



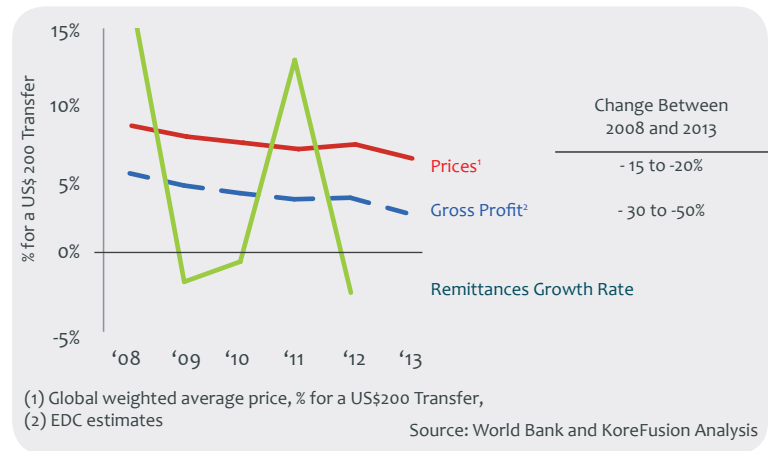
## MTOs Need to Look Beyond the Traditional to Find Faster Growth

Globally, Money Transfer Organizations (MTOs) are under unrelenting pressure from a host of sources that are squeezing margins and threatening growth potential. Disruptive competitors, often in the form of online services, offer customers the ability to send and receive funds without ever visiting an agent's office or dealing with cash. Other competitors come in the form of national banks--some countries, primarily in Southeast Asia, rely so heavily on remittances flowing into their economies, that they are experimenting with providing subsidized remittance services to their citizens.

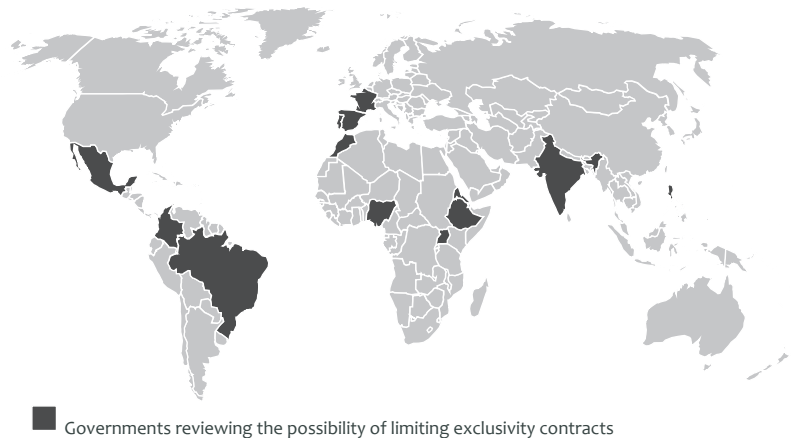
Around the world, regulators are tightening compliance standards, and many are considering limiting MTO's ability to demand agent exclusivity. This is allowing agents to initiate exclusivity offers with MTOs in exchange for better contracts. These developments sum to increased costs and thinned margins, and they're occurring while technology and customers' expectations for convenience, safety, and prices are evolving.

Traditional paths to growth are unlikely to lead to sustained market leadership and will only provide incremental gains. MTOs that want to capture and preserve long-term advantages need to consider adjacent areas of growth that can transform their industry.

**Figure 1**  
*Global Trends for MTOs*



**Figure 2**  
*End of Agent Exclusivity*



Source: InfoAmericas, OECD IMO Report 2012, KoreFusion Analysis



## Pursuing Traditional Paths to Growth Will Provide Only Short-Term Relief

Many MTOs recognize these challenges but continue to respond with an old-school grounded vision of the industry. Such companies may find themselves challenged to operate in an increasingly competitive, low-margin, low-growth environment.

The fragmented nature of the MTO industry leaves the vast majority of players without substantial market power. In fact, the two biggest MTOs combined, control less than 30% of the global market. At the same time, technological advancements are opening new delivery channels, which could upend the industry. When those advancements take hold, MTOs will find themselves employing an obsolete delivery model. Consequently, the traditional paths to growth for MTOs may offer short-term opportunities but are unlikely to lead to sustained market leadership.

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**MTOs relying exclusively on these opportunities may well find themselves operating in a highly competitive, low-margin, low-growth environment.**

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With an eye on increasing revenue, many remittance firms have expanded into new locations, such as the Middle East or Asia Pacific. Others developed reverse-corridor remittances— outbound money transfers from traditionally receiving markets. Chasing growth by following growth corridors and new markets has vulnerabilities. The competitive landscape is saturated, sluggish economic conditions can

### **Figure 3**

*Traditional growth drivers for MTOs*

- Geographic expansion in growing international and reverse remittance corridors
- Agent network expansion (e.g. partnership w/ MNOs)
- Mergers and Acquisitions
- Mobile money transfers

jeopardize investments, and even reverse corridors.

Another traditional growth tactic is to increase the size of the agent network. A number of MTOs are pursuing external partnerships, primarily with mobile network operators (MNOs) because of their aggregator network. Given their advanced technological capabilities, broad geographic reach, and established agent networks, MNOs may seem ideal partners for MTOs. In reality MNOs are dangerous competitors, and will likely erode MTOs market share.

The success of mobile payment tools like M-PESA, demonstrate how easily MNOs can move into the money transfer and P2P space. MNOs have also expanded their network through agents and pose a significant risk as cash-in and cash-out locations. More importantly, MNOs are more agile users and developers of technology. MNOs and online challengers are making solid inroads in this regard and stand to benefit further as mobile internet penetration and POS networks expand.



Consolidation is another traditional growth tactic, but integration pains are susceptible to laws of diminishing returns. This is particularly true in an environment where acquisition targets will generally be small, corridor specific candidates.

## Investing in the Next Star

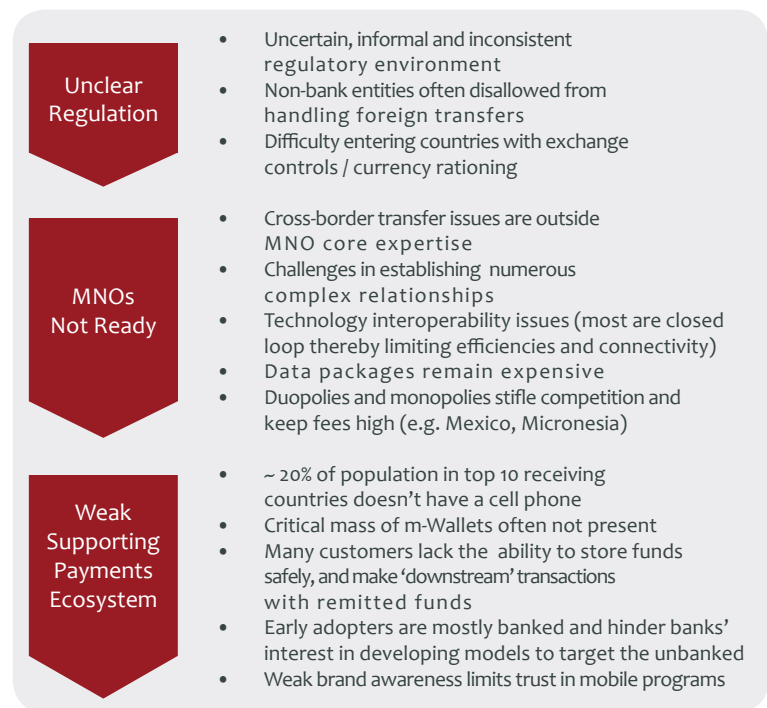
Although all these ventures offer potential, especially for increased efficiency, revenue and geographic presence, they are not a strong enough foundation for a superior strategy and long-term financial performance. To achieve that, MTOs need to look at adjacent spaces and combine their existing capabilities business models that offer potential for differentiation. This strategy offers many possible rewards, including creating a new value proposition with the capacity for high profit margins. Implementing a tangential growth strategy requires thinking differently, and requires daring to explore beyond services conventionally associated with remittance providers.

Expanding into these services may feel unfamiliar, and in some cases, imply changing the very identity of MTOs, but this expansion greatly increases MTOs' chances for long-term success. Such a transformation is not new in business; IBM is thriving today in large part because it adapted to changing market conditions by reinventing itself multiple times, from office equipment, to computer hardware, to consulting and infrastructure services.

MTOs that fail to consider the possibilities new lines of business offer—to both themselves and their competitors—may risk struggling in an increasingly competitive industry. Certainly, there is no one solution, or set of solutions, to the challeng-

**Figure 4**

*Considerable obstacles limit the propagation of mobile money transfers*



es facing MTOs, and the diversity of the industry means each MTO operates under unique circumstances. Still, a number of possibilities merit exploration, particularly because expansion into adjacent business spaces presents opportunities for lasting prosperity.

Perhaps one of the fastest ways for MTOs to gain an edge on their competitors is to broaden their offerings to include business services. These could include an expanded bill-payment solution. It could also imply international business money transfers and foreign exchange risk management services for Small and Medium Enterprises (SMEs), and potentially even affluent clients.



## A Constellation of Possibilities: From Business and Information Services to Logistics Partnerships

A slightly longer-term view reveals another opportunity: MTOs' experience handling cash and transferring funds, in conjunction with their network of locations, positions them to provide corporate disbursement services. Companies with widely distributed client networks incur costs and risks to manage payments, be it in cash or check. If MTOs provided cash management services, including data

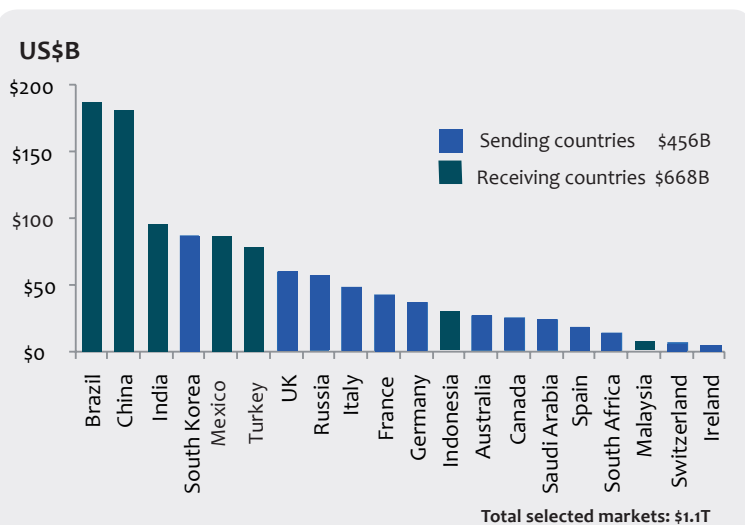
management, and payroll conversion, they could save business clients money while attracting new visitors to their locations.

Disbursements could be made in cash or on prepaid cards. Both disbursement methods create value for the corporate clients and create a constant, predictable flow of transactions for MTOs. Prepaid cards offer MTOs two additional advantages over cash. First, they reduce costs by eliminating the need for additional cash at agent locations. Second, they create revenue opportunities for MTOs operating as prepaid card program managers. In partnership with issuing banks, program managers earn revenues from card fees, such as activation, ATM withdrawal fees, and maintenance fees.

Corporations are not the only ones embracing the benefits of prepaid cards. Governments also value the streamlined administration, reduced costs, and increased controls of prepaid cards used to distribute benefits, emergency aid, and other public assistance. Prepaid cards increase financial transparency and encourage unbanked and under-banked citizens to enter the financial mainstream. In fact, the U.S. has mandated certain benefits be distributed on prepaid cards, and other countries have similar mandates, indicating the growth potential in this market. MTOs acting as program managers can earn fee income similar to that available under corporate payroll programs

Although the opportunity is significant, effectively capitalizing on it requires a keen understanding of local markets and regulations. In some countries, regulations on card issuers and prepaid cards are rapidly changing. In other countries, regulations preclude card issuers from earning float revenue. At the same time, cultural forces, such as an aversion to accumulating debt, make prepaid cards appealing to consumers. Underdeveloped payments infrastructures and limited social welfare expenditures also affect the market opportunity. No matter where MTOs provide this service, it's also imperative they

**Figure 5**  
*Potential for Electronic Payroll Disbursements to Unbanked Workers (2009)*



Advantages of payroll distribution via prepaid cards or at agent location. Streamlined processing, distribution, and administration of wages. Eliminate costs associated with issuing and reconciling checks/vouchers or manage cash. May provide an entry point into the financial mainstream for un/underbanked individuals (prepaid card).



**Figure 6**

*MTOs are well positioned to participate in added value opportunities*

	Government Prepaid Cards	Business Services	Information Services	Partnerships w/ Logistics Companies
Large MTOs	✓	✓	✓	✓
Medium MTOs		✓		✓
Global Banks	✓			
Regional Operators	✓	✓		
Online Players		✓		

work with experienced partners and establish the right incentives for agents to ensure sufficient marketing and effective customer service.

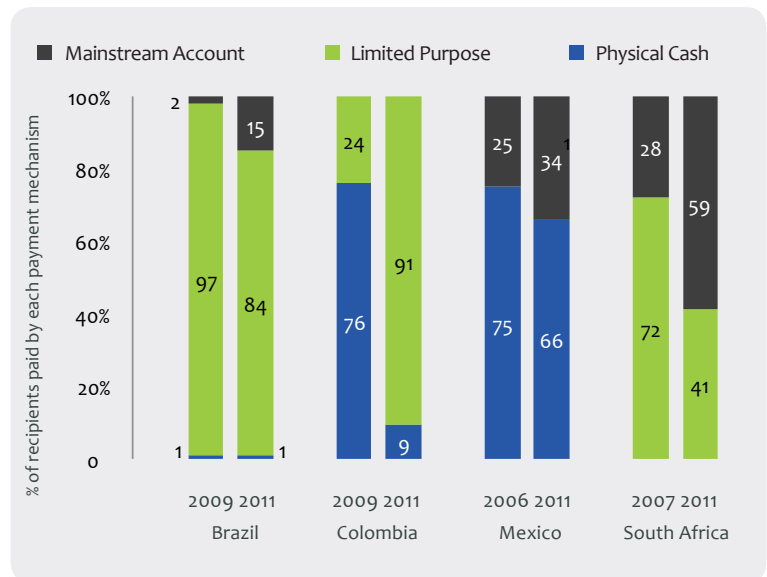
Not all growth opportunities involve entering markets for existing business lines. MTOs possess an untapped but valuable resource: the data surrounding their customers' remittance histories. With millions of adults lacking credit scores and a high, unmet demand among financial institutions for more complete credit histories, that data could prove a revenue source. The U.S. alone has to 35 to 54 million adults with little or no credit history. The top five remittance-receiving countries are home to 750 million consumers with no credit history whatsoever. Although using remittance and bill payment data to support credit scoring is not entirely new, MTOs can innovate in a variety of ways, depending on their desired level of involvement.

Options range from establishing a credit bureau in partnership with banks, merchants, and other entities to supplying data to credit scoring firms or even directly to consumers. Additionally, micro-credit lenders are potentially eager customers for remittance-history data that can augment borrower applications.

Which approach is ideal depends on many factors, and those factors vary by country. All approaches require the data be accurate, transferable across platforms, and protected from unauthorized access. Certainly, not all MTOs are positioned for this undertaking, but every MTO must consider the implications of this potential game-changer. MTOs that are willing to invest the money and time necessary to establish a successful credit bureau could disrupt the industry, launch an innovative service, and lock in ongoing and expanding demand. The longevity and market dominance of the major credit reporting agencies illustrate the high potential.

**Figure 7**

*Evolution Toward Electronic Payments*



MTOs looking for a less resource-intensive way to expand into new services can explore the potential advantages of partnering with logistics companies. The possibilities may not be initially obvious but could be substantial. Parcel-delivery companies spend a disproportionate amount of money transporting packages from



**Figure 8**

*Changes in Government to Person Transfers from Colombia, Brazil and Mexico*

	Brazil	Colombia	Mexico	South Africa
Program name	Bolsa Família	Familias en Acción	Oportunidades	Child Care, Old Age Pension
Government ministry responsible	Social Development and Combating Hunger Ministry (MDS)	Presidency	Social Development Ministry (Sedesol)	Social Development Ministry
Government agency responsible	MDS	Acción Social	Oportunidades Agency	South African Social Security Agency (SASSA)
Year started	Revamped 2003	2000	1997	Child Care: 1998; Old Age: 1928
Target beneficiaries	Families in extreme poverty with children and pregnant or breastfeeding women	Extreme poor in rural and urban areas; displaced people and indigenous people	Families in poverty with grants focusing on two main components: nutrition and school education	Child Care: children younger than 18; Old Age: adults older than 60
Number of households / recipients	12.9 million households (May 2011)	2.4 million households (December 2010)	5.8 million families (December 2010)	9 million recipients (April 2010)
% of population covered in country	30	11	20	30
Frequency of Payment	Monthly	Bi-monthly	Bi-monthly	Monthly Any bank or specific payment
Payment Provider	Caixa Economica Federal (state-owned bank)	Banco Agrario (state-owned bank)	Bansefi (state-owned bank)	Providers in different provinces: Neti, Emplweni, and AllPay (subsidiary of ABSA Bank)
Physical Cash	1%	9%	66%	0%
Limited-Purpose Instrument	84% Magnetic-stripe debit card (Social Card) whereby funds must be withdrawn within 60 days at Caixa agents or various ATM networks and no additional funds can be deposited	91% Magnetic-stripe debit card that can be used only at Assenda merchants and ATMs	0%	41% Specific payment providers that offer store-of-value via smart cards, but no additional fund deposits and use only at dedicated pay points
Mainstream Financial Account	15% Caixa Facil basic bank account with magnetic-stripe card	0%	34% 16%—Bansefi savings account with magnetic-stripe card (Debicuenta) 12%—Bansefi prepaid account with smart card 6%—Bansefi passbook account	59% Mainstream bank accounts; Sekulula account (offered by AllPay) with magnetic-stripe card as default option in certain provinces

## A Word About Payments



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initial pick-up to processing centers and then from distribution centers to delivery destinations. To reduce these costs, some delivery firms are encouraging the use of pick-up, drop-off locations. Even retailer Amazon.com is exploring this opportunity: its Amazon Locker program allows customers to pick up their orders and, in some cases, drop off returns. In less developed countries, rural communities may have one pick-up, drop-off location that does not require lockers or other significant capital investments.

Parcel delivery firms looking for pick-up, drop-off locations may find ideal partners in MTOs, which can provide instant access to a valuable infrastructure of agent locations. Delivery firms partnering with MTOs would save on costs, and agents could charge delivery

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**MTOs possess an untapped but valuable resource: data on their customers' remittance histories.**

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firms a fee to manage and distribute packages. Agent locations would also enjoy increased visitor traffic, which could increase their transactions. Multiple factors affect the economics of this opportunity, including the anticipated volume of packages at each location. The success of this venture also depends on how well

agents are trained and incentivized to serve customers. However, the overall opportunity is large: the global express and parcel market is already \$200 billion and growing.

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**A**ll MTOs are facing challenges, but most of them are responding by focusing on self-evident, incremental gains. MTOs that want to capture and preserve long-term advantage cannot be satisfied with evolutionary upgrades, and instead need to consider transformational possibilities. Failure to reinvent themselves in response to changing market conditions may put not only their short-term financial performance but also their long-term survival at risk. Ultimately, the MTO industry is changing.

Firms that do not innovate now risk losing later. Those that remain receptive to new ideas and take a long-term view—much the way IBM has done time and again—increase their chances of success.

*We welcome your thoughts and opinions.*

*The KoreFusion Team*

*You can reach us at: [comments@korefusion.com](mailto:comments@korefusion.com)*

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