and Telcos, as long as regulators try to bring everyone to the table and convene in sets of rules that are fair and transparent.

APPENDIX II

MOBILE FINANCIAL SERVICES FOR THE UNBANKED - GSMA 2014

In Page 36 of the 2014 GSMA State of the Industry report on Mobile Financial Services for the Unbanked (http://bit.ly/1A6uM8S) it reports that remittances "were the fastest growing product in 2014 (65.5%). While growth in 2014 took place across all regions, the uptake was particularly significant in West Africa, which accounts for 37.9% of remittances via mobile money globally. This success is primarily driven by the introduction of cross-border mobile money remittances by mobile operators in the region, allowing users to initiate and receive funds directly to and from their mobile money accounts".

The report also states that there can be a large price reduction as these cross-border mobile remittance channels develop: "Mobile money represents a strong opportunity to reduce costs for the user: survey respondents reported that the median cost of sending USD 100 using mobile money is USD 4.0, less than half the average cost of sending money globally via traditional money transfer channels (9.0% of face value on average) and three times lower than the cost of sending money to Sub-Saharan Africa (12.4%)". This contrasts somewhat with some internal reports in the Money Transfer Industry that Mobile Money Operators are demanding premium prices from Remittance Sending Providers (RSPs) for the deposit of remittances into mobile wallets. Probably this statement in the document is focused on the cases where is the same MNO sending funds from mobile wallets across neighboring countries. We will be watching closely the price development of these channels.

The document also spotlights the commercial challenges and regulatory barriers, including the prohibition of cross-border mobile money transfers in many countries. But 2014 saw the first launches of several cross-border mobile money remittance services via mobile money, enabling the direct transfer of funds between the accounts of mobile money users in different countries such as Rwanda and Tanzania. There, Millicom Tigo launched its cross-border mobile money remittance service. Tigo's customers can send money instantaneously across the Tanzanian-Rwandan border for free. Tigo manages internally the currency conversion and foreign exchange risk.

In the case of Mali, Senegal, Côte d'Ivoire and Burkina Faso, countries that use the Central African Franc, there has been very interesting developments. In April 2014, MTN Côte d'Ivoire and Airtel Burkina Faso launched a cross-border mobile money remittance service following the 2013 Orange Money International Transfer launch between Mali, Senegal and Côte d'Ivoire.

The document recognizes the fact that "new partnerships leveraging web-based and mobile interfaces, as well as greater connectivity between mobile money users and diaspora networks in developed markets, have started to gain traction". We all agree that the role of mobile money in international remittances will continue to grow as long as the regulatory challenges are resolved and other licensed Remittance Services Providers (RSPs) in these markets find a way to partner or develop their own mobile solutions.

We hope that Mobile Networks accommodate RSPs and facilitate the use of their channels.

Mohr World Consulting

MWC was created in 2001 to provide a basis for the consultancy work being given by Hugo Cuevas-Mohr to money transfer companies in North, Central and South America, the Caribbean and Europe. Mohr World Consulting advises money transfer entrepreneurs, companies, corporations, financial institutions, multilateral and government agencies on remittances & money transfers.

MWC has consulted for a number of companies and institutions and has recently expanded its consultancy work to include strategic, business, marketing, legal, compliance, technology, product development and other areas with partners, associates and colleagues in different fields and regions of the world.

You can check the company's website for information: www.mohr.world

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