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Thinking of buying Japanese yen or Malaysian ringgit while exchange rates are good? Even with the rise of popular apps like Wise or YouTrip, money changers still have a role to play, says Singapore Management University Assistant Professor of Finance Aurobindo Ghosh.

With the Japanese yen and Malaysian ringgit near their all-time low against the strong Singapore dollar, even those who have scratched the revenge travel itch may be tempted to plan another trip.

Those planning to buy or sell currencies would typically make a trip to the money changer. But today, some travel enthusiasts may reach instead for their phones to buy foreign currency with apps like Wise (formerly Travelwise), Revolut or Singapore's own YouTrip, or multi-currency accounts from local and foreign banks.

The pandemic forced businesses around the world to shift online. And payment service providers have jumped on the bandwagon of digital platforms.

On the back of pent-up demand for travel, these multi-currency apps offered the additional value of enhanced security, account tracking, investment, insurance and other convenience without the need to carry wads of foreign currency.

This trend has not gone unnoticed by investors. YouTrip announced in October that it had raised US$50 million in its Series B funding from global venture capital firm Lightspeed.

The question on the minds of some will be: Could this sound the end of money changers as we know them? It's important to be discerning about the choice to go cashless or not, especially overseas.

CASH IS STILL KING

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Recent outages in the payment systems of two banks in Singapore have proved that, despite reduced usage, banknotes are not likely to become redundant any time soon.

Would we really risk going overseas with no foreign currency on hand? How else would we pay to rent a scooter in case the battery goes flat on the phone with the multi-currency app and the digital card?

Cash or any cash equivalent is accepted universally and is highly advantageous in making purchases, like with street vendors in places like Taiwan or Thailand, particularly when on a budget or going backpacking. For countries with a culture of nightlife (including night markets and street food), carrying cash rather than relying solely on a phone might be worthwhile for safety reasons.

Also, some destinations simply prefer cash. Cash is still king in Japan for now, even if digital payments are on the rise.

Understanding what kind of traveller we are also helps. A multicurrency app is likely to be useful for infrequent travellers who might face much higher fixed transaction fees and adverse conversion rates when dealing with money changers in other countries.

UNDENIABLE CONVENIENCE OF CARDS AND APPS

Even if travellers won't ditch cash, the convenience of a multi-currency card or app is undeniable.

Cards with multi-currency features can help travellers to get the best conversion rate from the spot market, which fluctuate throughout the day, like the interbank rates or "mid-market rate". It also comes without layered transaction fees from credit cards and exchange rates offered by international chains of money changers or travel service companies.

Regular credit cards without the multi-currency feature might charge less favourable rates than those offered by money changers, when used to make overseas purchases. The rates often ring in at 3 per cent or more over the interbank exchange rate, while additional fees like dynamic conversion charges (DCC) are service charges on purchases in different currencies.

An added convenience is that travellers can track their expenses, keep within a budget, get a warning for unauthorised usage and avoid splurging. Using the mobile wallet with preloaded currency amounts like a debit card feature helps to limit the aforementioned expenses.

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File photo of a customer counting her ringgit notes outside a money changer at the central business district in Singapore. (Photo: Reuters/Edgar Su)

But there are also downsides to using apps and multi-currency cards. In the event of the loss or theft of our belongings, we would have to go through the process of cancelling credit cards or freezing accounts. Then there is the risk of data hack or breach, such as a ransomware attack on the bank such that the card becomes unusable overseas.

Cybersecurity also becomes a concern, when using cards or withdrawing cash in unknown storefront ATMs. We may also not be used to checking for card skimmers in Singapore, but using phony or tampered ATMs can lead to identity theft through cloning of cards, particularly in countries with lax regulation and limited penalties for cybercrimes.

Travellers who arrive home may also be stuck with unused foreign currency with a multicurrency debit card, given restrictions for using an ATM locally and fees to convert to domestic currency.

CHANGE IS ON THE HORIZON

The money exchange business will still need to adapt to the changing times despite some of the advantages of cash. How can money changers respond to technological disruption laying a siege on their business model?

Money changers can consolidate using aggregator services by going digital, getting recommendations by advertising their exchange rates. While travellers expect the money changer rates to be at par with the live interbank rate, there is uncertainty about what the actual rate is before we head down to join the queue.

They can also seek to be accessible online round the clock, provide low-cost remittance services, offer micro-investments in commodities like gold and enable smaller ticket purchases, including other travel services like booking of no-frill flights or inexpensive hotels that might not be readily available online.

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But it would be a pity to lose money changers. Money changers have a role as they are vital in the network of financial support for low-wage workers.

They are often the only resort for those who are not privileged to have a credit card or multi-currency account due to low balances, not having enough paperwork, lack of a credit history or the inability to pay monthly fees. Money changers thus function as an alternate source of micro-savings, micro-investments, and remittances for low-wage workers.

With the recent strength of the Singapore dollar, the less well-off can make regular small contributions or micro-saving in other currencies, which might help defray their costs or liabilities in foreign currencies in future.

Tradition and nostalgia have often given way to efficiency and cost saving, in a world with a petulant cost-of-living challenge. Money changers cannot avoid the disruption of financial technology.

Aurobindo Ghosh is Assistant Professor of Finance Education and Director of Citi-Foundation SMU Financial Literacy Program for Young Adults at the Lee Kong Chian School of Business, Singapore Management University. The opinions expressed are those of the author and do not represent the position of Singapore Management University. This should not be construed as financial advice.

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