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Interface with Rachel Botsman

A FAIR EXCHANGE

Taavet Hinrikus, co-founder of hot start-up TransferWise, talks taking on the banks.

IF YOU were the first employee of Skype, the internet telecommunications pioneer sold to Microsoft for $US8.5 billion ($9.35 billion), what would you do for your second act? Towards the end of 2010, this was the question 32-year-old Estonia-born Taavet Hinrikus started asking himself. His new venture, TransferWise, aims to cut the cost of international money transfers dramatically, just as Skype did with telephone calls.

Behind every great start-up there is a story about one of the founders facing a problem, not finding a good solution and realising there is a market gap. The tale of how TransferWise was born goes like this: in 2007, when Taavet was working for Skype, he moved from Estonia to London. He was earning euros that were paid into his Estonian bank account. He then had to transfer money to pay his living costs in Britain. An old friend (and TransferWise co-founder), Kristo Käärmann, faced the opposite problem: he was a consultant at Deloitte in Britain being paid in pounds, and was transferring money to pay a mortgage in Estonia. Every transfer cost about 5 per cent, not only through hefty transfer fees but on the poor exchange rates their banks were offering.

So the pair came up with a simple, clever idea. "We figured that I could just transfer money from my Estonia account into his Estonia account and he transferred money from his account in London to my account in London," he says. "We just looked up the interbank rate on Reuters and used that." Within a few months, other friends joined the system. Pretty quickly they saved thousands of pounds in banking fees.

Hinrikus and Käärmann soon realised this must be a problem affecting a lot of people, so in 2010 they figured out how to provide a similar service to everyone else who needed it. In fact, according to UN statistics, there are more than 200 million expats living, working or studying abroad.

> I COULD SEE THE OPPORTUNITY TO TAKE SOMETHING UNNECESSARILY COMPLEX AND MAKE IT SIMPLE.

As well as expats, there are businesses that pay suppliers in different currencies. And along with bank fees, a typical transfer can take between three and five working days.

"The banks try hard to make it extremely difficult to understand what you're paying for," Hinrikus says. Launched in 2011, the start-up is backed by legendary venture investors including PayPal founders Peter Thiel and Max Levchin. To date, it has facilitated more than £100 million ($166 million) in transfers.

Rachel Botsman: How does TransferWise work?

Taaret Hinrikus: From a consumer point of view, you go on the website and enter: "I'm Rachel. I am sending £1000 from London to Paris." We ask for basic personal details such as birth date and address, and the recipient's information. You then key in your debit card number or we give you a local account number so you can transfer funds into that account. When we receive the money we make the transfer. Behind the scenes it works like this: say we have 10 people sending money from London to Paris, then another group of people sending from Paris to London; for these people, we just pay out from the money we receive from the customers in London. So we never transfer money across countries. It's a crowd-driven model.

RB: What are the top categories of people using the service?

TH: People who are paid in different currencies and those who are servicing real-estate overseas such as paying mortgage, rent or utilities are our biggest users. After that there is a longer tail of students, pensioners and small-to-medium businesses for whom saving a couple of pounds every month really means something. They also love the transparency and ease of the service.

RB: How do your rates compare to banks?

TH: If you send £1000 from your bank in London to a bank in Paris, a bank will typically charge about £20 ($33) to make the transaction; in addition to this, they will take 3 per cent as a "hidden" fee on the exchange rate. You end up paying about £50. With TransferWise, we charge a flat fee for every transaction. The fee is £1 for transactions up to £1000, then we charge 0.5 per cent service fee for amounts above that.

RB: How do you get people to trust a new brand with their money?

TH: The trust barrier is lower for the early adopters. They will try things out with small amounts of money. We see first-time users try say £200; then when it works they come back and transfer £2000. To add more credibility, we also emphasise the Skype and PayPal connections. At the end of the day, however, trust is something we have to work on forever.

RB: Both Skype and TransferWise make a service more affordable and accessible to more people. Why is this important to you?

TransferWise co-founder Taaret Hinrikus and Kristo Käärmann.

TH: There is so much technology can do better; so many backwards things we need to get rid of from the current world. Every business out there is protecting its status quo and that is where the opportunity comes for the entrepreneurs to change it.

It's important to work on something that matters to you because if you can see the profound effect it is having on your own life it is a powerful thing. With TransferWise, I could see how I was suffering with legacy technology and the processes offered by the banks and the opportunity to take something unnecessarily complex and make it simple.

RB: As the company grows, how do you stay close to the original pain point you first spotted, and the user experience?

TH: Management must be dedicated to staying in touch with users and spend time understanding the constantly changing market. My co-founder and I are very plugged into the core product and we encourage the whole team to spend time on customer support, answering calls and emails. You hear first-hand what customers are saying and experience how it feels to explain to a 70-year-old lady from the UK how to use an online financial service.

RB: What are the values core to the TransferWise brand and user experience?

TH: Transparency, honesty and simplicity. Being very honest to our users is incredibly important to us. It will make sure that we never become, say, a [budget airline] Ryanair that tries to upsell you with a piece of luggage or insurance when all you want to do is buy a cheap airline ticket. The key is how you consistently embed these values at scale and make sure we never have the temptation to hide anything.

TRANSFERWISE NUMBERS

£125 MILLION
Worth of transfers done to date

20%
Month-on-month growth rate

>£5 MILLION
Amount TransferWise has saved customers

£7.37 MILLION
Venture capital investment received to date

KEY COMPETITORS:
CurrencyFair, PeerTransfer, Azimo

RB: You helped build Skype from an idea into a global multibillion-dollar company. What was the biggest lesson?

TH: Your biggest asset is people. Having a team that is aligned with the culture and really taking care of them is the single most important learning I have had.

RB: Skype sidestepped the telcos and it took them about five years to start paying attention. TransferWise is sidestepping the banks. Why do you think incumbents, regardless of sector, don't disrupt earlier?

TH: Skype will turn 10 this year and owns 30 per cent of the long-distance market, yet at first the telcos didn't believe it wasn't a real threat. They said the technology won't work; it won't scale etc. There is an amazing quote from Hossein Eslambolchi, AT&T's then chief technology officer, from 2004: "What Skype is doing is like a toy."

It takes a large organisation a long time to see threats. If you go back to the innovator's dilemma, they have invested all this money, so they find it hard even to think about how they disrupt themselves. They leave it for others to do and end up being the ones that will die.

RB: Why do you think financial services are so prone to disruption right now?

TH: It's taken a long time for disruption to get to financial services because of regulation and trust, and it is operationally more complex than other sectors. Everything from tele-communications to publishing and aviation has been disrupted. In some ways it is the last castle standing. The whole financial crisis and collapse in trust has helped; what the banks are doing has become glaringly obvious. People also expect a different experience: more transparency, more simplicity. The way most banks treat you in 2013 is still the same as in 1985. Customers want a lot more.

RB: When will you launch in Australia?

TH: We are looking at it and we will offer the service in the not too distant future. It's an exciting market in that there is a huge expat population.