

GLOBAL MONEY TRANSFER

Name: LUO Yiling, Student ID: 20881826

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[ABSTRACT]: This essay mainly focuses on global money transfers. Describe the common operation method of cross-border remittances today and the development conditions and demand for using other ways in the foreign exchange area. This article analyses companies such as 'Wise', which runs similar services of providing faster and cheaper money exchange, describes how they compare with traditional banks when sending money across borders, and analyses the business model and strategy. Explain the operation mode of conventional banks and how to compete more effectively nowadays. Discover the profitability of such companies, the rationality of ensuring the source of funds sent out and how to supervise. Present the potential legal problems and how to regulate them.

[KEY WORDS]: Cross-border Remittances, FinTech company, Regulations

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BACKGROUND

With the continuous development of technology and increasing digitalisation, cross-border remittance methods have become more flexible and diverse. The transformation from bank-based to digital payments has been gradual. In recent years, the growth of many financial technology companies has brought about new, more affordable and faster transfer methods.

TRADITIONAL TRANSPORTATION METHODS

In the past, the primary methods for sending money to other regions involved physically transporting currency or using a bank platform to transfer currency internationally. While it is legal to carry cash through border inspections, there are restrictions in place to protect foreign exchange regulations. For example, in the US, anyone transferring more than USD 10,000 at one time must file a report with the CBP (U.S. Customs & Border, 2021). The Hong Kong government stipulate a maximum of HKD 120,000 inbound (The Ordinance, 2018), and mainland China is not allowed people to carry more than CNY 20,000 or the equivalent of USD 5,000 in foreign currency at a time (The State Council, PRC, 2003).

Then if the person wants to transfer more than a certain number of currencies internationally, they should use the bank as the mediator. This method involves visiting the corresponding banks onsite or using online banking apps to transfer. However, the transaction fees for banks are relatively high, and the process can take several days, making it unsuitable for emergencies. For example, according to the Bank of China, the fee for the telegraphic transfer is 1‰ of the amount of each remittance, the minimum charge is ¥50, and the maximum is ¥260 per remittance plus additional telecommunications fee (Rates for BOCNET/BOC MOBILE Account Transfer/Remittance Services, 2014). Additionally, individuals must present a valid ID card and an authenticity certificate when transferring large amounts of money (Outward remittance, n.d.). Thus, the traditional operation methods of currency transactions are time-consuming, money-costing and have many limitations.

NEW TRENDS AND DEMAND

According to the report, cross-border payments and receipts amounted to CNY 36.61 trillion in 2021 (RMB Internationalization Report 2022, 2022), highlighting the increasing demand for cross-border money transfers. With the emergence of innovative FinTech companies, digital payment platforms and cryptocurrencies are increasingly popular in meeting the growing demand for modern payment. These platforms offer cheaper transaction fees and faster foreign exchange receipt services, attracting an increasing number of customers seeking efficient and cost-effective cross-border remittance solutions.

DIFFERENT REMITTANCE METHODS

In addition to conventional transaction methods, many companies are exploring innovative ways to enhance cross-border remittance processes. For instance, numerous FinTech companies have emerged that offer digital platforms for international money transfers. One example is Wise, which has revolutionised the industry and other innovative services. Others like N26 and Chime also provide a mobile app to transfer currency at a relatively low fee and offer other transfer method options to address some of the drawbacks of bank transfers.

THE FINTECH COMPANY -- 'WISE'

BUSINESS IDEAS AND MODELS -- ITS MISSION AND OPERATION MODE

Wise is a financial technology company focusing on creating a more convenient and efficient overseas transfer process. Its mission is 'to build money without borders -- making it move faster, more conveniently, transparently, and eventually for free'. (Wise, 2023) It uses a peer-to-peer model to match users who want to exchange different currencies; that is, it looks for the transfer needs from the opposite direction, allowing users to exchange money at the mid-market rate without intermediaries and get rid of buying and selling foreign exchange, let the process be more straightforward and more accessible.

Additionally, Wise offers an API that enables businesses to integrate its services into their operating systems, simplifying international payments and currency exchange. The company also provides an account that allows users to hold multiple currencies, further enhancing convenience and flexibility.

Through this business model, Wise first produced the service of overseas transactions, then diversified to the multi-currency debit card, foreign currency banking information and other banking services. Although the company had a few years of losses in its early years, it has recently shown good annual gains. It offers a trading platform with low service charges, making many people accept this company's concept and have a large group of loyal customers. While the profits from foreign currency transfers may be smaller than those of traditional banks, Wise has still managed to make a name for itself by accumulating profits over time. By continuously providing cost-effective services, the company has forged ahead and established itself as a leading player in the corresponding industry.

INNOVATIVE INTEGRATION -- ADVANTAGES COMPARED TO TRADITIONAL BANK

The most crucial part is that it significantly reduces the transaction fee, which is the key to being embraced by the public and results in the key to its success. For individuals, it's normal to face a bad exchange rate during the foreign currency exchange; if the amount transferred is large, this loss will be scaled up accordingly. Not to mention there may be hidden fees involved in the transaction. Although the fees may seem small, people often feel it's unfair and is sensitive to additional costs. That's when Wise occurred and captured their customers' minds, dispelling concerns and providing a more real-time exchange rate and getting the customer's satisfaction.

Another improvement is that Wise allows money to transfer at a more rapid speed compared to the traditional bank. By setting the matched order from two opposite directions, money is sent directly person-to-person, completing the transaction in a few tens of seconds instead of going through a cumbersome process that lasts several days.

TECHNOLOGY -- USING VARIOUS TECHNIQUES

From the individual point of view, they get cheaper real-time exchange rates and rapidly send or receive foreign currency. And from the company's perspective, they maintain central accounts that hold significant amounts of money in various currencies. When a payment needs to be made to a foreign recipient, they match the payment, pay the recipient in the corresponding local currency, and receive a transfer from another country's foreign recipient in his currency. However, no physical money transfer occurs, and the transactions are settled internally within the company's accounts.

As some news mentioned, 'it bears remarkable similarities to an ancient Islamic money transfer system called Hawala' (Business Insider Australia, 2015), but unlike the pure honour system mentioned above (Hawala - Wikipedia, 2023), Wise also needs to use various techniques to check the legality and reliability. They have a dedicated fraud team to keep track of the transaction, use two-factor authorisation and improve data science techniques to protect the account. They also find ways to get the optimal match across the region and develop ways to enhance the user experience.

DATA ANALYTICS AND MANAGEMENT – KEEP RELIABILITY AND UP TO DATE

Transaction related to money is one of the most sensitive data; thus, the data collected by the company is worth discussing. They should ensure the data is correct, and the customer is reliable, they use many checking methods to verify the identity at the beginning account-creating system, like checking the bio-ID and phone number as well as email and physical address and so on. And every time the customer wants to transfer, multi-authorization is needed.

The Wise also uses the data to understand the customer better and improve their transfer and other services. From the individual's view, Wise collects their data to generate the user's behaviour to better advise them on currency transactions. From the company's perspective, they use data to detect and prevent fraudulent transactions which may incur a loss; they also use the data to identify the current currency market and analyse the demand of different regions to adjust and respond.

TRADITIONAL BANK'S COMPETITIVE POLICY

In original bank transactions, banks charged some amount of fees and earned the exchange rate difference. But due to the increment in financial technology companies like Wise, some traditional banks have reacted with some actions in the convenience of the transaction process.

First is HSBC's global payment. If the person is a member of some specific card type, they can use the instant exchange rate to transfer money to nearly 30 countries and regions and waive the fee (HSBC Global Accounts, 2023). It sounds like a far-sighted strategy as it incentivised existing users of HSBC's money transfer service to upgrade their accounts and invest more, thereby fostering a sense of loyalty among the customer base.

Another is BOC's transfer remittance discount. It allows people to transfer their money between their accounts with the same name worldwide without the commission fee (BoC E-bank Transfer Remittance Discount, 2022). It's one of China's biggest banks, with branches spread over nearly 30 countries and regions, so this discount would widely increase usage around the world. For example, many mainland students studying in Hong Kong use both BOC and BOCHK accounts to exchange currency for tuition fees and living expenses, making it an excellent opportunity to expand banking services.

DISCUSSIONS

RATIONALITY AND REGULATIONS

When currencies are exchanged across borders, the exchange rate determines how much the local money will receive. Various factors, including economic developments and policy changes, influence these rates. In general, if investors move more money into a country over a period of time, its

currency will appreciate accordingly. From the political point of view, while traditional banks regulate and document international currency exchanges, some fintech firms like Wise rely on two-way matching orders that may not be regulated as strictly. This can be especially challenging to regulate at the national level when firms set up three-party or more parties matching orders or generate a net inflow or outflow of certain currencies in a transaction.

From a technical point of view, how to match orders and operate the whole system is a big challenge. Traditional banks have stricter supervision, more complicated procedures and less probability of errors, so new FinTech companies need regular maintenance on technology to ensure security.

Moreover, fintech companies like Wise must ensure their funding sources are legitimate. They assess factors such as the customer's location, transaction frequency, amount, and source of funds to mitigate risks. However, there is still a chance of fraudulent transactions if customers provide fake information, such as unclear identity, bank card, or phone card information. This can lead to legal problems like money laundering, and it's crucial to verify the source, destination, and intent of the funds being transferred to ensure they are legal and preparable.

One strategy to regulate the two-way matching orders some fintech firms use is establishing regulatory frameworks and standards tailored to the fintech industry. Regulators could partner with industry experts to develop best practices for managing foreign currency transactions and require fintech companies to adhere to these standards. Another approach is to increase transparency and reporting requirements, such as mandating that fintech companies provide more comprehensive information on the transactions they handle. Additionally, regulators could collaborate with fintech firms to create more sophisticated artificial intelligence and machine learning algorithms that can analyse transaction data and identify patterns that may suggest fraudulent or illegal activities.

EXISTING IMPACTS

But in another way, the rise of these fintech companies has effectively facilitated people's lives. With proper government and regulations, there are more ways for people to send money across borders. People no longer have to go to the counter to fill in the tedious procedures and no longer have to wait for several days, reducing a lot of unnecessary human and material losses for individuals and enterprises.

Governments around the world are becoming increasingly proactive in combating illegal activities. An example of this is the Chinese government's "Card Broken" campaign, which aims to crack down on telecom fraud. This initiative involves cutting off the flow of information and money to criminal organisations engaged in fraudulent activities. (ZDNET, 2021) Also, digital information is becoming increasingly trustworthy in Hong Kong with measures such as Real-name Registration for SIM Cards.

CONCLUSION

The growth of financial technology in recent years has been remarkable, with digital banking, cryptocurrency, and blockchain management emerging as some of the most promising areas. Fintech companies like Wise have made significant strides in developing systems that facilitate faster, cheaper, and easier cross-border money transfers.

However, as these new technologies continue to evolve, it is essential to ensure that effective regulation is in place to maintain the security and reliability of cross-border remittances. In some areas, the lack of regulation and oversight could lead to fraudulent or illegal activities, harming consumers and the broader financial system. Therefore, it is crucial to develop effective regulatory frameworks and standards that address these risks and increase transparency and reporting requirements, as well as technical skill is essential.

Despite these challenges, there is no doubt that with technological advancements and the increasing demand for more efficient and cost-effective financial services, we can expect continued innovation and growth in FinTech. Ultimately, the goal is to create a more secure, transparent, and accessible financial system that benefits everyone, and the fintech industry will undoubtedly play a crucial role in achieving this vision.

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