

Skype-type money swaps bad news for banks?

February 16 2014, by Anneli Reigas



File photo of the old city of Tallinn, taken on May 10, 2007

Irked by high bank fees on international money transfers, two Estonian IT whizzes who helped engineer Skype and Paypal have hatched Transferwise, a global Internet platform coordinating currency swaps between individuals.

"Hey, hidden fees. Your secret's out," taunts the site founded by Taavet Hinrikus, 32, and partner Kristo Kaarmann, 33.

Transferwise has been giving banks a run for their [money](#) since its 2011 launch, even attracting applause from tycoon Richard Branson, who sings its praises as a low cost business tool for start-ups.

"They are dramatically lowering the cost of transferring money overseas, by effectively matching people and companies in different countries who want the opposite currency," the Virgin billionaire said in a recent blog post.

The marriage of IT ingenuity and financial savvy also garnered a prestigious 2013 World Summit Award (WSA), a United Nations-backed prize for outstanding web-based business innovations.

Transferwise offers international [money transfers](#) for a fee of just one British pound (1.2 euros, \$1.6) for all transfers under £200 and 0.5 percent for everything above—a tenth of what banks typically charge.

At that price, business is booming with the company processing around £1 million per day.

While European rules specify that euro to euro transfers must be free of charge, banks fees on international money transfers between currencies range between three and six percent with exchange rates that routinely favour banks.

The new platform boasts customers from across Europe and is most popular in Britain, France and Spain, mostly among working or retired expats plus small and medium-sized businesses looking to cut operating costs.



A view of the old city of Tallinn, taken on May 10, 2007

It's also eyeing expansion in Asia, Africa and the US, offering services for the Indian rupee, South African rand as well as US, Australian, Hong Kong and Singapore dollars.

Co-founder Hinrikus was Skype's director of strategy until 2008, where he joined as the first employee. Kaarmann worked as a consultant for banks with Deloitte and PricewaterhouseCoopers before setting up TransferWise.

- Cashing-in on algorithms -

The idea took shape when Hinrikus found himself living in London and spending in pounds, but earning euros at his job with Skype at its headquarters in his native Estonia.

Kaarmann, meanwhile was earning pounds in London, but paying a mortgage for his home in the Estonian capital Tallinn in euros.

"We found that we had the opposite currency requirements, so we started to exchange it among ourselves at the actual mid-market rate—that's the exchange rate you see in the papers, not the inflated rate you'll be offered by your bank," Hinrikus told AFP.

"Soon we realised we had saved a fortune by not moving the money across borders and that perhaps it could be a big business idea. A few years later TransferWise was born," he added.

A few algorithms later, they had come up with the programming to connect people with complementary currency needs.

Hinrikus explains that a customer in Britain who wants to send money home to Estonia can put their pounds on a TransferWise account.

The company then spots a customer in Estonia who wants to send an equivalent amount of money to the UK.

Rather than actually sending the money across borders, TransferWise then simply pays it out to the desired recipient in each country, for the minimal fee.

While concerns have been raised over the potential abuse of the system to launder money, TransferWise spokeswoman Huggins points out the service is certified by Britain's Financial Conduct Authority (FCA).

"This means that the business is subject to the same rules as commercial banks in the UK," she explained.

The half-dozen TransferWise investors read like a who's who of IT venture capitalists.

PayPal founder and Facebook's first financier Peter Thiel is among them via his Valar Ventures company as is Xavier Niel, the founder of French communications provider Free.

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