



Innovation in
Payments and
Remittances

Report 2021

Payments Post Covid-19:
Taking stock of our new world.

About RemitONE

RemitONE is the leading provider of end-to-end money transfer solutions for banks, money transfer operators (MTOs) and fintech start-ups worldwide.

Our award-winning money transfer and compliance software products, along with our consulting services - including MSB licensing, bank account provisioning and connections to our clients and partners - are tailored for the global money transfer market.

Organisations of all sizes use our platform to run their remittance operations with ease and efficiency by reaching out to their customers via multiple channels including agent, online and mobile.

www.remitone.com



Foreword

Our mission at RemitONE is to empower the global money transfer industry with technology and business solutions to provide secure and fair transfers for those who need it most. In 2018, RemitONE launched Innovation in Payments and Remittances (IPR) to bring together various industry supply chain members to drive [positive change](#).

Through events and research reports, IPR brings together senior business leaders dedicated to enhancing the industry, enabling them to think big, share best practices, engage, learn, discover, create opportunities and shape change. Because with the power of collective insight, not only do we benefit from better outcomes, but we also reach further than could ever be possible alone.

The first IPR event was held in the iconic London landmark, The Shard. This year, due to the pandemic, the event was hosted online and attracted over 2,000 attendees worldwide. Building on this momentum, we are pleased to bring you the IPR Report, the first of its kind, which presents the findings from a survey of over 100 senior money transfer experts globally and data from RemitONE client systems.

Through this research, we sought to understand how the money transfer landscape has changed, given the shift in consumer behaviours caused by the Covid-19 Pandemic and the evolution of the payments industry. As you will see, opinions and experiences vary, but common themes emerged across the data.

The IPR Report will be released annually to help industry stakeholders, visionaries and business leaders make informed decisions that ultimately benefit the consumer.

We live and work in interesting times and hope that you use the insights within this report to drive positive change within your organisation.

Anwar H Saleem
CEO
RemitONE



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Unpacking RemitONE's 2021 Innovation in Payments and Remittances Report

In early 2020, when the first reports emerged from China's Hubei province of an unusually contagious and aggressive coronavirus, few of us could have known the root and branch challenge it would represent to our whole way of life.

The COVID-19 pandemic that subsequently took hold has had a catastrophic cost in human life around the world that at the time of writing shows little sign of being fully in control.

But like all crises, it has accelerated change to a sometimes dizzying pace. Underlying trends were magnified and new ones catalysed as the world undertook what could be history's most sudden and widest-ranging shift in consumer behaviour.

Some of these shifts could be temporary and some are likely to be permanent – and it is in spotting the difference between the two that significant business opportunities can lie.

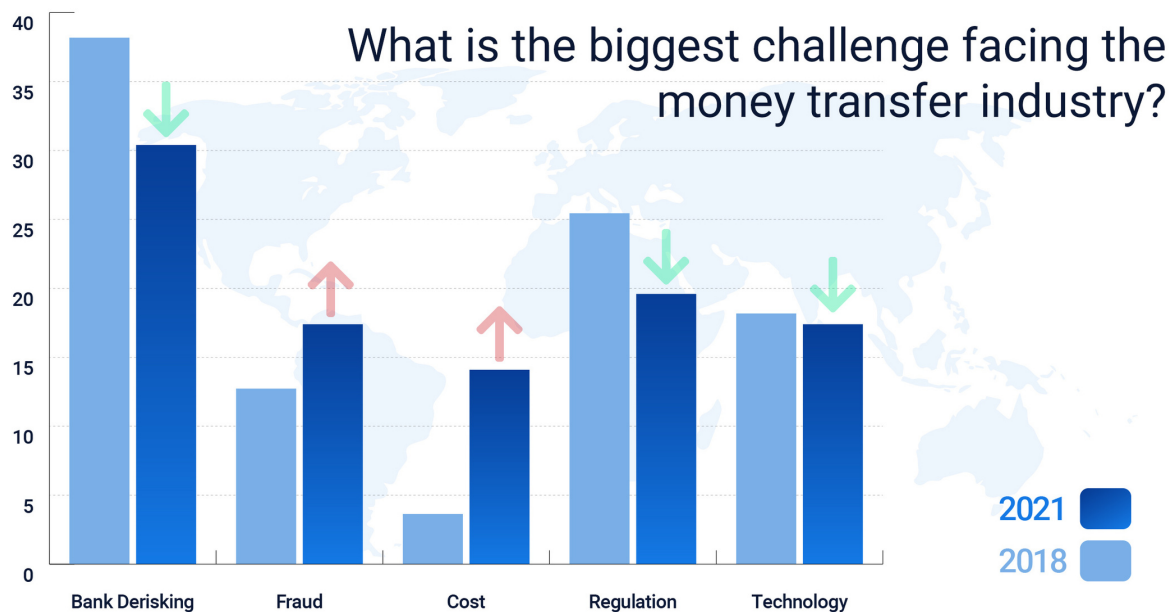
Given the payments industry's nature as the foundational infrastructure of the global economy, it was our sector that has seen perhaps the most radical shifts in activity.

To give just two examples, in the first six months of 2020 US consumers spent \$347 billion online, an increase of 30% on the same period in 2019 that translated to a sixfold increase in the country's annual growth rate of internet retail [1].

Meanwhile, in Switzerland, the period between January and May 2020 saw debit card spending as a proportion of total consumer spending jump from 65 to 72% - a big move, but not suggesting the total death of cash some analysts predicted the pandemic would lead to [2].

This complex picture, defined and driven by multivariate local and technological factors, is why RemitONE commissioned our 2021 Innovation in Payments and Remittance survey, and we are happy to present its key insights in this document.

Legacy Systems: Are they holding back innovation?



In this question, our respondents expressed clear worries over bank de-risking and fraud – both core concerns in the payments space.

However, the most striking evolution since our last survey in 2018 has been the more than tripling of the respondents identifying costs as a core concern.

What lies behind this?

It is our view that ageing legacy systems and technology that is either obsolete or on the journey to becoming obsolete that is driving this apprehension over costs.

Outdated technical infrastructure can impede business growth, and to compound the problem, even maintaining

this infrastructure incurs significant costs in licensing and support just to keep operations in a steady state.

Whether it is inefficient manual processes or systems that require excessive training times or are just plain unreliable, this is a clear cost sink for businesses that the Covid era has placed a new emphasis on mitigating.

In part this is because Covid has been one of the biggest business continuity challenges many of us will ever face: almost overnight, ensuring data interoperability between platforms, standards and locations went from something nice to have to an absolute priority. For some businesses in hard-hit sectors, it became a question of the very viability of their futures.

20%

Reported positive experiences
from working with both
regulators and banks

200%

Increase in respondents who identify costs as
a core concern in 2021 compared to 2018

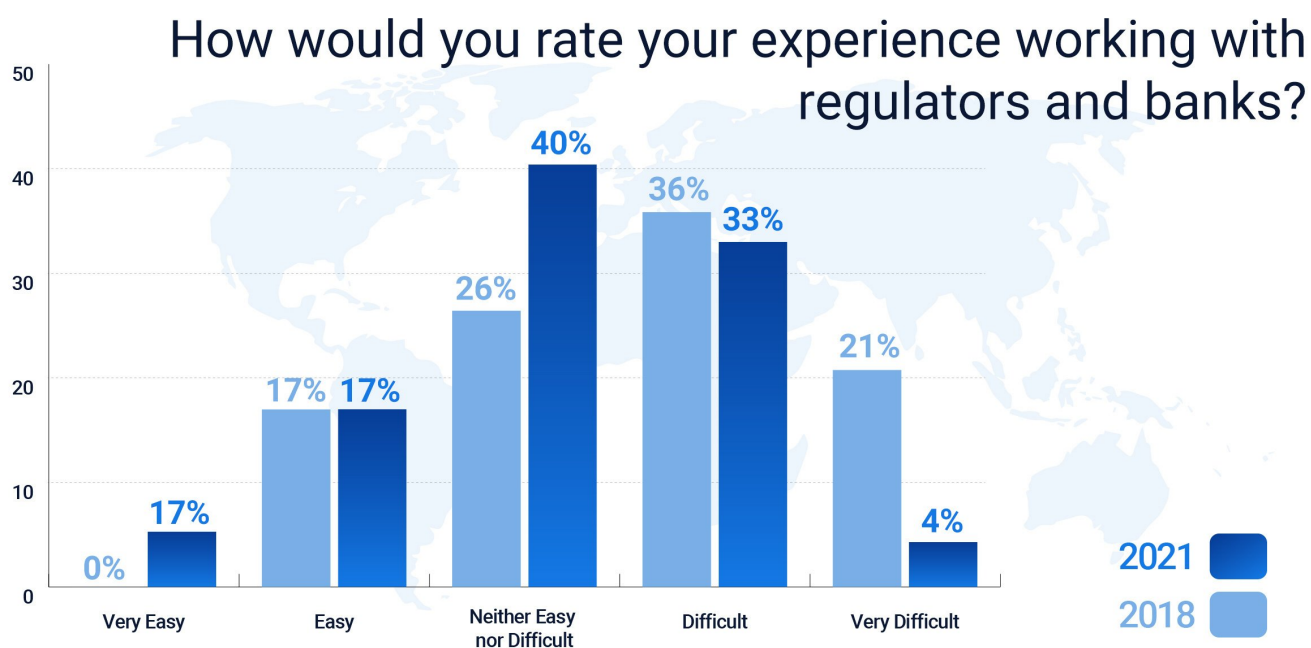
This picture seems gloomy, but it's not all bad news.

It should be clear that there is potential for substantial savings in the decommissioning and replacement of legacy systems and applications.

Preservation of historical data – often the main driver of institutions' reticence to reform – is not the set of handcuffs it once was, and there are technical solutions that can make this process far less painful than it would have once have been.

There are today strong options for outsourcing this kind of work to credible third-party providers who can draw on extensive internal expertise to deliver the kind of technical upgrades that can radically cut costs, streamline workflows and free up staff for more pressing or creative work.

To give an illustration of the lag in updated technologies in the solutions facing our respondents, only 20% reported positive experiences from working with both regulators and banks:



Updating technology

Frustrations can emerge from working with dated technology that was not designed or optimised for the kind of full-spectrum challenges to digital infrastructure Covid carried in its wake.

Alternatively, flawed compliance procedures can get in the way of successful delivery. The technology needs to be scalable, flexible and right first time in order to accommodate updates to the compliance environment that can seriously dent user experience if anything falls through the cracks.

Regulators and central banks can do more to improve on this 20% figure.

And you shouldn't need us to tell you that 20% is a figure we can improve on.

Legacy Systems: Are they holding back innovation?

Key Considerations

- Legacy technical solutions or digital transformations can both be significant costs; third-party support is often the most cost-effective way to meet the challenge.
- The accelerated digital shift driven by Covid is here to stay.
- Regulators need to adopt new technical solutions to support stakeholders' efforts to stay compliant.

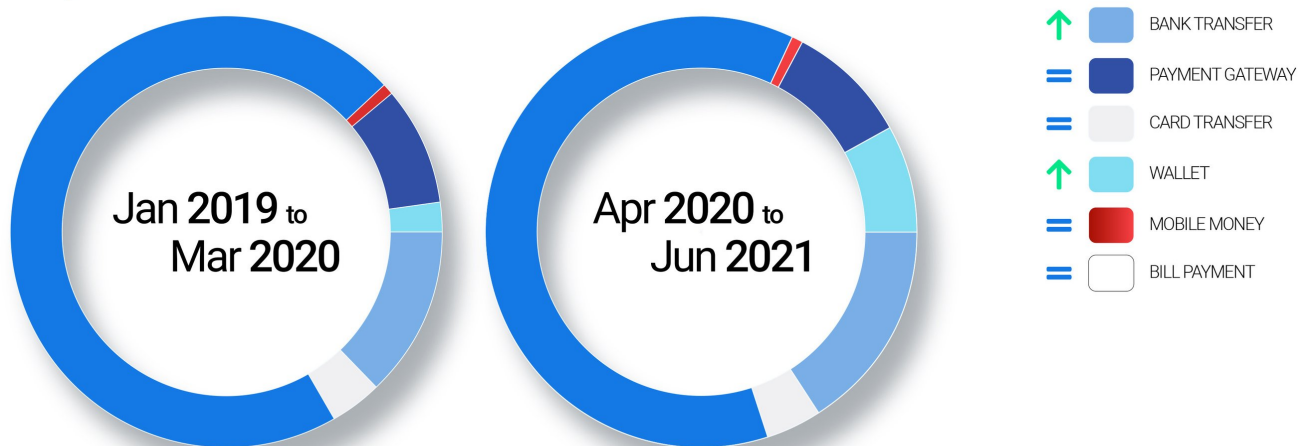
Has the pandemic killed cash?

Not yet...

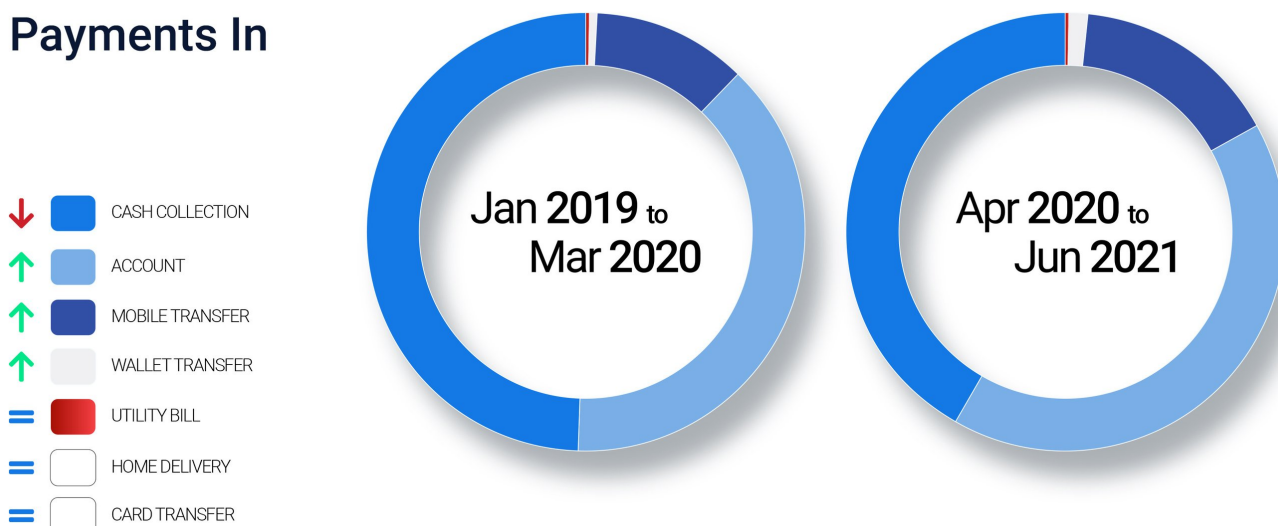
Over the last 18 months, there have been many commentators enthusiastically talking up the supposed death of cash in the Covid era [3] - we even saw alarmist reports of the virus's potential transmission via paper money [4].

However, this is just not borne out in the data:

Payments Out



Payments In



Data from RemitONE client systems.

Cash isn't going anywhere overnight...

While there is a clear trend away from cash [5], it is highly likely that it is going to be a fundamental part of the economies of the west for some time as fundamental basic demand is likely to remain stubbornly persistent – if a shrinking proportion of total transactions.

For the foreseeable future, we anticipate there to still be demand for cash for some transactions, some of the time. Indeed, a recent study found almost 60% of global consumers would prefer to have a cash option going forward [6].

It has traditionally been the older generations who have been most committed to cash, but even they have reportedly been becoming more familiar with digital payments over the course of the pandemic and its attendant boom in online retail [7].

All of which is to say:

"Cash isn't going anywhere overnight."

But strategic planners must also reckon with not only where we are now, but where we will be in years to come.

The message here is therefore to think hard about how to derive maximum value from debit card and digital transactions – which are both more expensive to process and, if they are taking cash's place in the long term, will trend towards smaller values.

Potential ways to derive more value from these micropayments could include:

- Building a more extensive offer, such as overdrafts/loans, deposits, deferred or broken-up settlement – all for a fee.
- Baking compliance solutions into your stack to manage risks and remain flexible in a rapidly evolving business environment.
- Deriving data from transactions that can be both used to develop and improve your service and spot opportunities for the strategic direction of your business model.
- Sophisticated loyalty programmes that can be personalised to the tastes and behaviour of your individual customers to build loyalty and differentiate your offer from your competition.

We have moved rapidly from discussing the persistence of cash to transaction data, but we can sum up by saying that while cash is not a dead technology, there are windows of opportunity that have been opened by its decline.

Has the pandemic killed cash?

Key Considerations

- The long-term trend away from cash is clear - but it is going to be with us for a long time yet.
- Even so, it is wise to plan for how to derive value from transactions that would once have been cash - given the likelihood of greater costs along the payment chain.
- The secret is going to be deriving and monetising as much transaction data as possible.

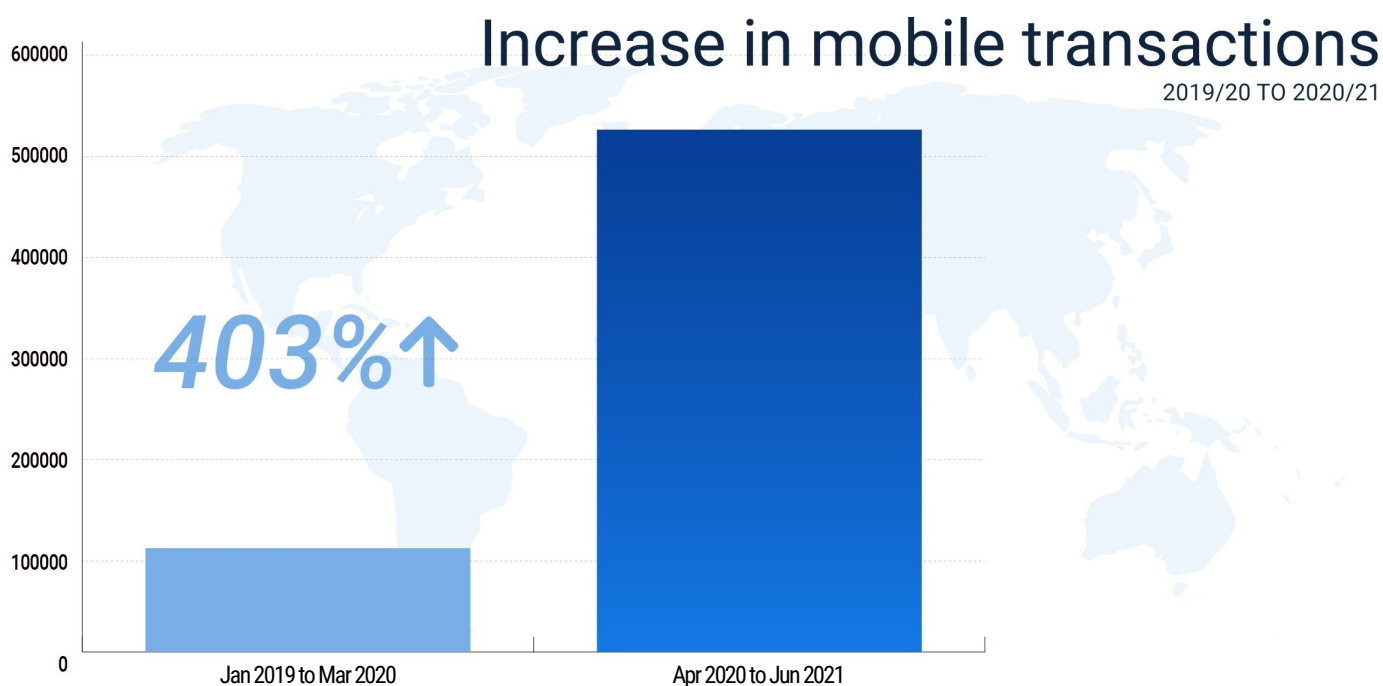
Mobile Payments: Here to stay

Anyone who has travelled to the Far East (back when we still could) will know that those markets have been almost totally overtaken by mobile payments platforms, to the extent that some providers have clearly been identified by the Chinese Communist Party as potential challengers to its power.

We aren't quite at that point in the UK, but we'd like to highlight one astonishing result in our survey data.

Usually, a 400% increase in anything would represent nothing more than a typo, but this is a very clear indication of the extraordinary impact of Covid on mobile payments.

As with cash, there is a clear generational breakdown, with 50% of 18-34-year-olds registered but only a little over a tenth of the 65-and-older cohort using the technology.



Data from RemitONE client systems.

Mass migration to mobile

Meanwhile, research by UK Finance found that in the calendar year of 2020, the number of individual consumers in the UK who had registered for mobile payments platforms grew by 75% to 17 million [8]. This is still little more than a quarter of all adults, but a remarkable increase nonetheless.

The clear driver of this has been the enormous pivot to e-commerce, as the pandemic hit.

With online retail in the UK growing its revenues by 50% in six months [9] (although breaking down the data between, say, fashion and groceries, presents a more complex picture).

In short, consumers have arrived en masse on the mobile channel, and having become familiar with its convenience are unlikely to desert it until a clear technical superior arrives – which is unlikely to be any time soon.

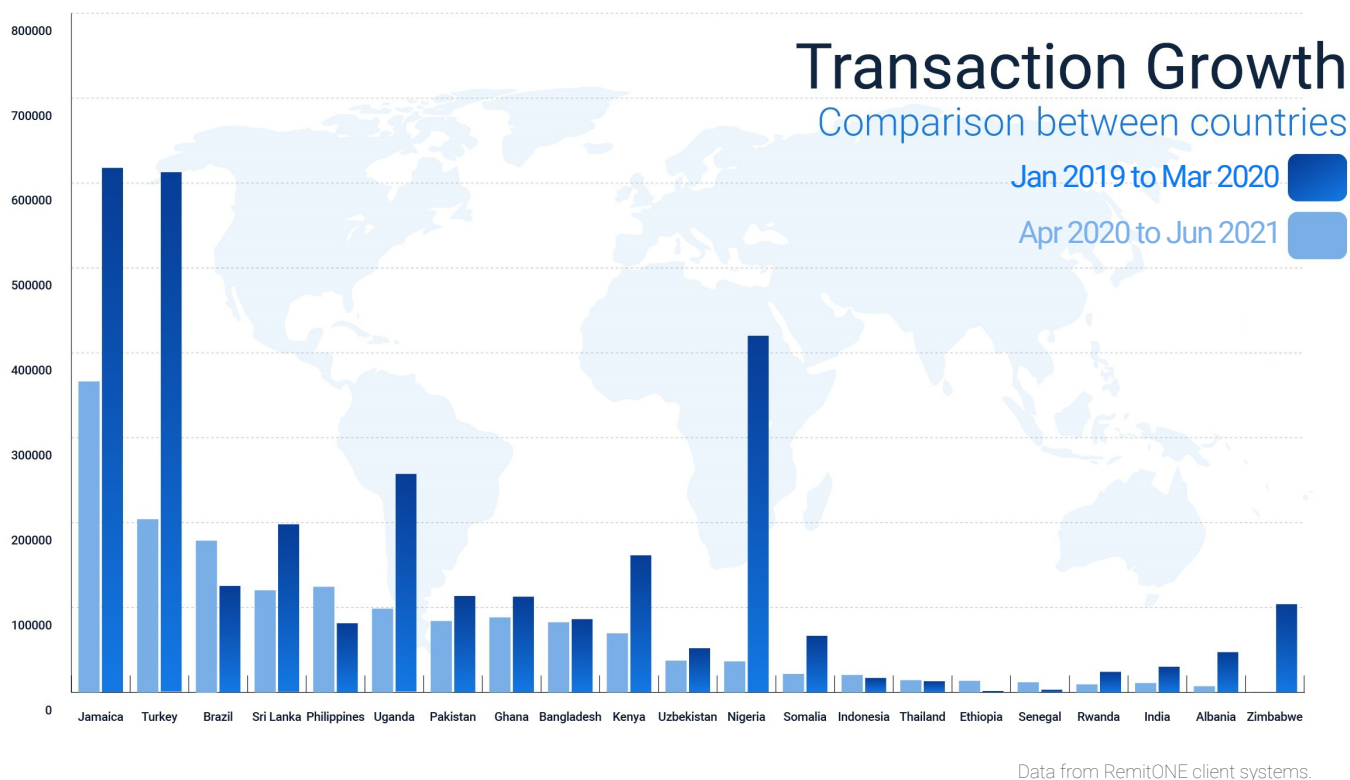
If we expand our view beyond the UK, research by FIS found that in 2020 mobile payments surpassed cash for the first time [10] - so let's now turn to the international picture.

Mobile Payments: Here to stay

Key Considerations

- Covid-19 radically accelerated the uptake of mobile payments.
- Data on the use of mobile payments is heavily skewed toward younger consumers.
- Globally, mobile overtook cash in 2020 for the first time ever.

The Internationalisation of Digital Payments



When we consider international remittances, the picture is overwhelmingly one of a huge increase in digital cross-border payments with a few standout figures thanks to local circumstances.

There is a vast amount to discuss around the regional trends driving variations in uptake, but in the interests of space let's take a global view.

According to the GSMA, there are now 310 live mobile money services in 96 countries, which collectively have more than 1.2 billion accounts, and of which

around a third offer cross-border remittances [11].

By any measure, this is a vast market, with concurrently vast opportunities for providers who can meet its needs with streamlined platforms that can cope with the complexities of international KYC, CFT and AML compliance.

So, while Covid presented a significant challenge to people remitting funds to family and loved ones overseas, it has also catalysed a rapid migration to digitised cross-border transactions that is unlikely to be reversed.

Benefits of digitising compliance processes

- The removal of demand for informal cash-based remittance pathways that can have questionable reliability at best and at worst can facilitate crime or exploitation.
- The removal of barriers to financial inclusion for many people in the developing world.
- The reduction of costs by taking middlemen out of the picture, with a concurrent improvement in flexibility.
- And, in the Covid era, the end of the need to attend a physical location to make a payment.

The Internationalisation of Digital Payments

Key Considerations

- Digital cross-border payments are booming.
- This creates a significant opportunity in meeting the demand for KYC, CFT and AML-compliant solutions.
- The digitalisation of cross-border payments could also greatly expand global financial inclusion.

Glimpsing the Post-Pandemic World: Where does the future lie?

Finally, let's draw it all together and consider the conclusions we can draw about the future for the payments industry from this turbulent period.

We asked our respondents to identify the technologies or policies they believe will have the biggest impact on the money transfer industry over the next two to three years.

The first striking result is the decline in confidence in blockchain between 2018 and 2021, perhaps reflecting the loss of its 'shine' as many of the technology's more ambitious advocates' promises of revolutionary change have not come to pass.

This could reflect a growing sense of realism that distributed ledger technology – as opposed to the more colourful world of cryptocurrencies – is in fact an elegant back-end solution of interest more to specialists than consumers. However, it would be foolhardy to write it off just yet.

Mobile technologies, meanwhile, may not get the same attention from the technology press – and certainly don't have the same army of boosters on social media – but in both 2018 and 2021 our respondents selected them as the factor set to have the most impact in the payments space in the medium. We'll conclude by considering why.



Glimpsing the Post-Pandemic World

Key Considerations

- Blockchain is no longer a novelty.
- The security and flexibility of digital wallets is being viewed as part of the platform for innovation.
- Mobile payments are anticipated to have the greatest global impact going forward.



Conclusions

We've covered the convenience and ease of use already, but the scale of the consumer uptake is nonetheless striking – 83% of all retailers worldwide are reportedly incorporating a POS solution for mobile payments into their offer [12].

Digital wallets are secure thanks to the maturing of biometric authentication, creative providers can harness them to offer bespoke services to their users, they are highly flexible, and – obviously – are extremely mobile.

We can add to these benefits by viewing them as a platform for further innovation. The app economy is little more than a decade old, and the innovative capacities of its stakeholders are far from exhausted.

Artificial intelligence promises to accelerate service, further improve security, and integrate payment flows into wider corporate structures with far more efficiency than is currently affordable for many businesses.

DLT/blockchain may change the world and build a global economy of sovereign individuals with no need for financial service providers – but we wouldn't bet on it.

Instead, we are confident that the future of payments in the post-Covid world lies on your mobile phone.

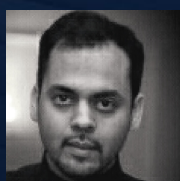
We are RemitONE

Tap into the experts behind the report



Contact our team to discuss the insights in this report, how they apply to your business, and how to remain competitive at a key moment in the evolution of the payments industry.

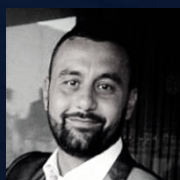
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