

\$7 billion remittance industry set for massive shake-up

Sydney Australia: The \$7 billion Australian money remittance industry is set for a massive shake-up as a new wave of online and digital-based players enter the market.

Ashley Jessen, CEO of Profile Booster, Australia's leading financial content marketing company, says the retail money remittance industry is a top candidate for fintech disruption and innovation.

"A few years ago, most of the fintech companies have been focused on creating products and services for the investment, wealth creation and stock market. But now we are seeing more fintech companies coming up with payments and money transfer solutions,"

"The remittance sector will definitely benefit from more advanced technologies and innovative solutions being launched across the globe," Jessen says.

Jessen's observations came following the aggressive expansion and buoyant merger and acquisition activities among the top players in the global money remittance industry.

Early this year, MoneyGram, one of the biggest money remittance providers, accepted an offer to be bought by Ant Financial, an affiliate of China's Alibaba Group. But that bid was bested by Euronet Worldwide, which offered a higher price to buy MoneyGram.

The high level of M&A activities is expected to spur more investment in online and digital technology as global players vie for consumers' share of wallet.

And as Fintech companies continue to inch their way in various financial services sectors, tech-savvy remittance providers are expected to gain market share away from the traditional players with massive distribution networks.

The World Bank estimates the global remittance industry at around \$600 billion dollars. Western Union and MoneyGram, the two biggest players in the industry enjoy a healthy share of the multi-billion-dollar industry.

Double-digit growth forecast for online remittance services

While the majority of remittance transactions are still done through physical distribution networks like money kiosks, remittance centres or through banks, online remittance services are also growing.

Current industry estimates show that only about 5 percent of the total global remittances are done through online channels.

But that's about to change as more people are getting access to the Internet and digital technology, which will push online remittance services to hit the forecast double digit growth in the next 3-5 years.

In fact, over the past few years, Australia has seen a host of technology-powered online remittance providers including WorldRemit and TransferWise – two of the pure online providers that are aggressively expanding their global presence.

World Remit, a UK-founded pure online remittance provider, has opened its Australian operation in 2012. It has also set-up offices in the Philippines and Hong Kong as part of its Asian expansion over the past two years.

Michael Liu, Regional Director for Asia Pacific at World Remit, says being a pure online remittance provider gives the company and its clients a distinct advantage over their rivals with physical distribution networks.

"The core premise of our online service is to make the money transfer process quicker, easier and more secure," says Liu.

WorldRemit lets people send money overseas using a computer, smart phone or tablet.

Liu says with more and more people accessing the Internet and preferring to do transactions online, WorldRemit expects that online will be the dominant remittance platform in the future.

He foresees online remittance companies to be the disruptors in the industry and estimates the current 5 per cent share of online transactions will grow to about 30 per cent in the next few years.

Liu says WorldRemit processes approximately 580,000 transactions per month globally with Asia Pacific sending countries accounting for a big portion of the total figure. The company is confident the numbers will continue to grow as it expands its global footprint.

TransferWise, another UK-founded online remittance company, has also entered the Australian market and is eyeing to serve the millions of cross-cultural and expat population.

"What's interesting with this new wave of online remittance companies is how they're using digital technology, social media and other technology-based strategy to win market share from the traditional players," Jessen from Profile Booster said.

He added, "And we must be seeing only the beginning of what could be massive changes in this industry as we see more people embrace and use mobile apps and social media to do their financial transactions."

Migration powers multi-billion remittance industry

In its Migration and Remittance Factbook 2016, the World Bank estimates that more than 247 million people live outside their countries of birth. And

this number is expected to rise as international migration continues to grow.

The same report paints a growing global remittance business which mirrors the growth in migrant workers seeking employment outside of their home countries.

Whether they have migrated permanently or working as contract workers, these millions of people have created a multi-billion-dollar remittance industry.

In Australia, the retail remittance industry is estimated at around \$7 billion according to the Australian Centre for Financial Studies (ACFS).

“And this industry will continue to grow due to the influx of migrants,” says Ken Davis, ACFS’s Research Director.

And that’s good news to the money transfer operators (MTOs) or remittance companies that have seen consistently healthy growth over the past few years.

Michael Minassian, head of Australia, Indonesia and Oceania at MoneyGram, confirms that the migrant workers are the biggest factor behind the growth of the remittance industry.

“With more people moving from country to country – including migrant workers and permanent migrants – there is an ongoing need for remittance services,”

“Most of the clients in the retail remittance sector are migrants sending money back to their home countries,” says Minassian.

According to MoneyGram, a big part of the remittance money sent overseas is spent on day-to-day subsistence (45 per cent) while paying bills also take up a big chunk at about 22 percent. Celebrating special occasions also get a 20 percent share while religious festivities get a healthy 17 percent share.

Justin Rampono, director at The Currency Shop, shares Minassian’s observation. He says: “We’ve never seen this high level of migration before. Today, people are more connected than ever and there is a very high level of migration going on globally. These are all contributing to the need and growth for remittance providers and services.”

In Australia, the mobility of the migrant population has fuelled the growth of the big remittance companies including Western Union and MoneyGram as well as the network of small and medium-sized MTOs.

MoneyGram, which ranks number 2 after Western Union, has been aggressively expanding for the past five years. To date, MoneyGram has over 500 retail outlets including the 7-11 network of convenience stores.

MoneyGram boasts one of the largest physical distribution channels in the remittance industry, which allows the company to reach a wide range of clients.

According to Minassian, “We are in the business of providing the channels and infrastructure relevant to the people that we serve. If a customer needs a physical kiosk or store location, we provide that. If they prefer to do transactions online, we also provide that.”

Given the appetite for expansion of the dominant players like Western Union and MoneyGram, the pure online providers may not have an easy win over their more traditional rivals. This is because even those with the physical distribution network like MoneyGram are also now moving into online remittance.

According to Minassian, “MoneyGram is about providing the infrastructure and channel required by our clients.”

He cites India as an example of a country that requires a multi-channel remittance service. This is because the large population of blue collar and white collar migrant workers remit money using different platforms.

Blue collar workers with families in remote villages prefer to use the face-to-face remittance network, while the white-collar workers tend to go for the online channels.

“So, while we have one of the widest networks of physical distribution, we are also investing heavily on online and digital channels,” Minassian says.

Mobile Money: Will it mean the end of face-to-face remittance?

While online remittance services are eating up on the traditional face-to-face network, another stream of technology-based money transfer is also gathering momentum. It is called mobile money.

With billions of people across the globe owning mobile phones, smart phones and other mobile devices, industry observers say it is just a matter of time before mobile money (mobile payment) become the preferred way of receiving and sending money.

We are already seeing some form of mobile money transactions, particularly in remote areas where there is lack of banking facilities and financial institutions.

For example, some countries in Africa, South East Asia and South Pacific are already using mobile money for grocery shopping, paying medical bills and other day-to-day transactions.

According to Liu from WorldRemit, “We are seeing a huge push toward mobile money where people don’t have access to banking services or facilities. People in those countries can easily store money on their mobile devices even if they don’t have a bank account.”

With mobile money, anyone who has a mobile phone can send or receive money. The amount stored on the mobile phone can then be spent on any transaction.

While it is still in its early days, technological advances and the growing demand for speed and mobility, are all boding well for mobile money to skyrocket. Currently, WorldRemit’s distribution network includes connections to over 110 million mobile money accounts.

Based on all indications, the retail remittance industry is looking at a positive and healthy growth path ahead. However, there are pockets within the industry that could still do with more improvement and efficiency.

About Profile Booster

Profile Booster is Australia's leading financial content marketing company. It specialises in creating and promoting authority content in the financial services sector.

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