



Remittance - History and Present State of the Industry

Table of contents

Introduction to Remittance	03
Overview of the Market Segment	03
Why Remittance?	03
Market Statistics	03
Top players & Services offered	05
Monopoly by Traditional Players	05
How do they make money?	06
Top 4 global players	07
Disruption by Fintech & Digital Players	07
Digital Remittance	07
Their offerings and how got a share of wallet	07
Role of regional (corridor specific) players	07
Threat & opportunity for traditional players	08
Impact of Covid	08
Industry impact	08
Challenges faced by the Customer and the ways to solve the problem	09

Introduction to Remittance

Overview of the market segment

Remittance can be defined as a transfer of money, often by a foreign worker (a migrant) to their family and friends in their home country. Remittance is strongly associated with migration; hence it is not a new occurrence. As early as the 19th century, countries like Spain, Italy, and Ireland were dependent on remittance sent by their citizens living abroad. For example, in 1946, 21% of Spain's account income was from remittances.

In a global economy, millions of migrants worldwide send billions of dollars in remittances each year to their families or communities of origin. Remittances play a significant part in international capital flows. To understand the importance of remittance to a country's economy let us look at a few examples.

- In 2015, over \$24 billion was sent home by Mexican immigrants working overseas. This remittance generated was more money than the country generated from selling oil that year.
- A major portion of the Venezuelan citizens migrated to other countries as a result of plunging oil prices and production. As a result, in 2017 it was reported that about \$1.5 billion in remittances were sent to family members remaining in the country.

As more and more businesses are working with customers and clients abroad, there has been an increase in the amount of money being sent internationally. Another huge factor influencing the surge in remittance is economic migration. There is a continuous increase in people working overseas and hence an increase in the number of money people send back home.

Why remittance?

Remittance was introduced as a service to provide “**banking for the unbanked**”. In the current scenario, these transfers can easily be carried out through banks. Moreover, customers have always trusted their bank and have used them for years — why should they change? The truth is that banks aren't specialists in currency exchange for cross border transactions. They often end up overcharging and do not provide the best deal on currency exchange as some money transfer services do.

These exchange rates may be outdated and the bank ends up pocketing the difference. But this is however not the case for money transfer companies, who compete to give the best exchange rates possible. Many times, these banks also charge a percentage of the total as a fee for services (around 3-5%). This may lead to the customer losing thousands annually, but money transfer services charge flat fees on the transaction for popular recipient countries.

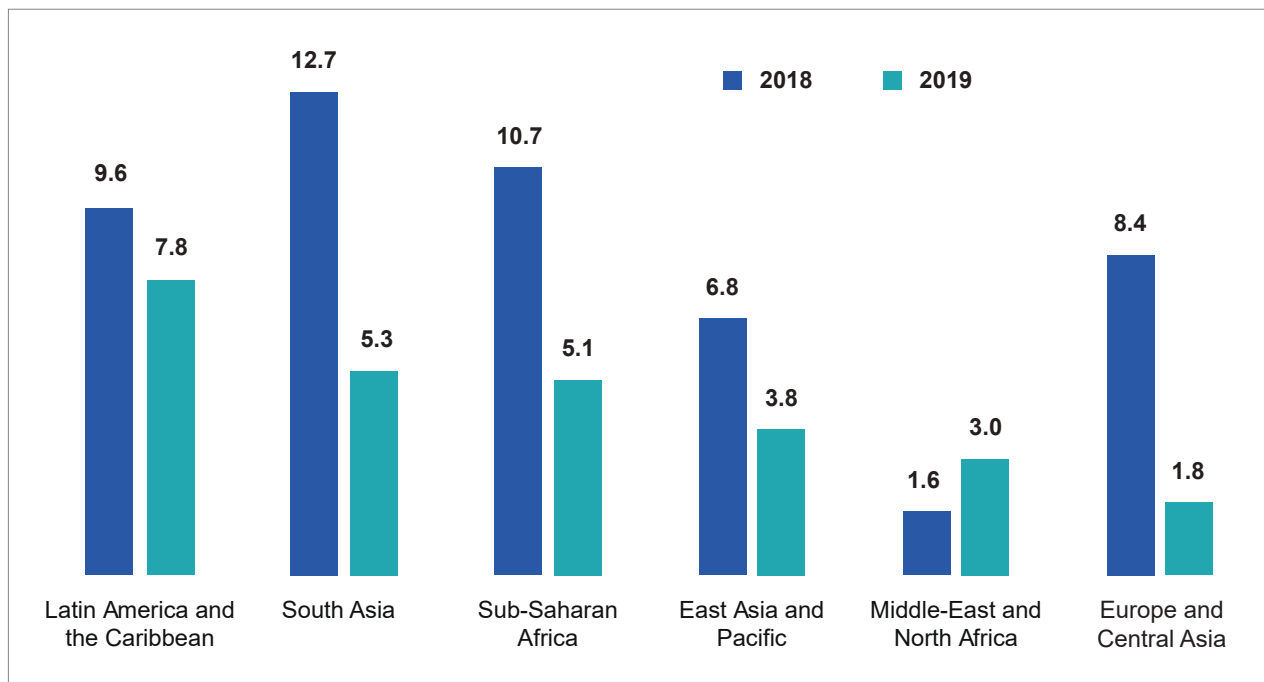
Market statistics

According to the World Bank's 2019 Migration and Development Brief, **\$529 billion** in remittances were sent to low- and middle-income countries (LMICs) in 2018—an **increase of 9.6%** over the previous record high of \$483 billion in 2017.

In 2015, over \$24 billion was sent home by Mexican immigrants working overseas. This remittance generated was more money than the country generated from selling oil that year.

According to the World Bank's 2019 Migration and Development Brief, \$529 billion in remittances were sent to low- and middle-income countries (LMICs) in 2018—an increase of 9.6% over the previous record high of \$483 billion in 2017.

Remittance growth split across regions (recipients)

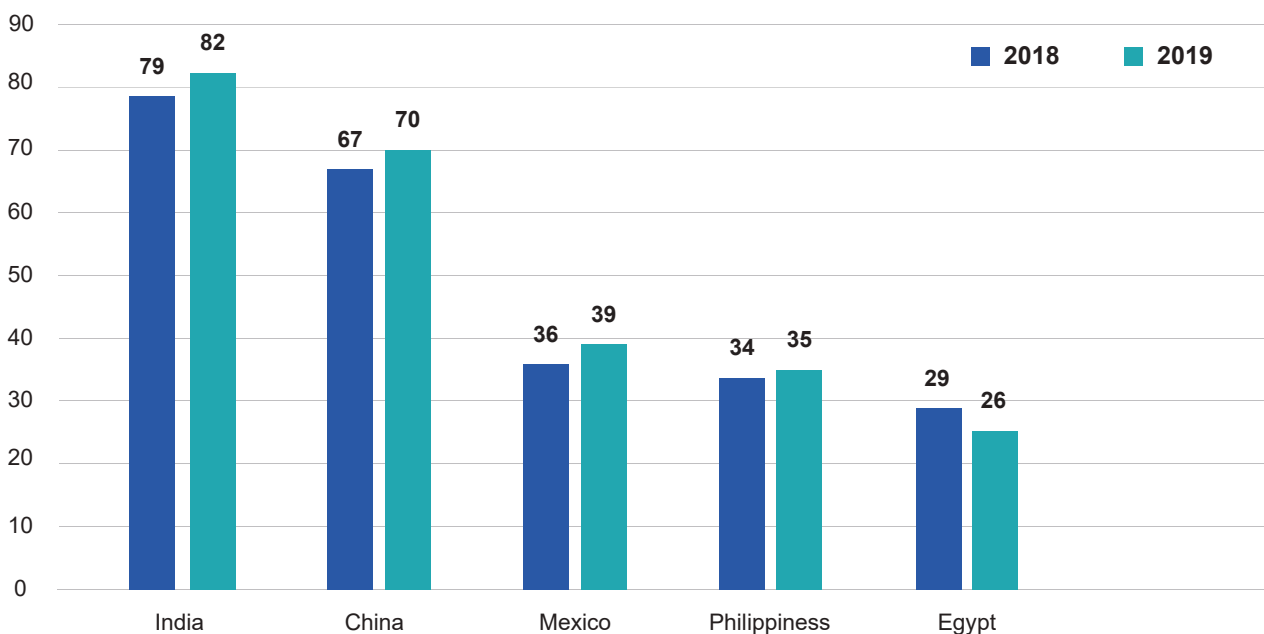


Source: <https://blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019>

Top recipients of remittance

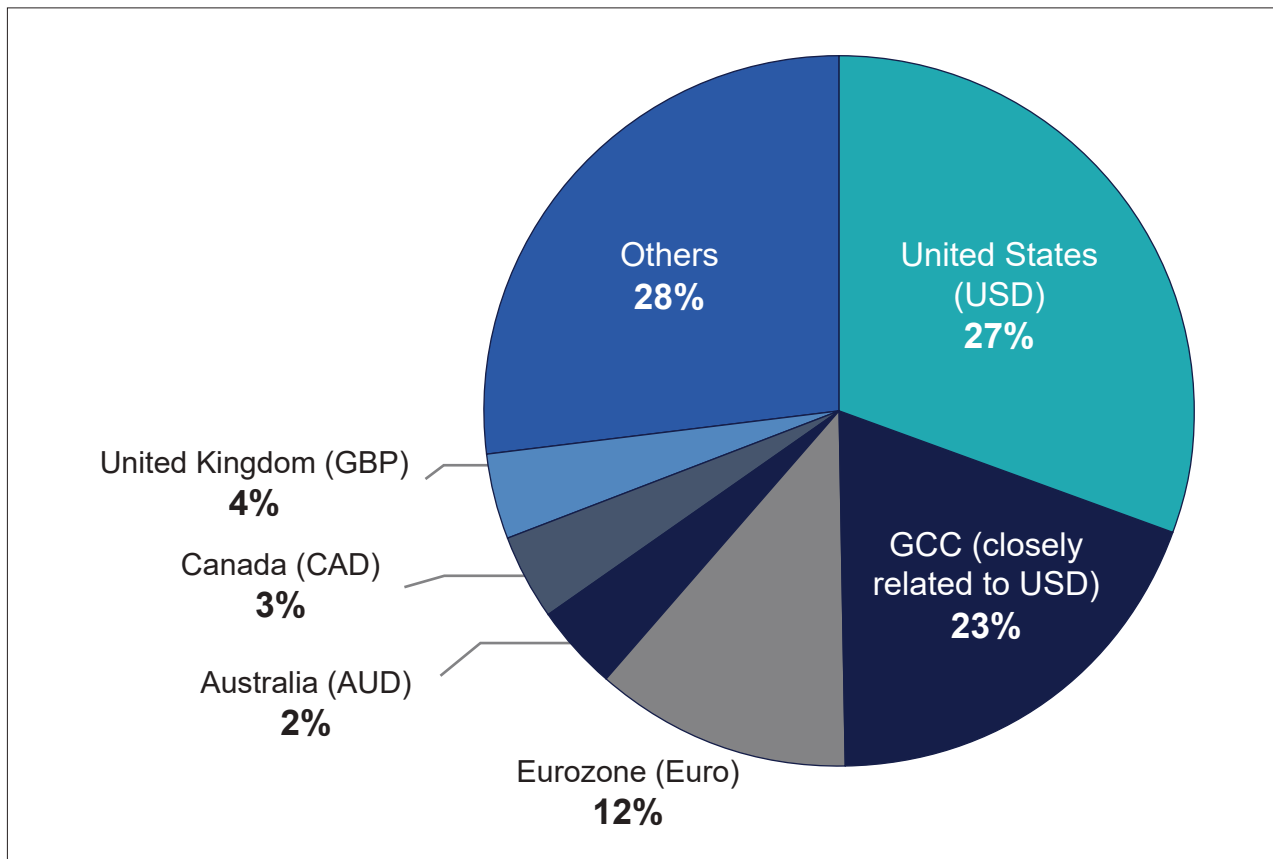
In 2018, among countries, the top remittance recipients were India with \$79 billion, followed by China (\$67 billion), Mexico (\$36 billion), the Philippines (\$34 billion), and Egypt (\$29 billion)

For 2019, the remittances for these countries were projected as follows (All values are denoted in \$ Bn).



Source: <https://blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019>

Top Sources of Remittance to LMICs:



Source: <https://blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019>

GCC (Gulf Cooperation Council) consists of Qatar, Bahrain, UAE, Kuwait, and Saudi Arabia, the US has been the major source of remittances globally since 1983.

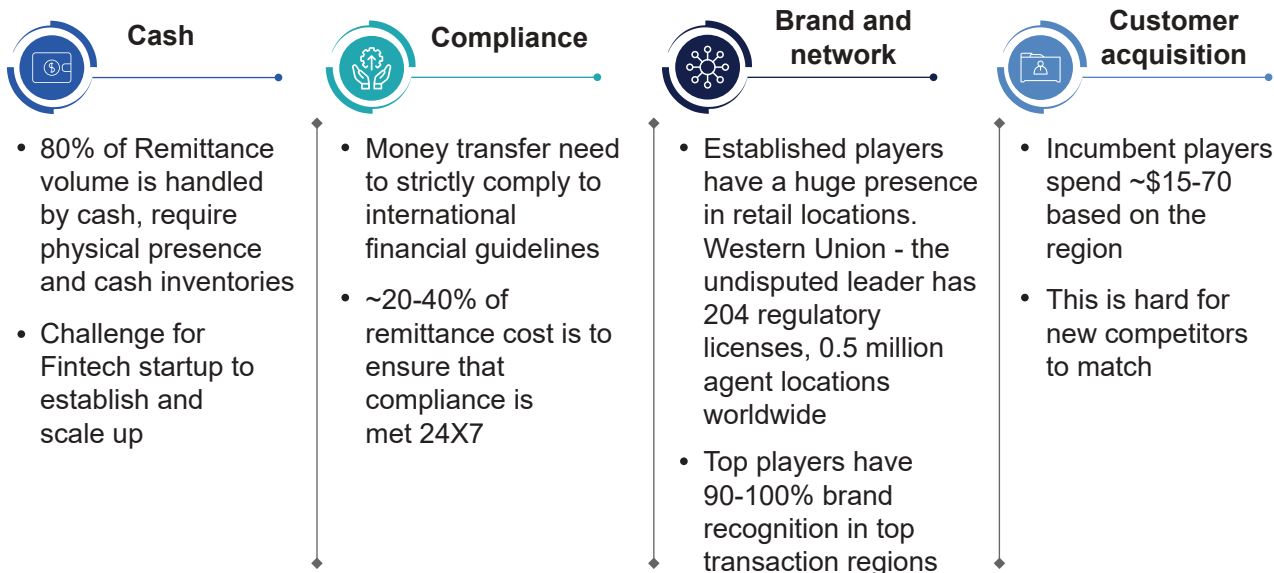
Outflows from some of the major countries other than the US have been impacted by the currency depreciation compared to the US Dollar.

GCC (Gulf Cooperation Council) consists of Qatar, Bahrain, UAE, Kuwait, and Saudi Arabia, the US has been the major source of remittances globally since 1983.

Top Players & Services Offered

Monopoly by traditional players

Although new startups in the fintech domain are creating ripples in the Fintech industry and competing for the market share that was largely controlled by established names, most of the well-set brands do not find that a huge reason to worry and maintain their lead because of a few fundamental reasons:

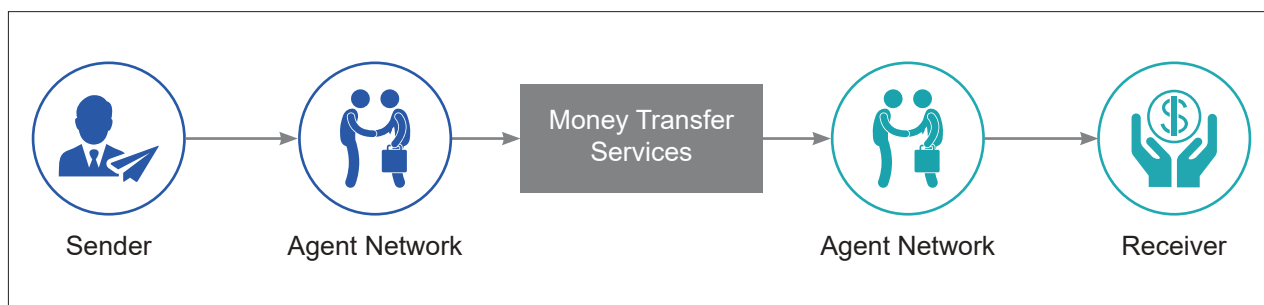


How do they make money?

In most scenarios, international money transfers are designed to pre-fund the bank account and tend to be a costly affair when the exchange rate, bank retail rates are applied.

Money transfer and remittance are done with the help of agents who act as intermediaries between customers, funding institutions, and remittance organizations.

Money transfer and remittance are done with the help of agents who act as intermediaries between customers, funding institutions, and remittance organizations.







The business model of cross border transactions is primarily a mix of three variables: direct fees, foreign-exchange (FX) fees, and commissions.

Direct Fees – Direct fees include all of the fees related to the transfer itself. Examples include a flat fee, transfer fee, % of the transaction fee, outgoing fee, amendment fee, bank-to-bank fee, etc.

Foreign-Exchange Fees (FX) – The FX fee is the difference between the mid-market rate, and the actual rate money is exchanged into. Quite a few remittance companies, especially traditional players in the market, charge a premium on top of their internal FX rate and keep the difference.

Commission – It is the part which the MTO's give out to their Send and Receive agents. The combination of these three factors together creates the ultimate margin the money transmitter takes.

Top 4 global players

Company	Market Cap	Market Share	Volume	Countries Served	Comments
	\$8B	14%	\$80B	200+	550,000 agent locations and 150M customers served.
	~\$5B+ (private company)	5%	\$47B	31+	9,000 employees in over 31 countries.
	\$500M (acquired in 2006)	3%	\$20B	144+	Serves customers through more than 314,000 locations worldwide.
	\$122M	4%	\$23B	200+	Global network of about 347,000 agent offices

Source: <https://medium.com/proofofcapital/remittance-market-primer-and-landscape-3213c2c81771>

Disruption by Fintech & Digital Players

Digital remittance

Historically, remittances have been a cash-focused industry, despite a reliance on bank transfers. The first online-only remittance providers appeared on the scene more than 15 years ago with the widespread use of the internet. This remittance eliminates the need for costly agent networks by arriving directly to the customer's mobile device of choice. Various definitions like digital, online, mobile, or mobile payments are often used interchangeably.

Their offerings and how to get a share of wallet

New players are using their significantly lower fees as a tangible factor to position themselves against incumbents. Also, their business models on pure digital platforms provide them with lower fixed costs and their modern, cleaner technological operational platforms offer consumers quicker turnaround times

Transferwise, the largest Fintech "newcomer", appears to be making magic happen on razor-thin margins. The business famously does not earn any FX spread on its transactions and only charges clients a fee, which is at competitive prices versus its peers. It claims to use a peer-to-peer model of matching customers' transactions off against each other, which negates its needs to transfer currencies manually (and expensively) via transactions with third parties in the interbank market.

Role of regional (corridor specific) players

The global money-transfer industry is undergoing a significant change because of buoyant merger and acquisition (M&A) activities among the major players. This is where companies that have specialized themselves in a particular segment come into the picture. With traditional players eager to get their share in the consumer remittance market, it makes for a great opportunity for traditional players to carry on an effective merger.

Xoom, which was recently acquired by PayPal is a prime example. The service offered by Xoom is only available for consumers sending from the USA which is the largest country market for sending money. This is a very narrow offering compared to the other traditional companies. The focused nature of Xoom contributed to its successful exit. It did not try to be everything to everyone but instead served its segment well.

Threat & opportunity for traditional players

- Technology innovation and digitization by new players: Though the new fintech firms for remittance are in a nascent stage, they are fast-growing. They compete to attract the tech-savvy younger generation and offer reduced or comparable transfer fees. Fintech startups like Transferwise, Xoom and Remitly are making a strong presence in digital remittance
- Marketplace platforms offering new avenues: Established MTOs are targeted by newcomers. For example, Edge is a marketplace platform for customers to discover new clients and transact.
- Older demographics and preference to cash: Most of the legacy players' revenue are dependent on the unbanked population, meaning they don't have bank accounts usually because they are not documented. This becomes difficult for them to adopt digital money transfer technology as apps have strict compliance standards. There is also the risk associated with losing their traditional business volume in pursuance of the newer business models of the competitors. Striking the correct balance is the key and there were efforts taken by such firms to find a middle ground between cash and digital options, like entering all details through an app or web, and just dropping cash to the agent without additional paperwork keeping in mind that currently about 80% of the customers stick to cash-based transfers and that customer segment must not become the cost of innovation
- There are various drivers that can affect digital adoption by customers. More educated customers tend to be more open to trying a new provider, therefore about 80% of remittances from the US to India are sent online where it is less than 10% in the US to Mexico corridor.

Most of the legacy players' revenue are dependent on the unbanked population, meaning they don't have bank accounts usually because they are not documented.

We still have a long way to go to transform the remittance space into an end to end digital platform.

Impact of Covid

Industry impact



Due to the Covid crisis, the traditional money transfer will have an impact. People will switch to a digital mode of payment. For emerging markets, Remittance accounts for ~5% of the country's GDP. Unfortunately, the countries GDP is severely affected due to Covid Pandemic and lockdown. This limits agent availability for both sender and receiver side.

Top players in Money transfer are urging customers to avail of the digital money transfer option to send money, check to price, and transaction status. Global transactions have declined by ~20% over the last 2 months with the worst affected regions like the EU seeing a 40% decline in transactions.



Online transactions have remained nearly constant, and a slight decline to the extent of ~3-5%. It is believed that US - Outbound remittance will have a steep decline by 7%, while digital transactions for money transfer will increase 3X times in the next decade.

Here is a list of challenges faced by the customers and the remittance industry and how to solve them respectively

Challenges faced by the Customer and the ways to solve the problem

 Challenges	 Solutions
<p>Due to the lockdown, no agents are available in Send/Receive location</p>	<p>Clear communication on agent operations by region, time should be made</p>
<p>Lack of support availability</p>	<p>Online services for support like Chatbot, Product, and pricing by corridor and Pre-recorded solutions through IVR on calls made</p>
<p>Lack of digitization in certain corridors</p>	<p>Organizations should enable ease of access to digital payments and reduce the pricing for digital options</p>

Challenges faced by the remittance industry and methods that will help them solve the issues

 Challenges	 Solutions
<p>Increase in refunds</p>	<p>Identify the crisis faced by the receive corridors and update with regional news</p>
<p>Pricing related decisions</p>	<p>Have an alert system to track real-time changes in trends by corridor/payment type. Make informed decisions on discounts and pricing to help your customers</p>
<p>Given the increasing traction in Digital transfers, the share of customer dropoffs will increase. There will also be a significant spike in digital transactions due to physical restrictions on lockdown.</p>	<p>Web analytics will help in identifying sudden drop-offs by analyzing the below pointers.</p> <ul style="list-style-type: none"> • What are the changes in page conversion due to increasing volume? • At what stage are the maximum drop-offs happening in the conversion funnel? • How many customers have come merely for research purposes and do not add a funding source for payment? • What landing pages lead to maximum conversion and the highest propensity for a successful transaction?

Future of remittance and the way forward

Despite major changes in the economy, or a global pandemic remittance will certainly bounce back as seen during the 2008 recession. World Bank estimates that remittance volume to low, middle-income countries which make up over 78% of remittance to recover and rise by **5.6% in 2021** (\$470 billion).

The remittance landscape is bound to change and firms that push digital transformation and innovations are bound to succeed. The remittance industry needs to prioritize customer needs and expectations. The Options to transfer money, make payments with the integration of multiple payment options, delivery, ACHs, and minimize physical interactions will be of attraction to all customers.

With the competition being high in the fintech startups and digital remittance, it is of utmost importance to focus on understanding the customers, loyalty, and engagement lifecycle. Remittance-as-a-service will also emerge where companies create an end to end platform comprising access to regions, payment processing, settlement, and digital infrastructure. Given the resilience and scope of innovation in the remittance, the use of analytics to drive strategic planning will drive growth.

About the authors



Abinaya Eswaramurthi

A Data science professional in the Fintech, remittance domain with the expertise in Visualizing trends. Abinaya has been actively tracking the Remittance metrics and Global performance over the last few months.



Jayesh Neema

A data science enthusiast having a keen interest in the world of business and finance. Jayesh worked in the Analytics industry for 9 months to help clients understand the customer behavior and trends in the BFSI vertical.



Priyanka Sankaran

Professional with ~9 years of expertise in analytics and consulting in CRM, Loyalty, and Marketing Strategies. Priyanka is currently helping Payments and Remittance brands stay on top of the evolving market trends.

About: LatentView Analytics

LatentView Analytics LatentView Analytics is a leading global data and analytics service provider helping companies turn data into actionable insights to gain competitive advantage. As a trusted analytics partner to the world's most recognized brands, LatentView solutions provide a 360-degree view of the digital consumer, fuel machine learning capabilities and support artificial intelligence initiatives. LatentView's success is driven by a commitment to deliver unrivalled analytics solutions that enable Fortune 500 companies in the retail, CPG, BFSI, high tech, healthcare and other sectors to predict new revenue streams, anticipate product trends, improve customer retention, optimize investment decisions and turn unstructured data into a valuable business asset. LatentView has offices in Princeton, N.J., San Jose, Calif., London, Singapore and Chennai, India with more than 600 employees globally.

For more information, please visit www.latentview.com or write into: sales@latentview.com