



Etisalat to enter remittance business

Remittances and payments are converging, telecom operators like Etisalat are getting ever-more important and electronic transactions are continuing to rise. **Utpal Bhattacharya**, with inputs from **George Fahim**, finds out how the industry is shaping up.

Mother: "Son, can you text me some money? I have shopped beyond my pocket."

Son: "There you go, mom, US\$150. Happy shopping!"

The above scenario happening in real life is no longer a figment of the imagination. Communication, money transfer and even payment are all possible through the use of a mobile phone. In the UAE, we are already using mobile phones to pay parking tickets. In the future, we will probably be able to use them to pay taxi or bus fares. Even more exciting would be the ability to use a mobile phone to transfer money to a dependant in another country, perhaps enabling that person to pay taxi or bus fares. This development hasn't happened yet, but will it soon?

The new face of remittance

Y. Sudhir Shetty, COO and general manager of UAE Exchange, the leading money exchange in the region, says that cash is gradually being taken out of the system. It is likely that in the not-too-distant future, technology and innovation will begin to reduce work at physical counters, as transactions will increasingly be done electronically and also remotely.

A number of developments are taking place in the realm of electronic transactions, as we see a convergence happening in payments, remittances and telecom services. In fact, Etisalat already has one foot into the remittance business. The UAE telecom operator is all set to launch a service that will allow mobile phone users to remit money using their handsets in the very near future. The service will be launched by the end of this month, according to Rashed Majed Al Abbar, director of Etisalat Mobile Commerce.

The Etisalat mobile money service makes the telecom operator an interface and an enabler in the money remittance business. A user or remitter gets a password and a pin from the telecom operator to be able to remit money to beneficiaries, who must also be registered with Etisalat. Once that is done, an Etisalat mobile phone subscriber can click a few options on the phone and choose from exchange houses or banks listed with the telecom operator to remit money. The

introduction of this new mobile money service will change the entire paradigm of the remittance business in the UAE. It will also give a remitter the option to choose from the better providers in terms of exchange rates and fees, allowing him or her to get the best value for money.

To make this service work, Etisalat will have a special facility at its kiosks for remitters to deposit cash in advance. Once cash is deposited with Etisalat, the remitter or the mobile phone subscriber will have a balance with the telecom operator from which he can remit money using the handset.

It should be noted that Etisalat is not starting an exchange house business. It is merely giving its customers the additional benefit of remitting, using the same device that allows video and audio communication. Al Abbar feels confident that the new mobile money service from Etisalat will help the telecom operator corner 10-15 per cent of market share in the UAE during the first three years of its launch.

“There are two reasons why customers will come to Etisalat, the first being our ability to offer our transactional service at a very competitive fee and the second being the convenience this service offers,” argues Al Abbar.

The service will be convenient because once cash is deposited with Etisalat, the remitter can send money at any time – even early in the morning on Fridays – without having to worry about whether the counter of a bank or exchange house is open.

So what’s the next step for Etisalat and other telecom operators? Will they eventually step into the business of exchange houses and become exchange houses themselves?

Although Al Abbar says that they are still in the initial months, he doesn’t say no to the idea of taking on exchange houses in direct competition.

“We believe our community and our customers expect a lot from the idea of mobile money, so we have to cater for their needs and develop more products in that area. We are waiting for the market to develop and for regulations to become friendlier,” he adds.

Al Abbar’s message will not be music to the ears of existing exchange houses. Osama Al Rahma, general manager of Al Fardan Exchange, cautions: “As long as telecom operators do not cross the red line, we have no problems. But if they step into our cake, we will not take it lightly.”

Etisalat, however, is not the only regional telecom operator that is entering the remittance industry. Others like du are not far behind. Sources say that Saudi Arabia is also keenly considering opening up the market. In fact, Saudi telecom operator

Outlook for remittance flows to developing countries, 2009-11 US\$ billion

	2006	2007	2008	2009e	2010f	2011f
Developing countries	235	289	338	317	322	334
East Asia and Pacific	58	71	86	85	85	89
Europe and Central Asia	37	51	58	49	51	53
Latin America and Caribbean	59	63	65	58	59	61
Middle-East and North Africa	26	31	35	32	33	34
South Asia	43	54	73	72	73	76
Sub-Saharan Africa	13	19	21	21	21	22
Low-income countries	20	25	32	32	33	34
Middle-income countries	215	265	306	285	289	300
World	317	385	444	420	425	441

(%) Growth rate

Developing countries	18.3%	22.9%	16.7%	-6.1%	1.4%	3.9%
East Asia and Pacific	14.1%	23.8%	20.8%	-1.5%	0.8%	3.7%
Europe and Central Asia	24.1%	36.0%	13.8%	-14.7%	2.7%	5.0%
Latin America and Caribbean	18.1%	6.8%	2.3%	-9.6%	0.5%	3.5%
Middle-East and North Africa	4.6%	20.1%	10.6%	-7.2%	1.5%	3.3%
South Asia	25.3%	27.1%	35.6%	-1.8%	1.7%	4.1%
Sub-Saharan Africa	34.7%	47.6%	13.4%	-2.9%	1.8%	3.9%
Low-income countries	23.9%	23.4%	28.3%	0.7%	2.6%	4.6%
Middle-income countries	17.8%	22.9%	15.6%	-6.8%	1.2%	3.8%
World	15.3%	21.3%	15.3%	-5.3%	1.2%	3.7%

Source: World Bank

Mobily has engaged an international consultancy to conduct a study on mobile money transfers in the Kingdom, which is the second-largest remittance corridor between Saudi Arabia and India after the US-Mexico corridor. The UAE-India remittance corridor is the third largest in the world.

Expanding opportunities

Shetty discloses that these days, UAE Exchange’s draft printing business accounts for only 1.5 per cent of its total turnover. Fifteen years ago, draft printing accounted for the bulk of an exchange house’s business in the GCC region, including UAE Exchange. The business has

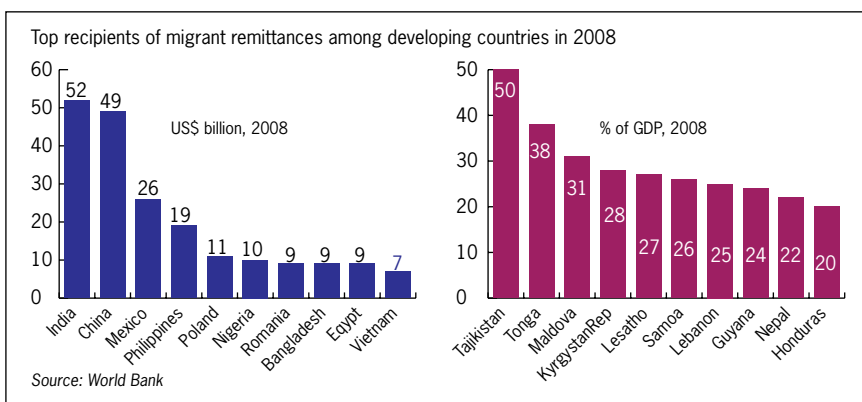
been constantly evolving, but much faster in recent years.

Says Shetty: “We know that the cash handling part is going to go away from our business soon. Today it is either electronic transfer to banks, instant cash products or card-related services that we are involved in. Going forward, we are going to automate end to end, both delivery and receiving.”

UAE Exchange owns a portal called Money2anywhere. This portal is a virtual exchange house that can be used to transfer money sitting at home using the Internet. Remitters can operate this portal in the UK, the US, Canada, Australia and Kuwait. Shetty explains that the portal’s services can be used only in those countries that provide a central clearing system and have permitting regulations.

Transferring money electronically through a portal without having to move cash out of a bank is an extremely efficient way of transferring money and is going to gain more popularity in the future, according to Shetty.

Shetty explains that UAE Exchange’s advantage comes from the technology platform that it has developed in-house. Combined with its levels of service, the exchange house has been able to garner a



lot of customer loyalty. The kiosks at UAE Exchange that allow customers to pay their bills and make credit card payments have been a hit with customers and have helped the exchange house significantly increase the volumes of its transactions.

The UAE labour ministry's effort to disburse salaries electronically has been a major development that has boosted the business of exchange houses in the UAE. Now exchange houses are getting into that space, giving salary-loaded



Rashed Majed Al Abbar

cards to labourers under the Wage Protection System in the UAE.

Shetty explains that while labourers are not charged anything for the withdrawal of their salaries from cash dispensing machines using these cards, it is possible that these cards will be used for other purposes in the future, including making payments.

In fact, if such a development occurs, the entire bottom market consisting mainly of labourers could come into the folds of the electronic payment industry in one stroke.

This also means that exchange houses are at the threshold of entering the payment industry, mainly catering to the lower end of the market that is completely ignored by banks at present.

"We are now tied up with payment associations, so the channels are already there. The next step would be to enable the cardholders to use the switch to make payments. It is just a matter of time before that happens," notes Shetty.

Shetty foresees that in the future, POS machines will be available in small stores, groceries and other much smaller vendors, making electronic payments possible for all sections of society. Cash will really come under pressure then, as it

Al Ansari: Remittance business to improve in 2010

Mohammed Al Ansari, chairman of Al Ansari Exchange, tells **MONEYworks** that 2010 will be a better year for the remittance business.

Can you give us an overview of where the remittance business in the region is headed? What are the main trends?

The GCC region has over 10 million expatriates and is the second-largest source of private financial transfers, only after the US. In addition, remittances from the UAE are the second highest in the region, only after Saudi Arabia. The year 2008 was a phenomenal year for the remittance business; however, there has been a slight decline in the remittance business in the last year, mainly due to some expatriates returning to their native countries due to job losses. The trend is now changing and we have seen a perceptible improvement in the remittance business in the last quarter of 2009. We are hopeful that 2010 will show a marked improvement in the remittance business.

We see payment associations like MasterCard and Visa tying up with exchange houses in remittances. What are your plans?

The abovementioned payment associations are a few among the large number of new entrants flooding the remittance market. New products and services are

welcome, as they provide us with more choices and we can opt for products and services that benefit our customers. The latest products entering the markets are mobile payments, as well as new instant payment solutions.

Payment of salaries could become a big business for exchange houses in the UAE.

Exchange companies are authorised by the ministry of labour to disburse salaries. The workers covered by the Wage Protection System are actually the existing customers of the exchange companies and have been using our services to send their remittances. Hence, it was important that exchange houses be made part of this project by the ministry of labour because most of the workers send a major portion of their salaries to their home countries – either for their families' sustenance or as regular savings. We have the infrastructure and the wherewithal to not only disburse the salaries, but also simultaneously cater to their remittance and foreign exchange needs.

Did you see a drop in business in 2009 over the previous year?

Yes. Compared to the previous

two years, 2009 was a little difficult for all businesses, including the exchange industry, on account of the financial downturn. However, it is noteworthy that the exchange industry was one of the least affected. This is mainly because we keep adding new products and services to not only retain our loyal customers, but also expand our customer base. Our operational costs are also comparatively lower, and since the scope of our functions is limited only to foreign exchange, remittances and a few allied products, the risk factor is also lower. However, some of our branches, such as those located in the new malls, have shown a decline in business. But this trend is reversing and we are seeing that in this quarter.

Do you have any expansion or acquisition initiatives for 2010?

We are keeping a close watch on the potential for expanding in the GCC. However, our past experience shows that it is economically feasible to have tie-ups with other financial entities, rather than expansions or acquisitions. Moreover, the regulations in some GCC countries like Saudi Arabia or



Mohammed Al Ansari

Qatar, among others, have some restrictions on this front. We are achieving our objective of providing a wider remittance reach to our customers with our tie-up arrangements.

Will there be a way in the future that banks and exchange houses can work closely together, allowing customers to transfer money sitting at home while paying only the fees charged by exchange houses?

Exchange companies already have a close relationship with banks, as all our funding is done through them. Presently, we have some online products where the customer can debit his bank account and transfer the funds through the exchange companies from the comfort of his home or office. However, we feel that the next big remittance tool would be mobile payments, which too would require the services of banks.

might become possible for labourers to use the same salary card they use to make payments.

"We have telecom companies now coming to us from across the border to market their products, especially when it comes to topping up credit in the prepaid cards of telephone users outside the country.

A father in the UAE might want to send some credit to the mobile phone of his daughter studying in another country. Can that be done? It can, regulations permitting," Shetty adds.



Y. Sudhir Shetty

The remittance and payment businesses, along with banking and telecom, are at an inflection point today. In five years, we will probably have new businesses and business models. Some say that industries are stepping into one another's shoes now, creating a number of complications. But others

say that the future remittance and payment business will need players that are specialised in their own areas. These players will have to work as tie-ups with

other industries, rather than trying to do everything themselves.

One thing is for sure: if telecom operators want to become exchange houses themselves, they will not only require the permission of central banks (another regulator to deal with), but also will need to invest heavily in developing risk management skills. Given the developing dynamics of the industry, the possibilities seem immense for all players in terms of how they are able to take advantage of the various tools and technology at their disposal. Ultimately, one can see that this game will turn out a win all the way for consumers.

Western Union tests mobile money remittance

Western Union is testing a remittance product in the UAE that will allow receivers to access remitted money through m-wallets on their mobile phones in the Philippines. Jean Claude Farah, Western Union's senior regional vice president for the Middle East and Africa, tells **MONEYworks** that Western Union has been an early adopter of technology.

With exchange companies tying up with payment associations like Visa and MasterCard, money transfer has become instantaneous. How will Western Union continue to create a differentiation in the market?

The bulk of our consumers in the region are blue-collared workers who would not qualify for credit cards and have limited exposure to banking services, so it is for cash-to-cash transfers that the majority of consumers in the region choose Western Union.

Western Union is the leading global money transfer company because of our unmatched network and the convenience and reliability extended to our consumers. A consumer can visit a Western Union agent location in their neighborhood and put cash down on the counter. Within minutes, the money is available for payout at one of the over 400,000 Western Union agent locations in 200 countries and territories worldwide. No other exchange house or service comes close to the global reach that Western Union offers.

The receiver does not need to have a bank account or access to any

other financial system to collect the money. All the receiver needs is a personal ID and the ten-digit MTCN number communicated to him or her by the sender. It is this ease and convenience of sending and receiving cash that is ultimately a key appeal of using Western Union.

Over the last few years, we have seen several technological innovations – ATM networks, credit card companies and online money transfer services. Yet, Western Union has continued to be a leader in this industry.

The consumer values options, and at Western Union, we understand this. Western Union has been an early adopter of technology when and where we see it having a positive impact on the business. From launching the first consumer charge card in 1914 to launching the first commercial satellite in the US in 1974, Western Union has carved an identity as an industry leader that today offers consumers a wide choice of services including money transfers direct to bank, direct to cash, online money transfers, account to cash, mobile money transfers, bill payment and prepaid services. And with the

recent acquisition of Custom House, Western Union now also offers a payment service for small businesses.

What new propositions is Western Union bringing to the market for both business and retail?

Many people in the region associate Western Union only with consumer cash-to-cash money transfer service. However, Western Union has a dynamic and diverse portfolio of financial services and is constantly exploring new opportunities to meet customer needs.

In addition to our cash-to-cash money-in-minutes service, we have a cash-to-bank money transfer service from Saudi Arabia to the Philippines.

We have recently introduced a next-day service from the UAE to the Philippines and are currently testing a mobile money transfer service at select locations in the UAE that allows receivers in the Philippines to access the remitted money through m-wallets on their mobile phones.

We are also actively expanding our Western Union Gold! Card loyalty programme to Qatar, Oman and Bahrain.



Jean Claude Farah

How do you see the remittance business evolving globally and regionally?

As people continue to move across international borders to find better jobs, their need to remit money home will continue. The World Bank projects that remittances will evolve to become an even more important source of development financing in many of the developing countries in the future.

On the technology front, we expect money transfer service providers to expand and offer additional channels in order to retain and add consumers. Mobile money transfer, online money transfers and pre-paid cards offer customers more options to move money.

Western Union is working hard to meet the business challenges and consumer needs, and will continue to offer consumers the convenience, reliability and speed they have come to associate with Western Union.