



# Reinventing Remittance: A View Up Close

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Remittances serve as symbols of hope and opportunities, extending beyond financial transactions to play a transformative role in regions like rural India, Mexico, and the UAE. Despite the World Bank's projected increase in officially recorded remittances in 2023, the UAE's remittance industry faces significant challenges, including technology adoption, competition, financial pressures, and legal compliance. This article explores vital steps for remittance businesses to navigate these complexities, advocating for digital transformation, comprehensive training, upskilling programs, and the adoption of innovations like embedded remittance. It stresses the importance of companies revolutionizing their processes to remain relevant in the face of growing competition from both traditional and fintech players, urging a strategic reinvention for resilience in the dynamic landscape of the UAE's remittance industry.

**R**emittances, often dubbed 'dollars wrapped with care,' have a transformative impact, especially in developing nations. Beyond mere financial transactions, they represent symbols of hope and opportunities, shaping brighter futures. In rural India, they break the cycle of generational poverty by funding education. In Mexico, entrepreneurs kickstart small businesses, contributing to local economic vitality. Even in the UAE, a construction worker finds purpose in supporting his mother's hospitalization through remittances. The June 2023 World Bank report projects a 1.4% increase in officially recorded remittances to low- and middle-income countries, reaching \$656 billion in 2023. Factors like elevated oil prices and a thriving U.S. labour market drove robust remittances in 2022. Despite a 3.8% decline in the Middle East and North Africa, positive long-term relationships between remittances and economic output persist, with a 10% increase associated with a 0.66% GDP rise. As global remittance leaders India, China, and Mexico share heartfelt stories of resilience and aspiration, companies facilitating remittances, particularly in the UAE, emerge as beacons of hope for wage earners worldwide.

## **UAE- A beacon of remittance**

The UAE stands as a global remittance hub, hosting the highest proportion of international migrants relative to its population. With a personal remittance figure of USD 47.5 billion in 2021, the country is a key player in the exchange and transfer of funds worldwide. The UAE's appeal lies in its focus on creating employment opportunities, ranking 21st globally for attracting talent. Home to 8.58 million migrants, comprising 88% of its population, the UAE's status as a major job market has fuelled the growth of the remittance industry. Crowe acknowledges the significance of remittances, not only for its expatriate team members but also through extensive collaboration with remittance firms in the UAE. Despite its crucial role, the remittance industry faces challenges such as stricter licensing requirements, the entry of global fintech players, and funding pressures, leading to a decline in the number of companies from 140 in 2017 to 77 currently.

# When the Going Gets Tough...

But at the same time, the UAE's remittance industry faces significant challenges triggered by global transformations. Significant among them are:

**Technology Adoption:** Rapid technological advancements demand a substantial overhaul of remittance operations. Embracing digital services is crucial for profitability and market capitalization, as traditional approaches hinder speed, efficiency, and security.

**Rising Competition:** Intense competition, exacerbated by pandemic challenges and the entry of fintech players, has eroded customer bases and revenues for traditional remittance firms.

**Cost of Money Transfer:** The cost of remittances, especially cross-border, surpasses the Sustainable Development Goal target. Addressing this, estimated at 5.4%, is essential for the industry's growth.

**De-risking by Partner Banks:** Stringent regulations, particularly in the US and Europe, have led correspondent banks to de-risk, severing funding channels for remittance companies. Anti-money laundering and anti-terrorism financing regulations are primary drivers.

**Lack of Unified Effort:** Remittance companies operate in silos, lacking collaboration and synergy. This limits their ability to address consumer demands, scale, and stay relevant in the industry.

**Operational Compliance:** Stringent regulatory landscapes, such as increased capital requirements, pose challenges for UAE exchange houses. Non-compliance can lead to severe consequences, as illustrated by recent license revocations.

**Legal Compliance:** Adherence to international standards, particularly those set by FATF, requires remittance operators to comply with economic sanctions, AML/CFT, and anti-bribery/tax evasion regulations. This has elevated operational costs and scrutiny.

**Changes in Lifestyle:** Consumer preferences, influenced by technology adoption and a broader market, have shifted towards digital-only money transfer solutions. Traditional brands are losing influence as consumers prioritize factors like exchange rates choices and transfer speed.

**Financial Pressures:** Correspondent banks and local lenders severing ties due to compliance concerns have intensified financial pressures. Organizations like FERG are engaging with banks to assess exchange houses objectively. Larger firms may manage additional capital requirements, but smaller ones must consider consolidation or capital enhancement.

The confluence of these factors underscores the need for adaptability and strategic measures in the evolving landscape of the UAE remittance industry.

## **Beware. Be Aware.**

Navigating the dynamic global and UAE legal landscapes presents a challenge for remittance companies, demanding vigilant monitoring of evolving trends and compliance requirements for success. Notable developments include the UAE central bank's 2021 elevation of standards for money exchange houses to combat illicit financial flows. The establishment of the Executive Office of Anti-Money Laundering and Counter-Terrorism Financing introduced stringent measures, penalties totalling Dirham 17.31 million for non-compliance, and a shift to electronic transfer systems. Despite facing penalties, the UAE has made progress, reflected in improved ratings from the FATF on July 6, 2023. While on the grey list, the UAE strives for further alignment with international standards, anticipating efforts for removal in the next FATF review in April/May 2024. Aligned with the UAE's commitment to the digital revolution, exchange and remittance businesses must align strategies with government priorities, contributing to the country's evolving role in global remittances. Mandates for effective anti-money laundering departments in non-financial businesses, including Licensed Exchange Houses, underscore the need for regular risk assessments and comprehensive risk mitigation measures.

## **The Tough Gets Going**

In the competitive landscape of remittance services, marked by traditional players, fintech startups, and banks, there is a critical need for a revolution in processes to overcome the limitations of conventional business models and achieve sustained profitability. Continuous innovation is essential, requiring a substantial overhaul of operational strategies, focusing on people, product, and technology. To excel, the remittance industry must move beyond traditional approaches and native apps, embracing wider consumer outreach through innovative and adaptable product development. Embedded remittance, akin to the Banking as a Service (BaaS) concept, integrates services into non-financial platforms, enhancing user experiences and expanding transaction volumes. Digital transformation is vital for unlocking cost savings, leveraging automation and AI, and reshaping business models. Embracing a flexible hybrid cloud architecture accelerates financial benefits, transforming the remittance business into an open, modular, agile, and automated design. Training and upskilling programs are crucial in the face of evolving laws and technology. Comprehensive programs incorporating behavioural, academic, and topical elements are essential to keep staff compliant and meet customer expectations, aligning training content and frequency with individuals' roles and operational risks.

As a crucial industry that sustains the flow of people, trade, and commerce for the prosperity of economies and humanity, it is imperative to maintain the relevance and resilience of the remittance sector.

Know more about our services and expertise at [www.crowe.com/ae](http://www.crowe.com/ae).

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