

How is technology changing the remittance industry?

Hugo Cuevas-Mohr – March 2017

In the process of building the RemTECH Awards <http://bit.ly/RemAwards1> and asking ourselves what innovation in the remittances industry meant, I searched the internet and talked to colleagues, both in the traditional financial services sector, bank and non-bank, as well as in fintech start-ups.

I began with fintech and what is truly interesting is that there is a broad understanding of what fintech is but almost everyone doesn't see eye-to-eye in the details. With no boundaries of how much technology has to change a financial service or a product or how much disruptive the company – or the idea is, to be labeled a “fintech”, almost anyone could call themselves a fintech nowadays if it applies technology, in a large measure, to all its processes.

I like Investopedia's definition: *“Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century. Originally, the term applied to technology applied to the back-end of established consumer and trade financial institutions. Since the end of the first decade of the 21st century, the term has expanded to include any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin.”* <http://bit.ly/2nzbY7V>

A great article to understand fintech is entitled *How disruptive is fintech really?* written by a digital transformation consultant at UK's iBe TSE Ltd, Bogdan Neagu, in BANKNXT - <http://bit.ly/2mHK1qD>. He first underlines what is disruptive innovation and the criteria needed to fulfill the status in each of the categories that he classifies fintech in and concludes that *“many of the fintech categories are not disruptive at all”*. In the remittance category, he states: *“Fintechs in remittance simply target the same customers of Western Union/Money Gram at a lower cost via an improved process.”* But even the “lower cost” can be debatable when the dust settles and online start-ups have to slow down and look at the bottom line.

Of course, there are 100% fintech disruptive companies, truly revolutionary ones and in Bogdan Neagu's article he lists 3 segments where they can be found: 1) Lending 2) Robo-Investment and 3) Crowdfunding. In this McKinsey Report <http://bit.ly/2nQHpgq> we see that the hype over fintech is real and investment in it is growing by leaps & bounds, more than 200% from 2014 to 2015 for example. And even pointing out how *“Banking has historically been one of the business sectors most resistant to disruption by technology”* and *“the ubiquity of mobile devices has begun to undercut the advantages of physical distribution that banks previously enjoyed”*.

Consumers have generally been slow to change financial-services providers and that is true in banking and in the remittance sector. As in Banking, there are definitively barriers to entry for non-bank Remittance Service Providers (RSPs), regulatory in most cases and now derisking has laid another moat around the industry.

In our sector, since all sorts of cross-border partnerships are needed to operate an international money transfer service, some partners in the remittance process could be fintechs while all the rest links of the chain are not. Take any online digital-first money transfer service like PayPal's Xoom, WorldRemit or TransferWise; they are all using basically the same paying networks everywhere in the world. The off-ramps are basically the same for all. And in the on-ramp, all these digital companies are relying on bank debit cards to draw funds from people's accounts.

In a cash-heavy industry like remittances, with migrants even taking cash out of their bank accounts to walk to their neighborhood agent and process a remittance¹ – that paradoxically might be sent for deposit in another bank account, the use of technology and the impact of pure fintech companies is not clear cut. But the “war on cash” is definitely helping the digitalization of the industry. The war on cash is true at many levels: banks don't want to deal with it, governments don't want to deal or spend money on it and payment processors know that eliminating cash they could make money in every financial transaction. Law enforcement is in it too: the less cash changing hands the better they can trace criminals, from tax evaders, corrupt politicians, smugglers, etc.

But even for handling cash there is new technology easing out its handling and eventually lowering its intrinsic processing cost with Smart-Safes². Eric Cheng, a Policy & Strategy Analyst at Federal Reserve Bank of San Francisco said it plainly: *“Technology and innovation strongly influence the payments system. This innovation creates two potentially opposing effects on cash: 1) increased competition from emerging mobile and other digital payment alternatives, and 2) the ability to automate certain aspects of cash handling.”* <http://bit.ly/2mFuqqH>. The emergence of “cash banks” adds another solution layer.

We can surely say that Safaricom's M-PESA is a disruptive fintech, as the most successful use in the world of mobile financial services and its impact on financial inclusion in the country can't be denied. Some remittance recipients might take the cash-out from their M-PESA Mobile Wallets when they receive the funds, but now that a strong ecosystem has been built, digital money can exchange wallets in personal as well as commercial transactions without the need to go back to cash.

Regulation has been helping banks and traditional licensed financial service providers in many ways and has shielded them from fintech disruptors. Allowing Bank Agents to thrive in some markets have been the way for banks to expand their services and examples like Brazil (close to 200,000 bank agents handling +10% of all bank transactions), Pakistan (close to 20,000 agents), Colombia, Peru, Guatemala, India, etc. have proven the importance of agents for banks, and in the case of remittances, have expanded their distribution networks significantly. But that couldn't be done without the underlying technology to support agents, make the software easy to use, safe, etc. Forcing Mobile Money Operators (MMOs) to use “simplified bank accounts” tied to each mobile wallet has forced MMOs to partner with banks. Where regulation has let MMOs provide mobile wallets without the need for a corresponding bank account, mobile disruption has been much faster. Countries have been slowly modifying their regulations to allow non-bank financial service innovators to spread their wings.

¹ <http://bit.ly/2mFA5gs> ; Project Greenback 2.0

² <http://bit.ly/2mFuqqH> Trends in Retail Cash Automation: A Market Overview of Retail Cash Handling Technologies

So, how is technology changing the remittance industry? We all agree that technology has been changing the workflow and all the processes in the international money transfer industry. I still believe that the fax was the most disruptive technology in this industry because it quickly allowed the spread of agents and correspondents all over the world in the 90's but only old-timers will agree to this statement. Nowadays systems are becoming more open to allow for integrations through APIs; pieces of technology can be added on to replace, automate, speed, make safer, make less risky, make more efficient, our internal systems. Tasks once handled with physical bills, bulky computers, and human interaction are now being completed entirely on digital interfaces. And that is where fintech is crawling into traditional international money transfer operations.

Take Bitcoin for instance. Nowhere better to understand the impact of Bitcoin in the remittance industry than the experience of Filipino entrepreneur Luis Buenaventura in his excellent portrait of his journey presented in his new book *“Reinventing Remittances with Bitcoin”*, <http://bit.ly/luisbook>, a collection of conversations, essays, and real data from the field, that you can download for free using the link. Yes, this is new technology inserting itself into the fabric of the industry, with no clear cut advantages in terms of cost or speed, yet, but with all the possibilities opening as virtual currencies are more accepted, fairly regulated and implemented. And as Greta Geankoplis, an early Blockchain believer and CEO of Stratus Digital Systems³ in Portland, Oregon said recently: *“Just wait and see. Blockchain technology as it evolves, will be the framework of the financial services of the future.”*

What are the processes that are changing more rapidly, the systems that make these changes more apparent and are producing the greater change? What innovations are lowering the cost of handling remittances? What innovations are making remittances more convenient for end-users? What innovations are truly disruptive? How creative is this industry? In the categories we laid out for RemTECH Awards entrants, we chose quite a few: End User Experience, Social Impact, Marketing-Advertising, Innovative Agent Solution, Back-Office Solution/ FX Management/ Treasury/ Customer Service, RegTech/ Compliance/ KYC/ AML/ CTF, Social Impact and Business Service / B2B-B2P-P2B. We also have an OPEN category for the out-of-the-box ideas that can't fit in any other mold. These categories are not binding and are just a guideline for entrants and the Judging Panel <http://bit.ly/2n4v3xv>.

If you google “technology remittances” you will find all sorts of articles⁴ about how ripe this industry is for disruption, the “high fees” associated with the service, the “high friction” associated with cash, agents, distribution networks, limited connections between banking institutions, etc. I have trouble reading these articles because some of them are full of myths, generalizations, propaganda, wishful thinking (mostly well-intentioned), etc. that generate disruption ideas that if they happen as predicted, will take a long time to develop. Even the discussions of how “money transfer agents” are going the way

³ <http://bit.ly/2n44FUj> Stratus Digital Systems - digital asset security technologies

⁴ There are many but let me point you to a few of them: <http://bit.ly/2mJqypw> Applying New Technologies To Make Remittances Work - <http://bit.ly/2n4ece4> Technology Provides Remittances with a Reboot - <http://bit.ly/2mFlxfu> 5 trends affecting the remittance industry - <http://bit.ly/2mXsHio> Remittances 2.0: Can Technology Help Achieve the Global Goals? - <http://bit.ly/2nAJQRM> Technology and remittance transfers: the (slow) revolution

of “travel agents” and will eventually disappear is basically biased in my opinion and disconnected of the importance of agents, in both sides of a corridor, for the migrants, especially, and their families. Maybe these agents will go the “uber way” and technology will make them better to serve their clients. Look about M-PESA and the development of its agent network to serve its users^{5,6?}

The RemTECH Awards <http://bit.ly/2n4tD5Z> is a step in the direction to find the ideas, systems, technologies, creative possibilities of moving forward the evolution of an industry that I don't see being disrupted head-down but slowly evolving. This global industry has many faces, many countries involved, many players, many customer behaviors, and many challenges that are played in many scenarios (regulatory, financial exclusion of its service providers, increase compliance costs, misconceptions). We hope the RemTECH Awards bring innovation in the remittance field forward. In June 13 at the IMTC USA 2017 event in San Francisco the Nominees will be announced and winners and to the formal RemTECH Awards Ceremony will be held on June 15 at the Global Forum on Remittances, Investment and Development 2017 (GFRID2017) organized by the International Fund for Agricultural Development (IFAD), the World Bank and the United Nations Department for Economic and Social Affairs (UN-DESA) in New York City. The International Day of Family Remittances (IDFR) will be celebrated on June 16 in the context of the GFRID, at the United Nations headquarters.

This article is also a challenge to the industry (join the conversation) and to the Judging Panel <http://bit.ly/2n4v3xy> of the RemTECH Awards to contribute to this discussion⁷.

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<http://imtconferences.com/technology-changing-remittance-industry/>

⁵ <http://bit.ly/2mXDMzS> bridges to cash: the retail end of M-PESA - Frederik Eijkman, Jake Kendall and Ignacio Mas

⁶ <http://bit.ly/2naS3eC> How Agent Network Managers Have Fueled M-PESA's Success - Jennifer Barassa

⁷ I have decided not to be part of the Judging Panel to be impartial and to better promote them.