

World Bank – IFC Financial Infrastructure Week

Expanding the Horizons of Payment System Development

Panel Presentation of

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Presentation Outline

PART I: Deregulation of Japan's Remittance Market

PART II: Comments on the Evolution of the Global Remittance Industry

PART III: Microfinance Institutions as Remittance Partners

Speaker's Vantage Point

- MFIC's Mission: Provide more affordable financial services to underserved markets.
- Founding Premise: We can help spur economic development in poorer regions and communities through appropriately priced financial service products specially-tailored for low income people.

MFIC's Products

- A highly efficient remittance platform. Features real time settlement, automated compliance checks and is used by remittance companies, commercial banks, the US Federal Reserve, mobile phone network operators, card companies and others.
- One of the world's largest payment networks linking 110 countries.
- Micro lending to US immigrants often lacking credit histories.
- Transnational mortgage loans – For dwellings purchases in developing countries and serviced by immigrants abroad.

PART I

Deregulation of Japan's Remittance Market



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Characteristics of Japan's Remittance Market

- 2 million immigrants among a total population of 130 million
- 450,000 immigrants from Latin America (Brazil, Peru, Bolivia, Paraguay, Colombia)
- Remainder mostly from Asia (Philippines, Korea, China)
- \$2.5 - \$3 billion remitted annually to Latin America in 4.5 million transactions.
- Average transaction size is comparatively large -- at about \$650.

Deregulation of Japan's Remittance Market

- G-8 Declaration was the impetus for government action
- The deregulation law was enacted in April 2010
- Contains unique compliance provisions
- First applications for company registration accepted in August 2010
- Nine registration applications approved to date.

Various Models Now Being Market Tested

- Card products
- Immigrant community-focused strategies
- Partnerships between remittance companies and retail shops, the post office, etc.

[Commercial banks are largely sitting on the sidelines for now]

Pricing for Remittance from Japan to Peru?

<u>Vendor</u>	<u>Fee</u>	<u>FX Charge</u>	<u>Total</u>
Western Union (Travelex):	\$36	\$26	\$62
MoneyGram (SBI Remit):	\$39	\$6 (est.)	\$45
MFIC Japan:	\$22 flat rate	-0-	\$22

(Based on average-sized \$650 remittance)

Coming Soon....

- A major Japanese mobile network operator will offer true mobile remittances from Japan to Brazil; Korea; Philippines and China, using MFIC's platform. (June 2011)
- These mobile remittance fees will be priced well below lowest existing remittance rates, reflecting the very low cost structure of the new system.

PART II

The Evolution of the Remittance Industry



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Industry Facing Growing Regulatory Pressure

- Government regulators are insisting that remittance transfers be grounded in the *formal* financial system.
- The traditional SWIFT model used by banks is just not viable for small payments. (Up to 4 banks, 3 days, as much as \$50)

Mobile Payments the Answer?

- Mobile network operators (MNOs) believe they are the future of the industry.
- In theory, every hand-held device can serve as a remittance terminal.
- Most remitters use mobile phones. A survey showed 97% of our storefront clients have them.

However, MNOs Face Critical Barriers to Entry

- Acting alone mobile operators can only send messages, not money.
- Mobile operators must either become regulated financial service providers or form partnerships with banks to settle the transactions.
- Working alone, mobile operators would need to create their own downstream remittance payment networks, negotiating individual arrangements with each local mobile provider and its bank.

MNOs Face Critical Barriers to Entry (cont.)

- Even in the one existing case of a specially negotiated international remittance corridor (Kenya), the system operates in a quasi-legal environment and outside the regulated financial sector (i.e. no licensing, little compliance monitoring, etc.).
- No G-20 government has or ever would tolerate this kind of model within their jurisdiction.

New Remittance Architecture Needed

With What Characteristics?

- Efficient; legal; with robust compliance monitoring.
- Capable of taking remittances from any channel – OTC, mobile, online, bank accounts and
- Pay out funds out through any medium – Cash, to account, POS device and mobile
- Interoperability - Should allow linking to all other remittance systems
- Must be grounded in the formal, regulated financial system

MFIC's Remittance Platform Was Designed to Fill this Void

MFIC developed its turnkey remittance platform (called ARIAS) specifically to meet these criteria.

Think of ARIAS as the 'black box' in the middle which:



- Mobile operators can just plug into.
- Instant links to a vast, worldwide network of pay points
- Grounds the payment transactions into the formal financial system
- Handles the actual settlement through the banking system
- Checks compliance with local and global requirements in real time; and
- Ensures all required licenses are in place, regulations are obeyed and that proper relationships are maintained with financial regulators.
- [More details about ARIAS appear in the appendix to this presentation.]

Some Partners in the ARIAS Central Hub

Federal Reserve:



ARIAS is a processor for the new International ACH (IAT) Account-to-Receiver service offered by the US Federal Reserve.

Banks & Remittance Firms:



Providing a highly compliant processing operating in real time with the ability to pay remittances in 110 countries.

WSBI Remittance Switch:



Banks can join ARIAS as part of the World Savings Banks Remittance Switch where ARIAS is a service provider.

Major Mobile Providers:



ARIAS has partnered with leading Japanese MNOs to offer true mobile remittance payments across much of Asia beginning June 2011. Others can just “Plug in.”

Bank of Africa:



Bank of Africa uses ARIAS as their processing system to transfer money between their branches in France and 15 African countries

PART III

Microfinance Institutions as Remittance Partners



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Microfinance Institutions as Payment Partners – Benefits and Drawbacks

On the Positive Side:

- MFIs are often situated in rural areas where immigrant remittances are sent
- Typically have close links with the families
- Expert at making small loans and mobilizing small deposits
- Eager to pay remittances to bring new customers into their branch and cross sell
- Typically more accepting of low-income customers than urban commercial banks.

Among the Drawbacks:

- MFIs typically have very limited infrastructure
- They lack basic technology like computers and have no online access
- Many have little cash management expertise
- Some could be said to have an 'NGO mentality' with too little focus on the bottom line

Working with MFIs takes extra effort

Partners need to understand microfinance institutions' (MFIs) needs and capacities and provide a system; equipment, know-how and compliance help.

MFIs also seek access to new products beyond remittances:

- Small processing fees from Remittance not sufficiently attractive to MFIs
- Cross-selling of other products and links to products of the upstream partner can make this an attractive add on.
- MFIC is both lending to our microfinance institution partners for their own expansion and giving their clients access to transnational mortgages and other loans (serviced by US resident immigrant family member).

Conclusion



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Appendix

Background on Microfinance International Corp's ARIAS Remittance Platform

The ARIAS Payment Network

ARIAS connects to financial institutions and payment systems across the world, thereby creating a real time global payment network. Overall, we can make cash payments and credit accounts through more than 35,000 locations in over 110 countries.

ARIAS provides a gateway to the US payment system (ACH), the European Single Euro Payment Area (SEPA), and many other regional and local payment system.

Additionally, we connect to a growing number of MNOs and are working on the connection to several mobile payment hubs and systems (Belgacom, Sybase 360).

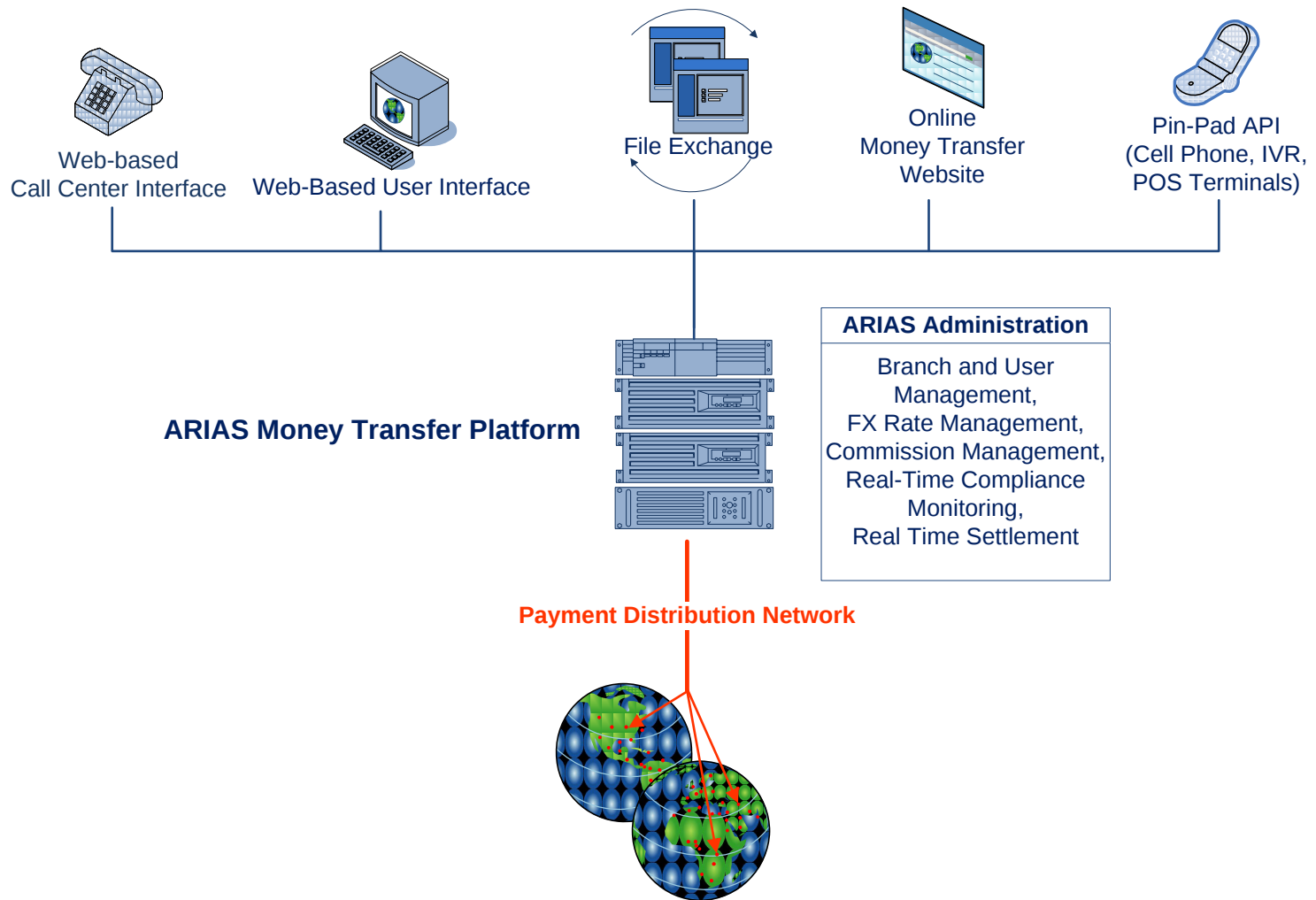
Processing of Payment Files

ARIAS exchanges payment instructions with a very large number of different organizations and systems worldwide, ranging from banks to payment providers, mobile network operators and money transfer companies in over 110 countries.

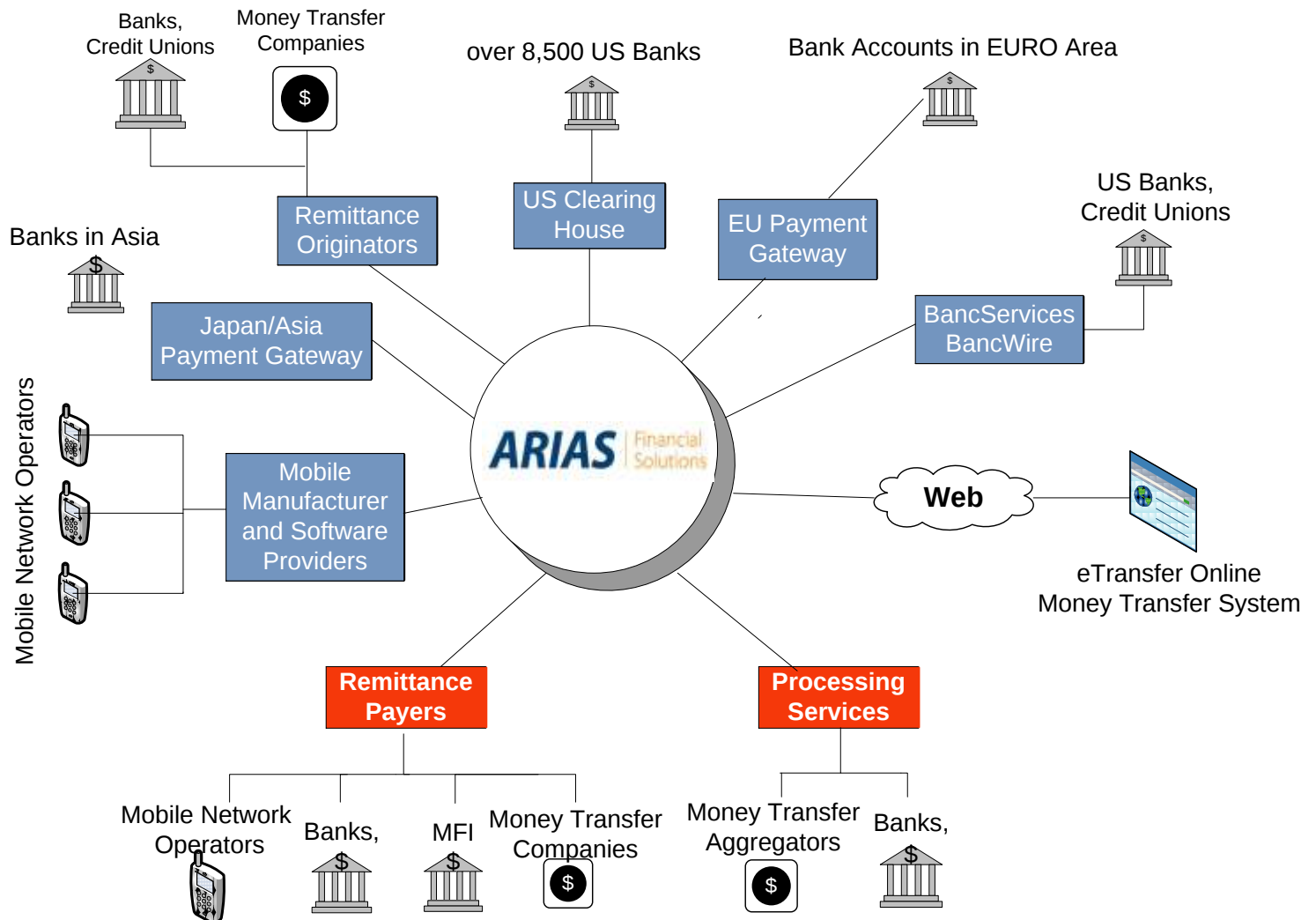
ARIAS manages:

- Transfers between more than 50 originators and receivers and their subsidiaries and agents
- in over 30 jurisdictions and compliance regimes,
- in over 40 currencies,
- with over 35,000 payment locations .

ARIAS Interfaces and Integration Options



ARIAS Processing Network



Processing Tools:

- Support different standardized file formats (ACH, SWIFT, ISO etc.)
- Flexible API for sending and receiving files and for a variety of queries
- Standardized processes for different payment channels: online, mobile, PoS Terminal.
- Multi-level and multi-currency administration.
- Real-Time Monitoring of files for formatting errors.
- Real-Time compliance monitoring.
- Standardization of data included in the files.

ARIAS is a division of **Microfinance International Corporation (“MFIC”)**

MFIC is a US corporation headquartered in Washington, DC with sales and representation offices in The Netherlands, Japan, and Ethiopia.

The company was founded in 2003 by Atsumasa Tochisako after a 27 year career at Bank of Tokyo. Its management and Board of Directors include prominent senior US regulators, bankers, remittance experts and technology entrepreneurs.

MFIC won various awards, including the 2008 \$1M Legatum Fortune Technology Prize and Schwab Social Entrepreneur of the Year Award 2009.

Shareholders include FMO, a private-public investment bank of the Netherlands; KDDI Corporation; Tokyo Marine and Fire Insurance; Development Bank of Japan; Global Brain, a Venture Capital Fund; and INES, a leading system integrator in Japan.

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