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The Goldfinch Report

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Mobile Payment Contestability

For years mobile carriers have been the force behind mobile payments, but now the banks are beginning to show interest. In this issue of the Goldfinch Report, GFG Group's Simfonie Program Manager, Peter Goldfinch asks whether banks should defend their position or co-operate with carriers as partners. Peter's credentials have been earned over 23 years experience in electronic payments, including pioneering work on ATMs and EFTPOS, and the introduction of credit and debit cards in Russia.

GFG is experiencing an increase in bank lead enquiries and requests for proposals for mobile payments. This bank interest can be attributed to the fact that mobile carriers have started to threaten their traditional business, remittances. Carriers have been focusing on airtime recharge and micro payments - neither of which had stimulated interest or generated concern with the banks. But with those two opportunities addressed, carriers are now switching to 'what next' and they see remittances as the next opportunity to drive their revenue. This is an existing and profitable banking business. Should banks defend their position or co-operate with carriers as partners?

“BANKS ARE CHARGING HIGHER FEES FOR REMITTANCES THAN THE MONEY TRANSFER ORGANISATIONS, AND THEIR FIXED PRICING DISCRIMINATES AGAINST THE LOWER VALUE REMITTANCES.”

“MOBILE CARRIERS ARE NOW SEEING THEMSELVES AS REMITTANCE SERVICE PROVIDERS, BUT IT IS NOT AS SIMPLE AS MANY MAY FIRST CONSIDER.”

The remittance business is extremely important to many emerging economies, making up a sizeable percentage of their GDP. The revenue generated for banks is significant, although the service offering leaves a lot to be desired. There are estimates the remittance market will grow to USD604 Trillion by 2011. The formal market is estimated to be only a tenth of the total market.

For emerging markets the requirement is for a secure, low cost and fast remittance service, cross border and also domestically.

The requirement is to deliver the funds to the intended recipient, in full and on time, every time. The less formal channels or unregistered agents have a reputation of not always delivering, or only after additional undisclosed charges have been deducted by those involved in the delivery chain.

The cost of cross border remittances does vary widely depending on the corridor, (countries involved). It's not unknown for up to 20% of the value to be absorbed by charges. The average is closer to 9%. The cost is in part due to the inefficient process, or simply exploitation by those providing the service.

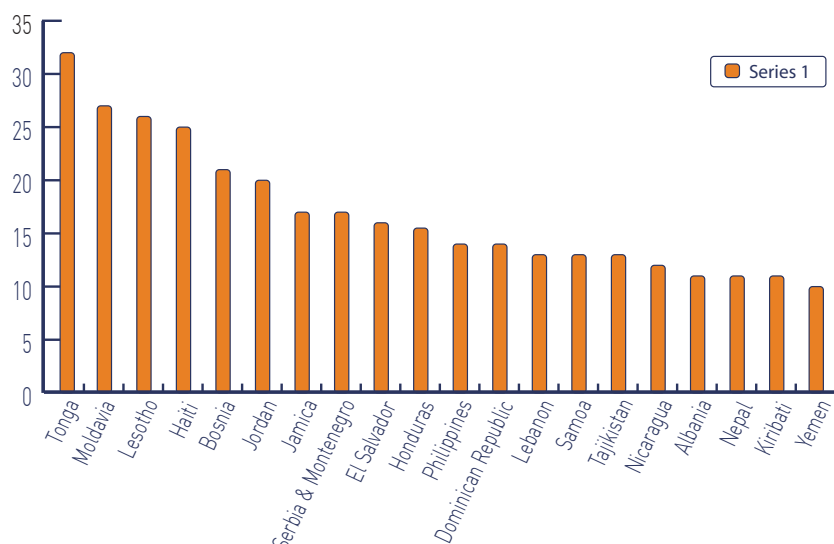
Speed of transfer is in many cases critical for the beneficiary. Slow and erratic service can add to the uncertainty of ever receiving the money. Funds not arriving when needed are a concern.

The table below was published by a UK Remittance Working Group, (DIFD). It clearly shows that banks are charging higher fees for remittances than the money transfer organisations and their fixed pricing discriminates against the lower value remittances. Service deliver time for banks is considerably longer. Based on these figures alone it is clear there is an opportunity to deliver remittances cheaply, securely and faster.

Fees (per transfer)	Banks	MTOs
Minimum Fee	£0 - £25	£8 - £12
Transfer fee £100	7% -35%	12%
Transfer fee £500	1.6% - 7%	4.9% - 5.0%
Transfer Time	2 – 10 days	10 min – 24hours

A survey by the Asian Development bank indicated that 75% of Singapore's overseas workers use the bank-to-bank services for remittances. The same survey showed that 80% of the same workers remitted funds once a month. To further expand the view, the same survey showed 68% of these workers sent less than USD200 each time.

The Asian Development Bank survey covering Philippines beneficiaries shows that 94% of the remittances were sent to the two lowest socio-economic classes. This clearly indicates the dependency of these two classes on remittance income. CGAP published a chart similar to the diagram below, showing the countries where there is a higher dependency on remittance income as a percentage of GDP.



“BANKS AND MOBILE CARRIERS NEED TO WORK TOGETHER TO TARGET THE INFORMAL CHANNELS.”

“THIS IS NOT A DIFFICULT SERVICE TO TAKE TO MARKET, IF ALL PARTIES COOPERATE.”

If the remittance fees can be halved the GDP for a country such as Tonga would likely increase by 4 - 5%. The challenge for small countries such as Tonga is that in terms of the total value of remittances, they are no more than a rounding error. The business case for a lower cost solution does not exist.

The countries ranked high in terms of remittance value received are India, China and Mexico. The second tier value countries are Serbia & Montenegro, Pakistan, Brazil and Bangladesh.

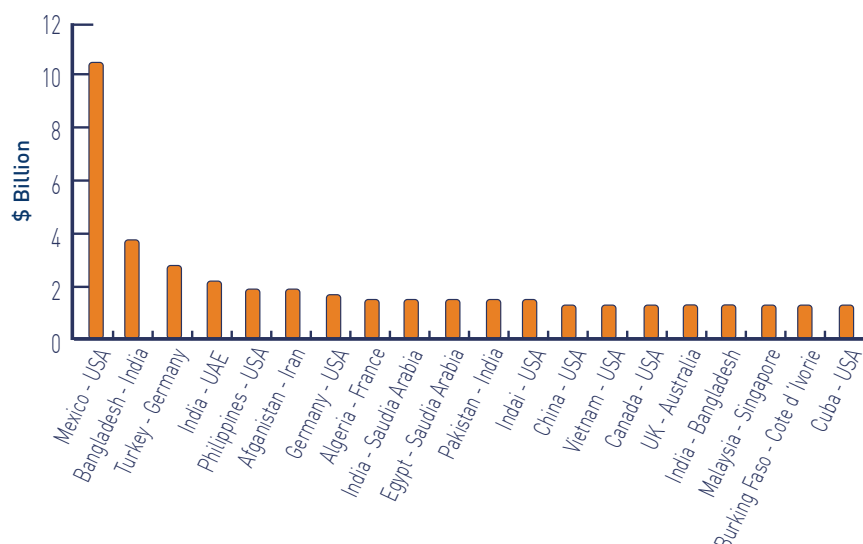
The remittance business is therefore open for competition from a provider that can deliver to the primary customer requirements of security, cost and timeliness. The mobile carriers are now seeing themselves as remittance service providers who can deliver to these requirements. But it is not as simple as many may first consider. Most carriers can only deliver to one side of this two-sided service. There are not too many Carrier Groups that have operations in both sender and beneficiary countries, enabling them to provide an end-to-end service. Vodafone is one exception with operations in sending countries such as the United Kingdom, Germany, Italy and Spain, and also operations in beneficiary countries such as Albania, India and Egypt. Vodafone’s carrier partners provide a wider beneficiary spread.

What does the mobile industry bring to the remittance business and why does it think it can be successful? The mobiles primary advantage over the banks is obviously the higher market penetration and therefore reach over the banks in the beneficiary countries. In the sending countries this advantage is lost and in most western countries banks are trusted to hold funds. Carriers have yet to earn this trust.

The top 10 remittance receiving countries in 2006 were:	The top 10 remittance sending countries in 2006 were:
India: \$25.7B	United States - \$42.9B
Mexico \$24.7B	Saudi Arabia \$14.3B
China \$22.5B	Switzerland \$13.9B
Philippines \$14.9B	Germany \$12.3B
France \$12.6B	Russia \$11.4B
Spain \$8.9B	Spain \$11.0B
United Kingdom \$7.3B	Luxembourg \$7.5B
Belgium \$7.2B	Netherlands \$6.7B
Germany \$6.7B	Italy \$5.8B
Bangladesh \$5.5B	Malaysia \$5.5B

World Bank, 2006. Figures in USD

But there are significant migration corridors between countries where the advantage on both sides is with the carriers. This suggests there would be significant remittance flows. Bangladesh – India is an excellent example. The following diagram shows the Top 20 as reported by The World Bank 2006.



About Peter

Peter Goldfinch, GFG Group's Simfione Program Manager, is a respected analyst and commentator on global trends in payment technology.

One of the original founders and shareholders in GFG Group, Peter has a background of more than 23 years in the information technology industry, most of which has been involved with consulting and systems development for banking and finance customers in 25 countries.

He has particular expertise and experience in payment systems, including mobile payment systems. His career highlights include pioneering work on the first ATM and EFTPOS networks.

In the mid-1990s, he played a key role in the introduction of credit and debit cards into the Russian market, working with GFG's customer SBRF.

About GFG

32 million consumers in 39 countries use GFG software applications. More than 20 years of payments experience stands behind the company's worldwide leadership in integrated Card and Mobile-based payment products.

Accredited by the World Bank, GFG's solutions are based on a single, integrated architecture comprising two key products:

Simfione™ A proven, market-leading product which enables a mobile handset to operate as a fully mobile payment device.

Cadencie™ A full-function, real-time, credit, debit and charge card management system.

GFG Group operates from offices in Auckland and Wellington New Zealand, Melbourne Australia, and Manila in the Philippines. The company's core research and development team is based in Auckland, with consultants and technical staff located in the international offices to provide front line 24/7 support for customers in multiple geographies.

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There is a significant advantage for the two industries to work together. In many countries the informal channels are more significant than the formal. Bangladesh is an excellent example where 46% of the remittance value, (total USD 5.9 Billion) is estimated carried by the formal channels but for Hundi and by-hand channels it is estimated at 48%. The banks will handle by default all the formal remittances even if the other sender facing operators aggregate a significant percentage. They still have the opportunity to earn exchange rate margins on the total value, but have their fee income diluted.

The banks and mobile carriers need to work together to target the informal channels. These channels represent the highest risk for the sending and beneficiary parties. Further, authorities do not see this money. Switching it across to a formal channel will mean it can be monitored.

Working as partners requires a clear understanding of where each can best contribute to the delivery of an integrated service:

The carriers' contribution should be based on:

- A greater beneficiary reach, particularly the un-banked populations
- In developing countries senders are typically migrant workers, many unskilled who are likely to have a mobile handset but not a bank account.
- Enabling a faster remittance delivery service direct from sender to beneficiary

The banks' contribution should be based on:

- Understanding of the remittances regulator requirements
- An appreciation of the standards and need for integrity in a payment systems
- Cross border settlement capability
- Being a licensed deposit taker and the associated trust

Selective markets have regulations concerning agency banking and the implementation of KYC requirements varies. These will impact deployment options and the role of the banking partner.

From a systems architectural view the deployment of a remittance hub for message switching and net settlement processes is a necessary long-term requirement. In the short term the remittance channels support the deployment of bi-lateral arrangements between senders and recipient service providers. Banks with a global network such as HSBC, Citibank, Standard Charter can provide cross border settlement a little more efficiently than using corresponding banking arrangements.

Banks will claim the deployment of a remittance specific switch is reinventing the wheel as the payment card schemes provide this service to the banking industry. The card schemes have developed remittance services and although these generally satisfy the criteria they fail on the timeliness factor. This could be addressed if remittances were processed through their single message services. Mobile carriers can also partner with the large international remittance companies such as Western Union and MoneyGram.

Mobile carriers, banks and card schemes working in partnership have the potential to address this market and raise the living standards of the beneficiaries in the emerging markets. This is not a difficult service to take to market, if all parties cooperate.