

## Reimagining the Money Transfer Market

**Professor Arun Sharma**  
**University of Miami**

IMTC USA 2014  
San Diego, CA  
June 25, 2014

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## Arun Sharma -- Background

- Executive Director of the JAE Leadership Institute 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 and a large number of money transfer and Wall Street firms.
- Advised sub-committees of Senators Markley, Heller, Warner and Kirk Committees on digital currency.

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## Research Methodology

- Interview with stakeholders.
  - Senior Executives in the Industry.
  - Regulatory Authorities.
  - Channels.
  - Bankers/Credit Unions.
  - In-country Visits.
- Projects (Three Year Confidentiality).
  - Current Practices (graduate students).
  - Panel data.
  - Questionnaires.
  - Intercepts.

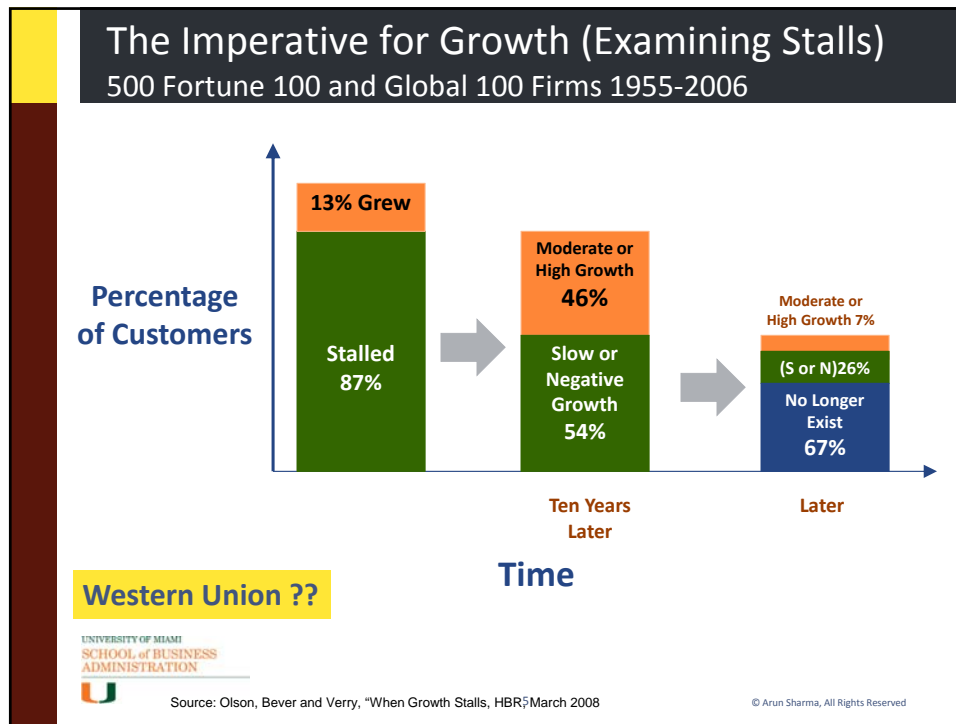


**RESEARCH  
METHODOLOGY**

## The Presentation

- Traditional Markets and Shifts.
- Emergence of Three Track Competition.
- Emerging Technologies.



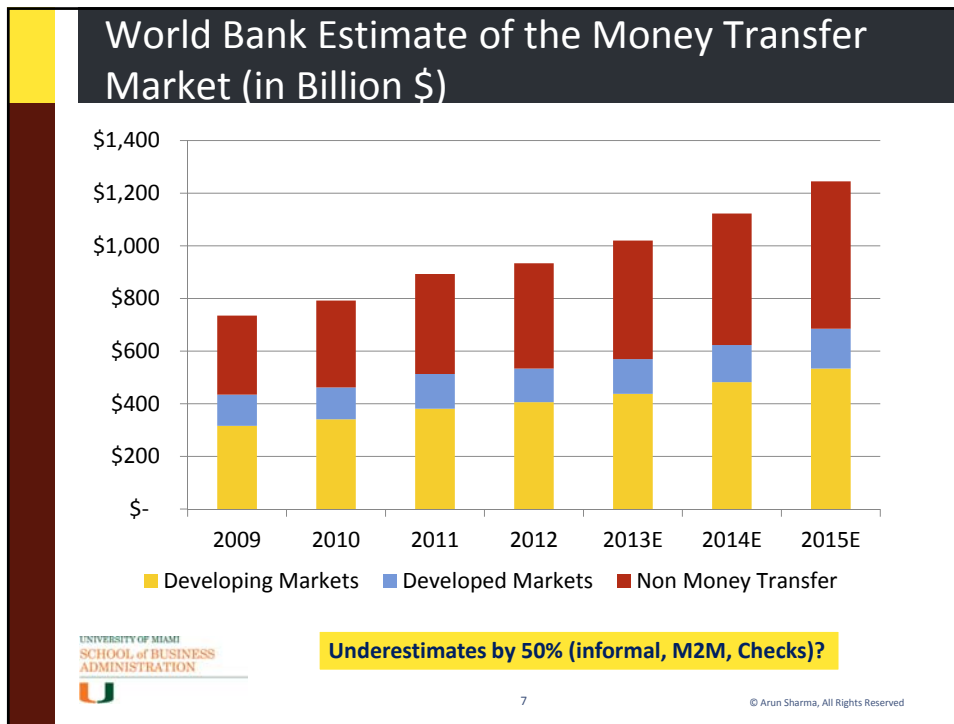


## TRADITIONAL MARKETS AND SHIFTS

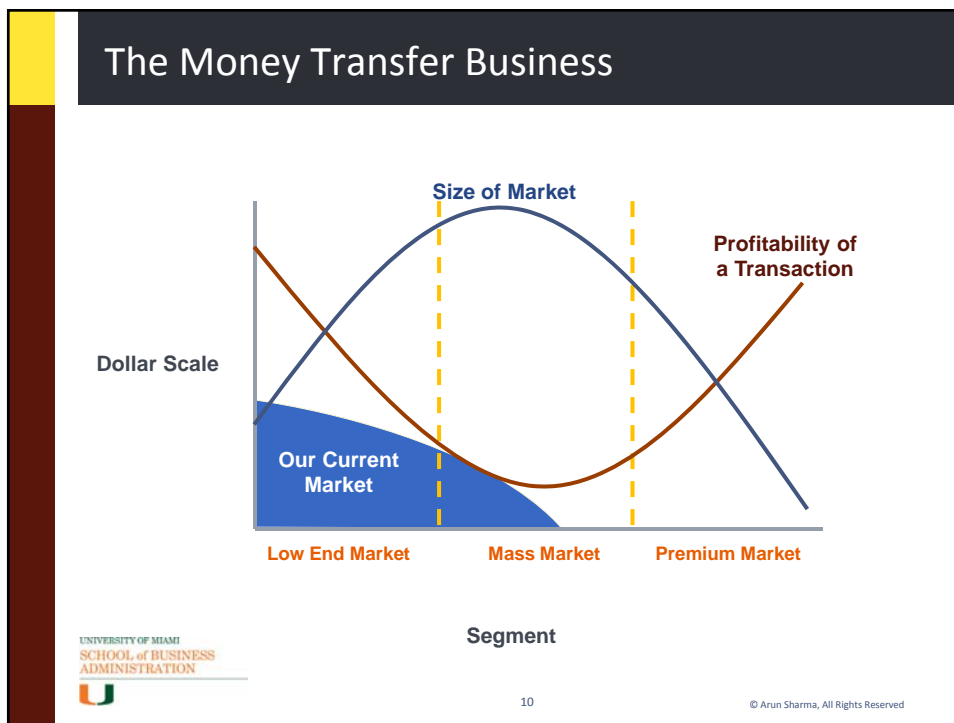
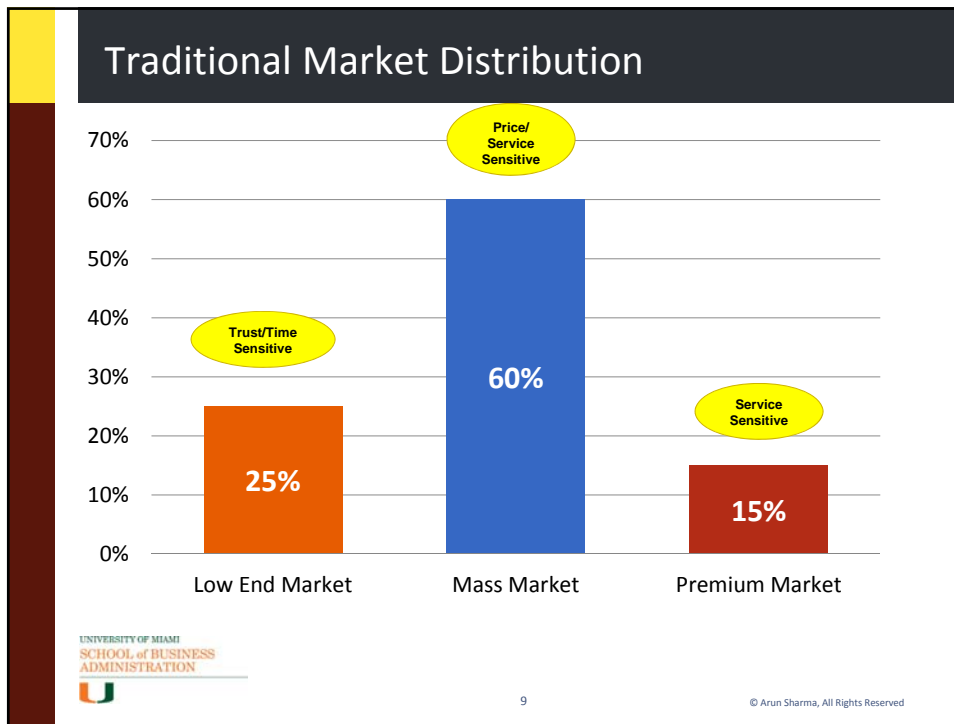
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- ### Customers -- Immigration
- International Migration Continues.
    - Western Countries.
      - Aging Population of Europe and Japan (even China).
        - Need for Migrants.
      - Preference for Middle Class.
        - Spain and Greece to Germany.
  - Non-traditional Migration will Increase.
    - Emerging Nation to Emerging Nation.
      - Bangladesh to India (4 million).
      - Afghanistan to Iran (1.5 million).
      - Within Eastern Europe/Central Asia (5 million; Russia, Ukraine, Kazakhstan, Belarus, Uzbekistan).
- Expected to Grow from 300 million in 2010 to 600 million in 2050.
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## Current Trends in Money Transfer


- Price Pressures.
- Firms with Non-traditional Models are Being Attracted by Margins.
- Compliance and Banking.
- Non MTO, in MTO field.
- Vertical Channel Disintermediation.
  - Distribution channels in recipient countries.
  - Now – Distribution Network.
  - Inter-bank transfer, Compliance, Treasury.













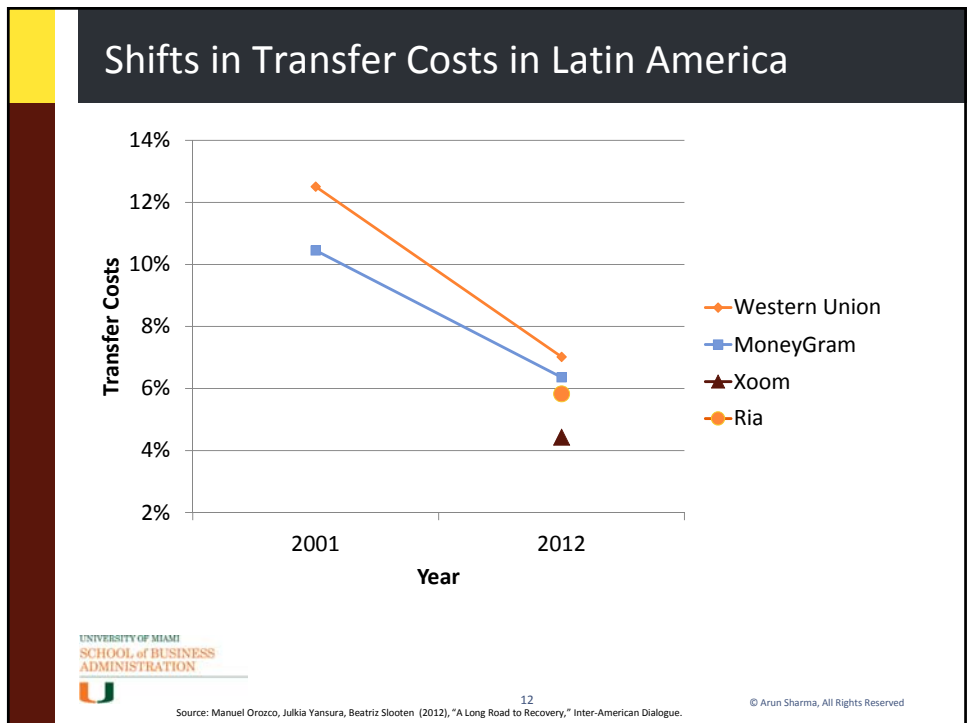


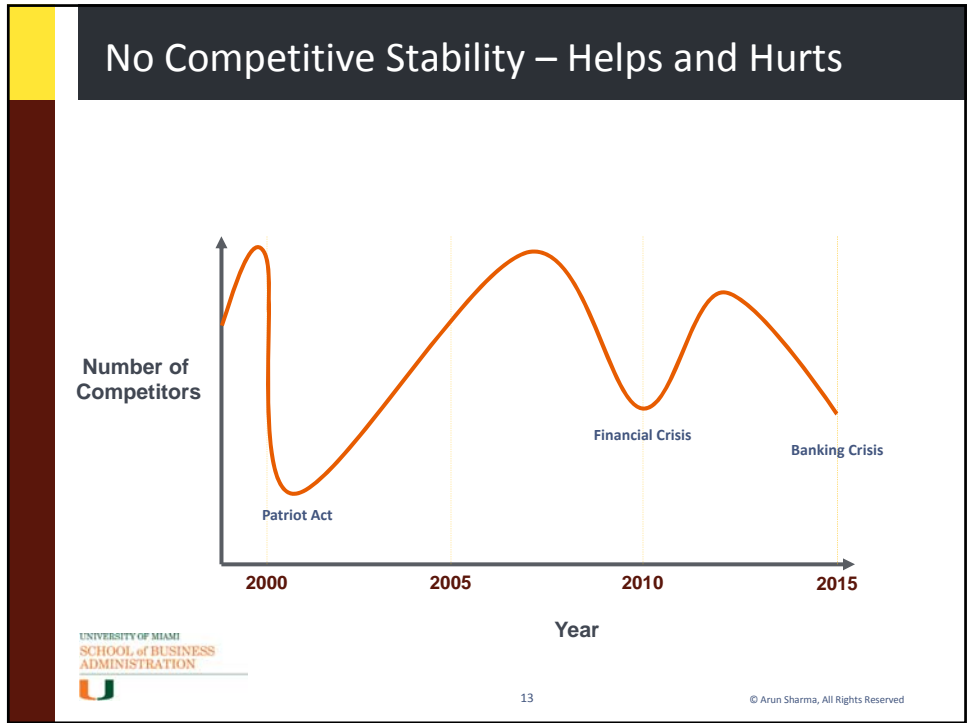
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## EMERGENCE OF THREE TRACK COMPETITION

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## Three Track Competition

- Traditional: Cash – Developed Country Outbound.
- Establishing: Developing Country Outbound.
  - In some cases to developed countries.
    - Portugal gets \$7 billion from Angola and Brazil.
  - Competitors.
    - Traditional Players.
      - Western Union (40% of revenue in Brazil is outbound), AFEX Chile.
    - Non-Compliant Players.
- Emerging: Electronic Payments.
  - MTO – Xoom.
  - Secondary MTO – PayPal, Square, Apple.

## Growth Rates 2013

- Developed Country Cash – 4-5%
- Electronic Channels – 30%
  - Source of Innovation.
- Developing Country Outbound– 17%.
- Two More Interesting Observations.
  - Cross border Payments B2B - 8%
  - Major Driver APAC



## Focus on Developing Countries as Outbound Markets?

- Traditional Competition Concentrated on the Developed Country Sending Markets.
  - USA and Europe.
  - Niche corridor specific firms emerged.
- New Competition is Focusing on Receiving Countries and Moving into Developing Countries for Outbound Payments.
  - India and South Asia.
    - UAE Exchange, Remit2India (bought by Network International), ICICI Bank.
  - China
    - China to Hong Kong to China (40% of the market).



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## Example of Developing Country Money Transfer




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Source: Latin Immigrants Shifts Sights from US to Neighbors, WSJ, November 18, 2013; <http://online.wsj.com/news/articles/SB10001424052702303531204579203861742570436>


## Reasons for Increase in Electronic Channel

- Customer Demand.
- Shift from Higher Margins to Lower Margins.
- Channel Costs.
- Channel Expectations of Equivalent Pricing.
  - Reducing Channel Pricing to Equivalent of Disintermediated Pricing.
    - Channel Costs Remain High.
- Ignoring Non-Traditional Channels.
  - Success Leads to Failure.



International Money Transfer Costs in 2013;  
Average: 8.91%; Xoom: 2.83%

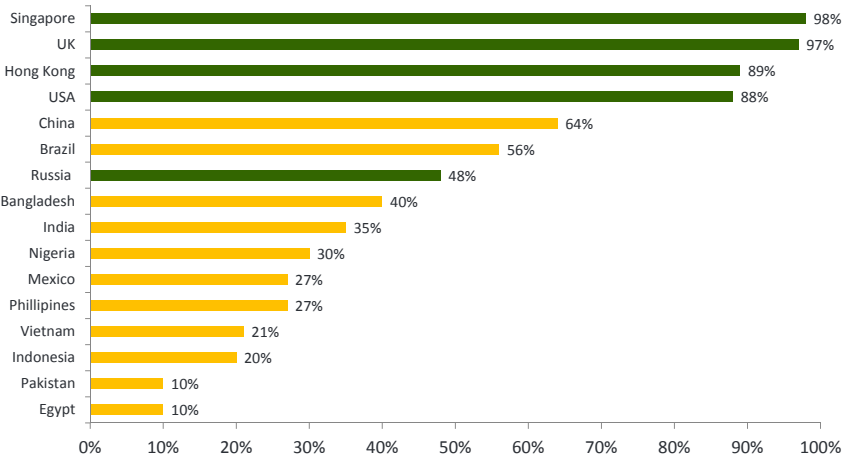
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## Decline of Cash to Cash Transfers – Missing Data



Country	Percentage of Banked Receivers
Singapore	98%
UK	97%
Hong Kong	89%
USA	88%
China	64%
Brazil	56%
Russia	48%
Bangladesh	40%
India	35%
Nigeria	30%
Mexico	27%
Philippines	27%
Vietnam	21%
Indonesia	20%
Pakistan	10%
Egypt	10%

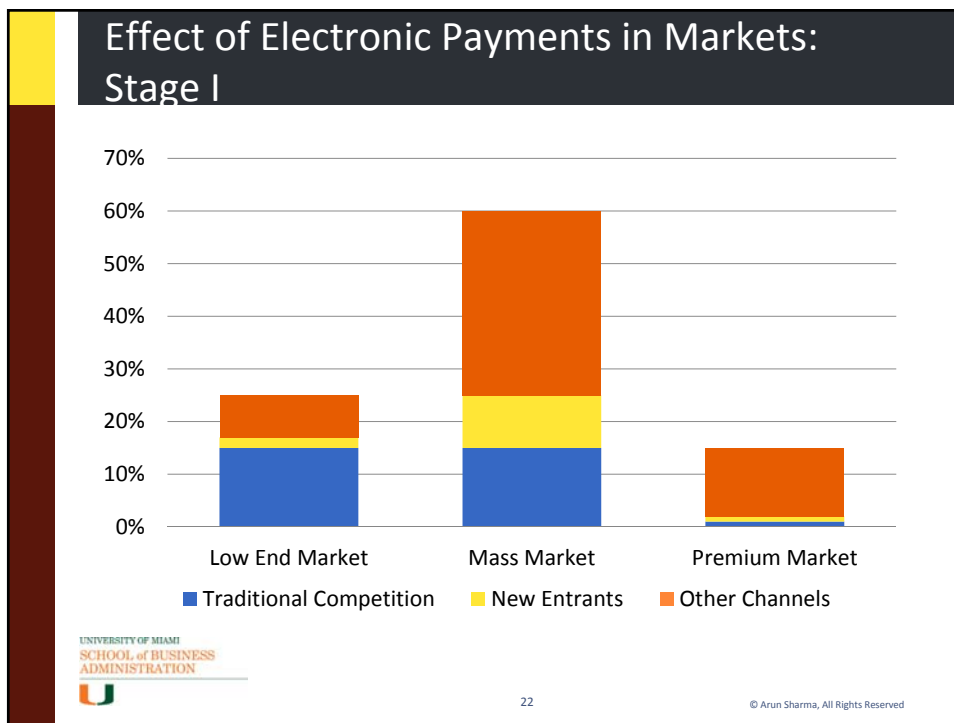
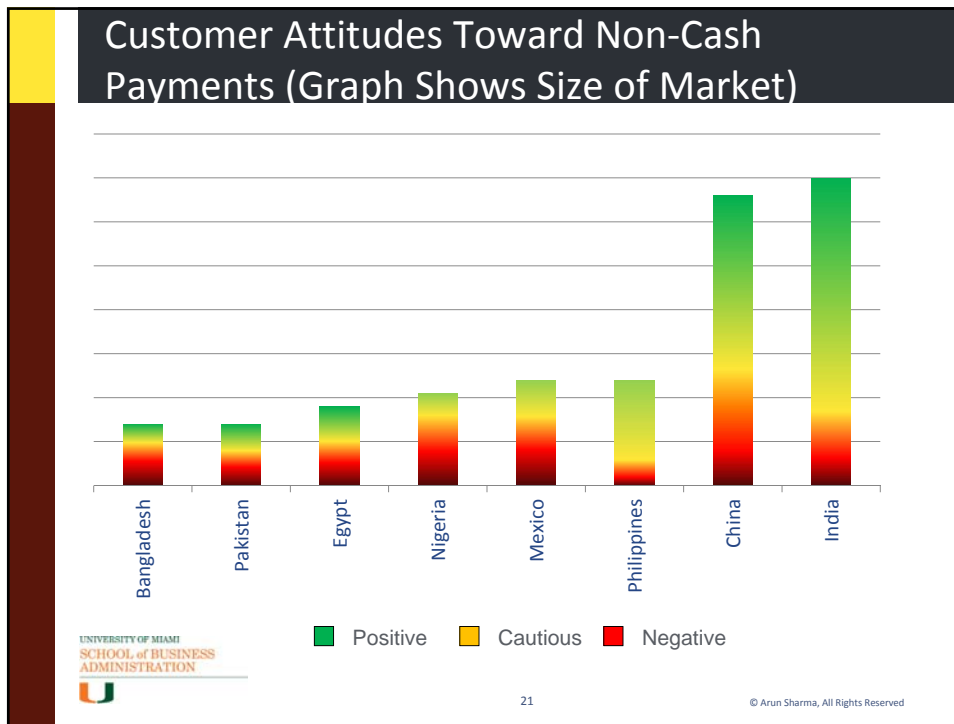
Our Research Shows that 74% of Money Transfer Receivers in India are Banked

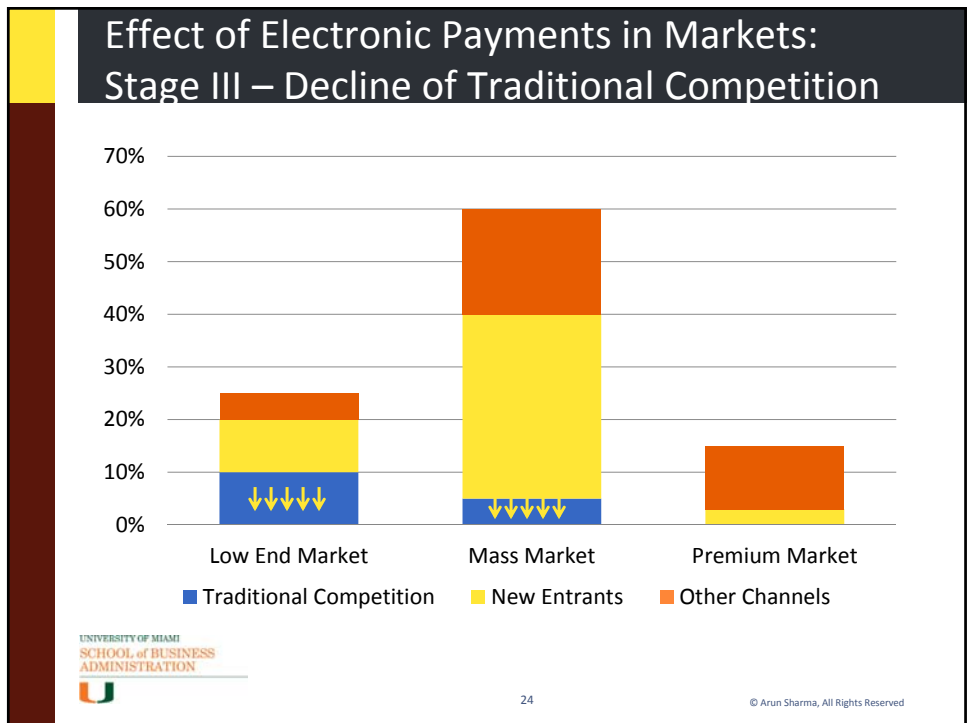
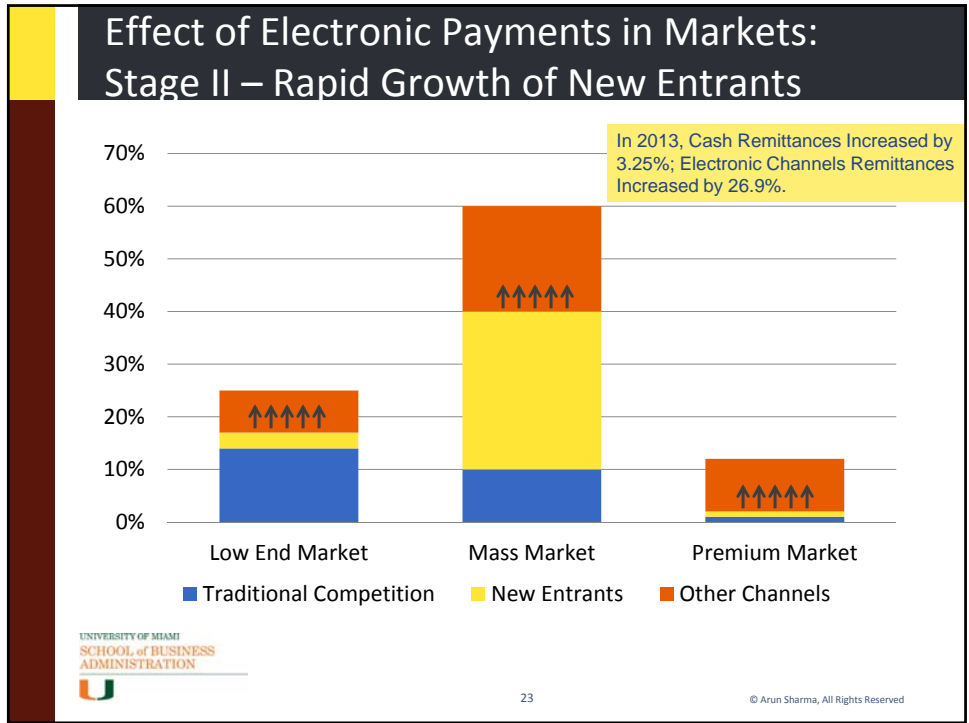
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Source: World bank (2012), Measuring Financial Inclusion; [http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/2012/04/19/000158349\\_20120419083611/Rendered/PDF/WPS6025.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/2012/04/19/000158349_20120419083611/Rendered/PDF/WPS6025.pdf)



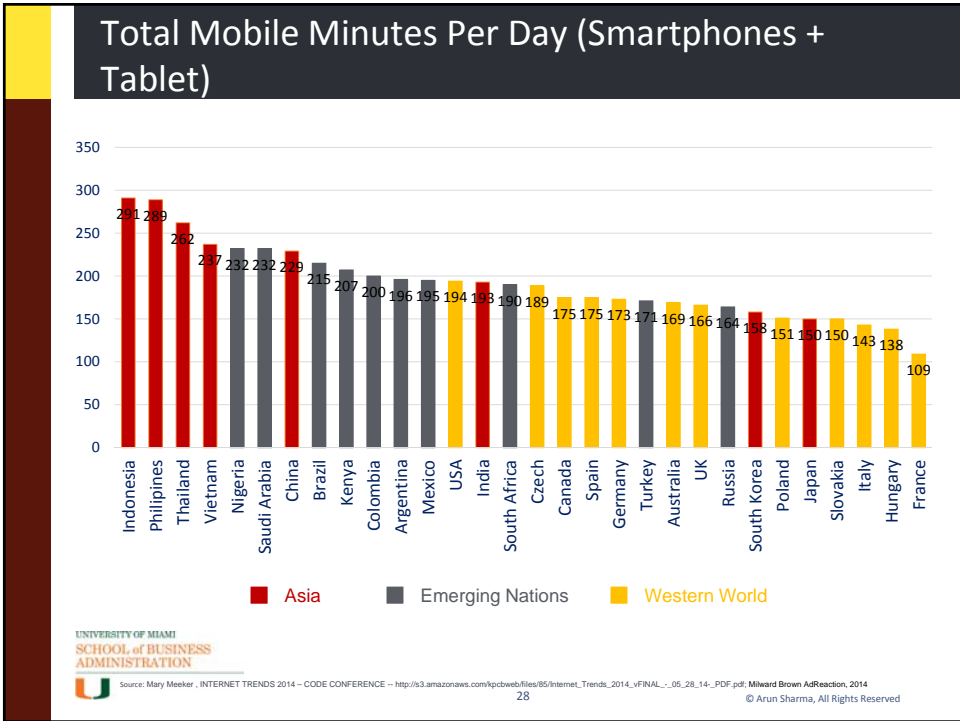
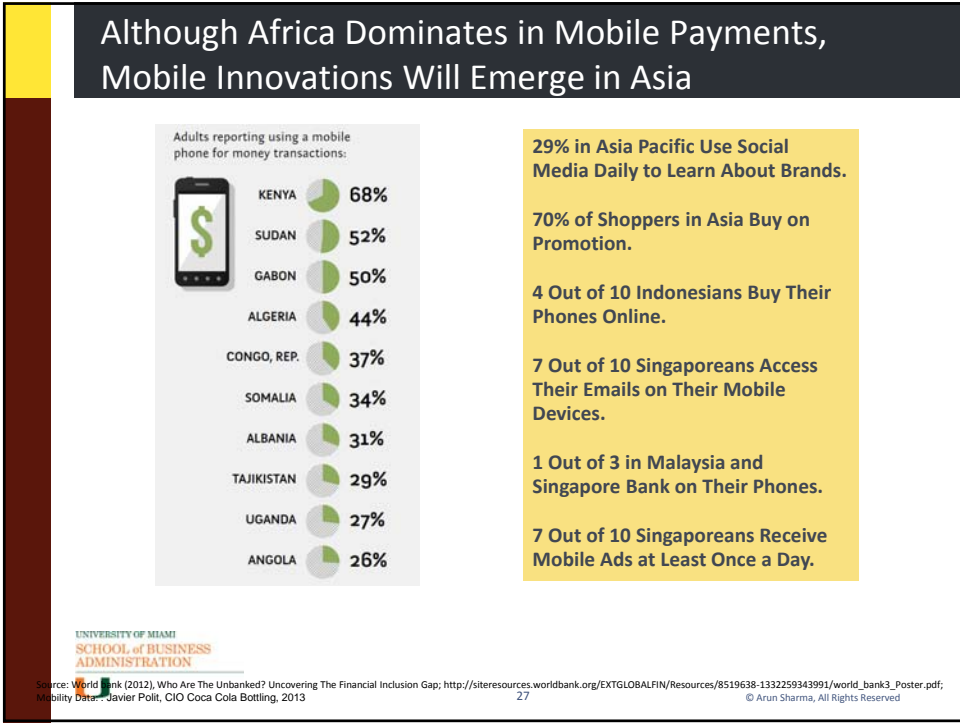


## Three Track and Emerging Compliance Issues in Money Transfer

- Different Compliance Requirements for Different Firms.
  - Large Firms and Small Firms.
  - Traditional versus Technology Firms.
  - Developing Country Firms – No Compliance?
- Issues?
  - Is Compliance a Differentiator?
  - Will Compliance be Outsourced?
    - Rise of Third Party Compliance Certifiers.
  - How do We Manage Regulation?
    - Relationship with Regulators.
  - Objectives versus Behaviors.





## EMERGING PLATFORMS





## What I am Watching – Moving Toward a Mobile Wallet

- Square
  - Alliance with Starbucks.
  - Deep penetration of Merchants.
  - Square -- Accounts with alternative payment methods (non-cash/non-ATM) have higher deposits.
- PayPal
  - Mobile Payment Acceptance Systems.
  - Relationship with Discover and MoneyGram to enhance access to cash.
  - PayPal App.











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## Mobile Money (Wallet): A Technology Whose Time Has Not Come

- The infrastructure, customer access, and affordable fee structures for mobile money does not exist except in few countries.
  - Shallow Penetration Worldwide.
    - M-Paisa (Kenya), G-Cash, Smart (Philippines), Digicel (Fiji).
  - M-Paisa
    - Old System – no APIs
    - 320 transactions a second; 19,200 a minute; 1.15 million an hour.
    - System crashes Friday afternoons (Last Friday of the month).
  - Costs -- M-Paisa (4 cents; ATM 12 cents; MT = \$12); G-Cash, Smart (15 cents; ATM 60 cents); Digicel (Cash Out starting at 45 cents).
- De-regulation of the financial sector (away from banks) will be the key in increase of mobile money.





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## Interesting Technologies -- Octopus Card, Hong Kong



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Octopus has over 5,800 service providers in transport and retail, and over 66,000 Octopus readers deployed across Hong Kong.

Octopus recharge from credit cards (specific rewards), cash or direct deposit.

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## Alternative Payments in China





NFC Platform Set up by all Major Banks



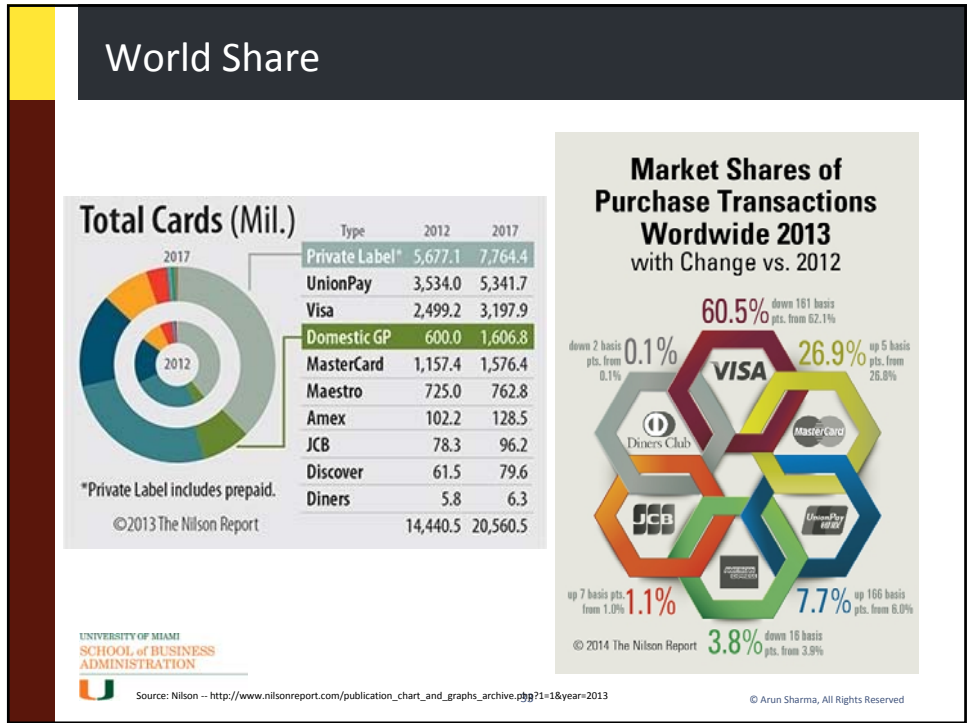
**Alipay**

More than 550 million registered users.  
Around 8.5 million transactions daily.

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Source: "New Mobile Payment Platform will go far to Lift Consumption," China Daily, February 12, 2014; [http://usa.chinadaily.com.cn/epaper/2014-02/12/content\\_17279365.htm](http://usa.chinadaily.com.cn/epaper/2014-02/12/content_17279365.htm)

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## Emerging Money Transfer Options

- Facebook
  - Ireland
    - Users can store money on Facebook and use it to pay and exchange with others.
    - WhatsApp has 430 million users.
  - Seeking Partnerships with MTOs.
    - TransferWise, Moni Technologies and Azimo.
- Walmart Starts Walmart to Walmart Money Transfer.
  - Small Market, Compliance Issues.
  - The Concern is Ria.
    - MoneyGram Revenues and Competition

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Source: "Facebook plans to provide mobile payment services," Reuters, March 14, 2014; <http://www.reuters.com/article/2014/04/14/facebook-financialservices-idUSL3N0N63IW20140414>

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## Developing New Methods to Compete

- Leverage Own Assets and Relationships.
- The Majority of New Markets Can be Addressed by Developing Products and Service that:
  - Address Current Pain Points.
  - Develop New-to-Market Offerings.
  - Leverage Other Firm's Relationship.
    - Alliances.
- Dual Price Strategy (Mass and Low).



## Summary

- The Growth Imperative.
- Traditional Markets are Shifting.
- Emergence of Three Track Competition.



## Arun Sharma



Dr. Arun Sharma is Executive Director of the JAE Leadership Institute and Professor in the Marketing Department at the School of Business Administration, University of Miami. Arun has extensive knowledge of firms through his experience in consulting, and conducting seminars. He is a well known expert in Global Market Trends, Competitive Strategies, and Market Strategy and his expertise is in designing and implementing corporate strategies. He has consulted and conducted seminars for money transfer companies such as MoneyGram, Western Union, MasterCard, Visa, Walmart and a large number of money transfer and Wall Street firms.

He has previously taught at the University of Illinois at Urbana-Champaign where he received his Ph.D. in marketing in 1988. Arun also has an MBA and a Bachelor of Engineering degree in Metallurgy. Prior to joining the academic world, he worked for three years in a high-technology firm where he handled product management and sales management responsibilities.

Arun has published extensively (over 80 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](mailto:asharma@bus.miami.edu).

