

Wise: Money Without Borders

Lawrence Burns and Kristo Käärman
December 2024

Claire Shaw (CS): Welcome to Invest in Progress. I'm Claire Shaw, a portfolio director in the Scottish Mortgage Team. In this podcast we aim to take you behind the scenes to hear the conversations that take place between the investment managers and the visionary leaders of some of the world's most exceptional growth companies.

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Over a decade ago, two Estonians were chatting at a party and it turned out they were in the same predicament. Taavet Hinrikus was being paid in euros but lived in the UK, so needed pounds. Kristo Käärman, meanwhile, had a salary in pounds, but a mortgage in Estonia, so needed Euros. They were both frustrated by bad exchange rates and hidden fees.

They realised they could solve this problem by matching each other at the mid-market rate. Over 10 years later, this solution is now a leading fintech platform known as Wise, which offers cheaper, easier and more transparent international money transfers. Wise now serves millions of users globally and processes over £100bn a year, offering its customers huge savings across multiple currencies.

Wise was founded in 2011 and Scottish Mortgage first invested in 2016 while it was still a private company. Since then, we've added to our holding, and remained supportive shareholders through its IPO in 2021, and to the present day.

Scottish Mortgage manager Lawrence Burns recently sat down with CEO and co-founder Kristo Kaarmann, to discuss how the company continues to revolutionise global money movement. We hope you enjoy the discussion

Lawrence Burns (LB): I'm delighted to be joined by Kristo Käärman, who is the CEO and co-founder of Wise, a company that makes transferring, spending and holding money across borders easier and cheaper. It has 13 million customers and operates in 160 countries across 40 different currencies.

Scottish Mortgage first invested in Wise in 2016, when it was still a private company. In 2021 the company listed and went public, making it a perfect example of a company that we've owned across the private/public divide.

And if we look back to when we first invested in 2016, at that time the company was handling about £7bn in cross-border volume annually. This compares to the £118bn it facilitated in the last financial year. And not only has the company over this journey improved profitability, but it's done so whilst reducing the fees it charges to customers as they've scaled.

Kristo, thank you, both as an investor and a consumer, for the incredible company that you've built and thank you for joining us here today.

Kristo Käärman (KK): It's great to be here, Lawrence.

LB: We really appreciate you making the trip up to Edinburgh. Maybe I can start by hearing in your own words that story of where the idea for Wise came about and how we've got to the company that we have today.

KK: For sure. Your intro was really spot-on. Wise came out of personal experience. When I moved to London, now about 17 years ago, I realised how tricky it is to move money once you go from domestic to international. For some reason, it's so much more expensive to move money from London to Paris than from London to Edinburgh, which Paris would be a little bit closer.

Actually, the tricky part was realising, or maybe an even more embarrassing part, is when I realised that it's not only a lot of effort and it takes a week, but not all the money's arriving on the other side. When you find out what the banks are doing to the exchange rates, that they've made up for your transfer to go through, you realise it's a hugely inefficient part of the financial services market.

And that was our realisation back in the day, which led to in 2011 coming out with the hypothesis that it's probably not just the Estonians in London problem, but it's maybe French in London problem and the Brits in the Australia problem. Actually it's there, now that we've realised, pretty much in every corner of the world where people are moving.

LB: Originally, when you had that problem, you solved it by netting it with Taavet. You exchanged your pounds for the other currency, and so on. I suppose what's interesting about that, explaining a bit about how Wise works today, is that pools of liquidity, you've really scaled up to a much grander scale.

KK: For sure. We're, both actually me and Taavet, we're computer scientists by education, so we looked at this as an engineering problem. There shouldn't be a reason why moving money between London and Edinburgh has to be that much cheaper than moving money between two different currencies.

And we find there's a huge host of just engineering problems that the banks had never had a chance to invest behind. Because international payments or servicing international businesses or expats, it's always been an afterthought for building a domestic bank. It's been a very profitable afterthought, it's been a cash

cow for a lot of the banks, but it's definitely been something that they've underinvested in over decades.

LB: One of the topics that we're getting in from our audience is, and hopefully it's because they're considering being customers, having listened to this, but it's trying to work out how much cheaper are you today than a bank in the UK to transfer money overseas?

KK: It's a very good question because, in many cases, it's still hard to figure out what the bank is charging you, unless you actually go through with the flow. I'll put in a couple of adverts. There's some progress now, for example with Barclays and with Lloyd's. I think you can actually work out what they're charging. There's a couple of tool tips you have to click, but you'll find out in major currencies they would charge about 2.7 per cent, the last time I checked.

But then if you go to something a little bit more exotic, even sending money to Brazil, that will get closer to 10 per cent charge. But for many others, like HSBC and NatWest, you can try as hard as you want, but they will never tell you what they charge. They will give you an exchange rate, but then you will have to go onto your Bloomberg terminal, look at what your pounds are worth today, and try and do the maths.

Just as a comparable, our average fees across all the routes, across all the payment methods are, I think last time we reported was 0.64 per cent. If you look at the major currencies, they're now sometimes less than 0.3. So we're talking about 2.7 versus 0.3, is roughly the comparable.

LB: That's a big difference.

KK: It is.

LB: What really was the hardest thing of you came up with an idea, you saw a problem, you wanted to solve it, what was the hardest thing of that experience over the last years, taking that to a reality?

KK: Every day we come to work, is we're trying to work out how to serve more people and more use cases, how to make Wise more useful for more customers. But then you quickly get into what does that mean? That means making money move faster, make money move cheaper, and make it more convenient for people, for small businesses, and now even banks to use.

There's really no one thing or one silver bullet that we had across our journey, but it's really been trying to solve each of these challenges one by one, as we've added a new country, a new use case, started servicing small businesses, handling their invoicing, for example. Or then now starting to serve banks.

LB: How important were, in part we were doing the private section earlier, your early shareholders in shaping what Wise became? Because you've also had a

distinctive philosophy, where you've wanted to invest the scale gains that you make back into lower and lower pricing. I'm just curious, how important was it to have the right shareholders that shared that vision?

KK: For sure. I think this is actually a very important part of the journey. One thing I've learned over the more than a decade now building Wise, is that the value of a company is always going to be proportional, at least over the medium to long term, to the value it creates for its customer.

When we think back to the most amazing companies that have been built in the world, you will inevitably recognise that they've built products that people love, enjoy and want to buy, want to use. That's for sure the philosophy that we've adopted as well, and we've been very clear to ourselves, that the more value we create for our customers, the more valuable is the company that we're creating.

That has worked really well for us. You see us going from £7bn of volume when you invested, to moving £18bn across borders in the last financial year. And where we're setting our aim today is how do we build a company that moves a trillion? That's the movement that you expect as you create more value to customers.

And the shareholders, for sure, we had the luxury of bringing on the really awesome tech ex-operators, now shareholders. One of our early board members was Ben Horowitz of Andreessen Horowitz. And their mentality of scale, I think that was really important. To recognise that when you're building something, you should build it for everyone. It's not worth only thinking about your own town, your own country, but you should build it for everyone and really make something valuable.

LB: How have you found the transition from private to public? You go from some quite different parameters. You've got ceremonies of quarterly results, you've got a live share price that's telling you how you're doing, whether that's accurate or not, and you've got a whole host of new pressures. What's that transition been like, both for you personally and for the culture of Wise?

KK: It's a very good question. A listing, we did one of the first direct listings of a kind on the London Stock Exchange. In some ways, for our customers, it doesn't really mean much. We now have a lot of customers, or shareholders, which is great, but from their perspective, they still want to use the app, they still want to move and handle their money internationally. And they don't really care if our shares are traded or not traded publicly or regularly.

From that perspective, of how we build Wise, what are the investments that are valuable to make? That hasn't really changed, or that shouldn't have changed, because your customers are still experiencing the same company.

But of course it changes the dynamic. I used to have all of my shareholders on WhatsApp, that's not going to be the case anymore, as in we'll have a lot of shareholders. And also, we have shareholders with different horizons. We have Scottish Mortgage or Baillie Gifford funds who are very long term and they're very aligned in how do we get to the next trillion? Whereas we also have owners who are much shorter horizon. It's not that they're any worse holders, they're still as much owners of Wise as the long-term ones.

There's definitely a much bigger variety of voices and interests in what we do, but we've had the luxury of having a lot of long-term supporters on our cap table. Therefore, the fundamentals on what we're investing and how we're investing in, what we're building has very much remained intact.

LB: You've hinted at this a few times with the word trillion, but how should we think about how much room there is, even from that £120bn, for Wise to grow? How much is there left to do with that mission of money without borders?

KK: There's a lot to do. Of course, when we look back, we realise we've built an amazing business that has been growing immensely, it's now sizeable. But when we look forward, we realise that, by our estimates, we serve about 4 per cent or 4.5 per cent of the world's international transfers by volume for people. That's people.

Now when you add small businesses, there we're probably somewhere between 0.5 and 1 per cent, depends on how you attribute small versus large corporates. But whichever way we look at this, it's only scratching the surface. We're really very much in the beginning. And the market itself actually hasn't gotten much more efficient. Therefore, we definitely see that the same opportunity that we worked on five years ago hasn't really moved much. Therefore, we are very much in the beginning.

But then when we look at the use cases, also what we serve, is that has expanded a lot. We now not only move people's money, we help them with invoicing. We hold about 16 billion, or rather people and businesses hold about 16 billion of their funds on their Wise accounts. That brings new opportunities, new challenges, and expands our market at the same time.

LB: I think I'm right in saying that in terms of people and SMEs that move money across border, it's about £10 trillion?

KK: Yes, roughly. I think it's about 2 to 4 trillion for individuals and about nine for business, is kind of roughly where it's at.

LB: You're serving both of those markets and today you're at 200 billion.

KK: Yes. Thanks for reminding me.

LB: But that's the opportunity.

KK: It is.

LB: Things get boring when you get very mature. I suppose in some ways, have you been surprised by the lack of reaction by the traditional incumbents and the banks? Because you said there that you're surprised in some ways by how inefficient it still is.

KK: Yes and no, I think is the short answer. We also recognise it's not easy for banks. Banks have usually, first of all, most banks in the world are domestic. They have a job to give out mortgage, to hold deposits, to handle local payments, give business loans, credit cards, make sure people can buy cars and so on. They have lots on their hands anyway.

Doing international has always been a bit of an afterthought or we also have to serve international payments, but it's never an area of investment, or that's now how we win business. As I mentioned before, therefore, have been quite a bit of underinvestment. But it's wrong to say that banks don't care about it.

Maybe give you a fun story. How I find out about this, is we launched Hungary about now seven, eight years ago, started serving Hungarians. And then suddenly, after a while we saw a spike in users from Hungary. We started exploring what's going on. We found out that there is a bank in Hungary who started recommending Wise to their customers. We were super surprised because we were usually actually pretty vocal on how the banks are hiding their fees and giving a bad experience, that motion of love was unexpected.

When we started exploring, we found out that it's a small bank called AXA Bank at the time, owned by the French insurer. They had realised international payments is actually a pain. Their people have to first come to the branch, they have to type into the blue screen the information. The money would be somewhere in the ether for a little while, and they would have to charge a lot because it's manual work, it's a really clunky process for them.

The bank managers themselves had started using Wise and then they concluded that we should teach the branch staff that when someone comes in, we show them how to open a Wise account, how to fund the transfer, and quite likely, before they walk out of the branch, the money's probably arrived on the other side. We would have no cost associated with this, we'd have a happy customers, why wouldn't we do it? Was the question.

And that gave us the inspiration that has now led to what's known as a Wise platform. That means where we open this infrastructure that we've been building for our direct customers to all the banks and other institutions in the world, so that they can get the same experience to theirs.

For example, if you're in the UK and you're using Monzo as your bank, then quite likely when you do an international payment, or actually, always when you do an

international payment, it would happen on Wise. That means Monzo customers are suddenly getting the same experience that they get on Wise and, again, we get the scale that we're building Wise for. It's a win-win situation for banks, for our customers, and Wise, actually.

LB: We were mentioning earlier that one of Scottish Mortgage's newest holdings has been in Nubank, which is another partner of yours. But you have partners around the world, in Korea, in the US, in Germany, within 26. How do you think about in the long run that split between being an infrastructure for the existing financial services industry versus Direct-to-Consumer?

KK: I don't know what the future's going to look like, I can't tell it, but I'm pretty sure that there is a model where banks are finding ways how to service their customers better. That's what they need to do. It's a slow process. Most financial institutions are quite slow moving organisations, but at the end of the day, they want the same thing, they want a good experience for their customers.

What we're seeing today is Wise platform getting adoption. Actually, you're right to point out that it ranges from Brazil to Korea and Japan. We've actually seen more, faster adoption among the traditional banks in Asia. And that's partly, I'm putting it down to them being a bit more nimble, a bit more younger and, therefore, also have a bit more competition in their own local markets. If they can position themselves as we're the best bank for doing international business because we have Wise integrated, that's a good selling point for them.

Looking forward, we definitely see more and more adoption on the Wise platform side. Eventually, I wouldn't mind if what we build as the Wise account directly today just becomes a demo app for our Wise platform integrations. It's an awesome demo app, it's got 13 million active customers today. But at the end of the day, if the same experience is what you can get from your bank's app, that's a win.

LB: And either way, it gives you greater scale to invest in lower pricing.

KK: Exactly. And even better customer experience at the end of it.

LB: I just want to explore, how do you think about the constraints to growth at this point? Because if we go back to what you said earlier, you're about a fifth of the price on a lot of routes versus incumbents on money transfers. You're a lot faster, so therefore, you a lot more convenient. But you're still a small part of the overall payments, money transfer landscape. How do we think about the constraints of growth?

KK: I think growth, definitely what we're building, the growth we're experiencing today is at the back of the investments and the product that we built four, five,

six years ago. In our industry, and I think that's probably true in many other fast-growing products, it's perhaps not correct to attribute 'we invested in this yesterday and today we got this results'. That's not how it works.

It's usually these investments are quite long term. I'm not joking where I'm saying the investments that we're making today are the ones who should take us to this trillion of volume, roughly, or thereabouts. When we think of what are we investing in today, to read out a couple of things we've been talking about.

One is the infrastructure that we've built. Actually from the very beginning, and I'm going to bore you with some technical detail in payments. The main problem with international payments and banks was that they're domestic, so they're not connected anywhere else internationally. Then they're trying to rely on other banks through this thing called correspondent banking, so that they can thread a payment going through a number of banks and, hopefully, eventually arriving at their destination.

We bypassed all of that and built our own infrastructure, where we're connecting to the local payment system. So we're clearing with the Bank of England and the FPS, but then also in Australia through their instant payment scheme. That network that we've now been building out all around the world means that we can deliver payments internationally from one bank in, let's say, Scotland, to a bank in Singapore in less than 20 seconds about 65 per cent of the time. 65 per cent of payments arrive in less than 20 seconds on the other side of the world in the recipient's account.

That was not possible and that's not possible under the old technology, if you like. We end up building a whole new infrastructure. It's not ready yet, for sure, but it's starting to show what's possible. And what we're investing today, for sure, is, A, building out that infrastructure, but then also making it available for banks, making it available for our own customers, and making it available in all sorts of use cases.

When we started with, hey, we're going to help you bypass your bank and their exchange rates when you make payments to your suppliers. Now we're helping businesses with invoicing, so that they can invoice internationally and not be subject to their bank trying to force conversion and take a cut there. And with the opportunities of holding money, that again opens almost a whole new world, where again we've found inefficiencies, where banks do get the benefit of higher interest rates, but don't necessarily pass it on to the customers. It doesn't have to be that way.

And it gets more exciting when you're not only solving it in one country, but you're solving it in euros and dollars, in Australian dollars and Singaporean dollars, all at the same time, so that you create the base where people and

businesses can hold their funds. And they should expect almost the same level of interest that their central bank is paying their banks.

LB: In many ways, I think of Wise as being a product of technological advancement, of a combination of leveraging technologies that we've got, such as the internet, the smart phone and a range of digital technologies. As you look out, are there any changes on the horizon that you see that are potentially going to change the way that we move money around? I suppose one that comes up and gets mentioned a lot so blockchain technology.

KK: For sure. I think if you ask me about blockchain directly, we're of course interested in the developments. We haven't get found a good use for blockchain for moving money. I hope there's going to be. And there's many use cases for blockchain and I hope that some of these are going to be... It's a very interesting technology, I hope some of this will take off as well in mainstream usage. But we've been trying to think if that would actually help move money faster or cheaper or make it more convenient. And so far, it has been no to all of those. Therefore, we haven't really adopted blockchain technologies within Wise or for our customers.

LB: I think the other thing that we're asked about was in some ways, a lot of people are talking about globalisation being under threat. It'd be interesting just from your perspective, you're a company that's built on reducing borders and reducing friction. How do you think about the changes we're seeing globally? And is that something that's going to impact your business over the long run?

KK: I think, again, I'm no macro economist, and let alone politician. I think we've seen that trade is good, general. Countries who are good at trade are going to be good, are going to be successful. I don't think it's realistic to go back on globalisation, as such.

I wouldn't be surprised if there's ways to manage it or control it a bit, but the underlying efficiency that comes from trade and comes from cross-border activity, I think this is also just in the beginning.

Even when we look at the examples that Covid gave us. Yes, there's a little bit of a period where people didn't travel for holidays for a little bit. But then when we look at our business customers, for example, suddenly everyone is making payroll abroad. Again, we might have a reduction in globalisation in one way, but then it's still getting a boost in another corner of the world.

I don't necessarily, A, think that globalisation can be reversed or limited. I think there's actually an underlying benefit, especially from businesses' perspective, it's not realistic to limiting your business' scale, if you can avoid that. Why would you build it just for Edinburgh, just for Scotland, if you can build it for the whole of UK, or even better, for Europe or for the world?

LB: As you build out a global business and as you think about what the future holds, as you said before, we're long term, we try and think out five to ten years. What do you think the Wise of the 2030s looks like? How much of that do you think is money transfer? How much of it do you think could be other services, where I think you get about 30 per cent of your income today? What does the Wise of the 2030s look like to you, in your vision?

KK: Definitely a big element of that is international. The infrastructure that we're building up, or we've built and we will be building, puts us in a very unique position where no one else can move funds at that efficiency globally. I, therefore, expect that we will see more of our volume coming from institutional clients, for sure, via institutional clients, via partnerships with them.

I definitely see that international, whether it's transfers or international use cases, even with handling money or holding money, makes up the majority of our customers' interest in Wise.

But we definitely also see that, especially in business customers, the way that they use Wise sometimes goes beyond their international use cases. Because if it's very good internationally, they realise actually, even for domestic things I'm doing, my local payroll, this is much better than what my bank is doing or it's better integrated to the accounting software and so on.

We're probably going to be seeing expansion in the depth of services that people and businesses use us for.

LB: One of the things that's always fascinated me is, in some ways, how you think about the origins of your culture. Because that desire to obsess almost about the customer, to pass back the money to the customer as you scale. Do you put that down to your background, the background of early employees? Do you put that down to the fact that Wise started as a solution for you, as a customer? And therefore, that thinking about the customer first always made more sense because of that perspective? Just curious how that culture has emerged.

KK: I'm actually surprised you find that unique or special. I do think most successful businesses, if we look at them, they all obsess about their customers and the services that they bring to the customers. I think we have been efficient because we just talk about it a bit more. We're very clear internally, as well, that the more value we create for the customer, the more valuable we're going to be as a company.

Therefore, let's not worry about anything else, let's just figure out, how do we create the most value for the customer? How do we operate sustainably? How do we create a good balance and investing the right amount? It's obviously also possible to invest too much or too fast. How do we put the right safeguards in place that we're investing in marketing only if it has a return? Otherwise, it's just

blowing money or invest in products that actually do bring customer value and do bring the customers back for more.

As long as you have these safeguards in place, it becomes very clear and very easy to prioritise, what are the things that we should be building, making, delivering, selling that increase customer value? That's a good way to align everyone's thinking, as well, internally. Which makes us more efficient, reduces the debates, or at least makes the debates a bit more focused.

LB: In many ways, when we think of our ownership of Wise, I think it has been one of the most innovative, one of the most customer-obsessed companies. I think what we see often is, particularly in the digital space, companies with customer obsession, it makes more sense because the alternative is always a click away or a tap away.

Whereas in the offline world, what you actually had was you had a more captive customer base in the physical world. I think that's one thing we've seen, that rise of customer obsession. Final question. How do you think about Wise's impact on the world? Because you're actually saving lots of people and small businesses money. In that sense, you're a lubricant to globalisation, going back to the previous one.

KK: I'd hope so. Actually, we do count that because we do think that is important. We count how fast the payments are. We count, or at least we take customers' feedback, how convenient they are. We ask them whether they would recommend to their friend, and we do see that happening. Actually, a good metric is it's about 65, 70 per cent of all of our new customers who come to use Wise come because someone recommended Wise. That's an awesome thing to invest behind because you're not only creating a good customer experience, but you're also growing the business at the same time.

But then coming to your point and the financial value, you're right, we do actually track. Because for every customer, we know which bank they used to use before, so we know what the same transaction would've cost HSBC versus doing that at Wise. Speaking from memory, I think the last time we reported the number, it was somewhere between £1.6 billion to £2 billion a year that we save our customers. Or our customers rather save by using Wise over their bank.

We do obviously take pride in that. We think it's a great impact to the world. And I would hope that it also stimulates competition a bit more. When you asked me before, have I seen the banks become more competitive? Not in the traditional sense. We see banks switching to Wise sometimes, but I think we're yet to see the competitiveness emerge on their side. I think when the regulators start clamping down on them from hiding the fees, I think that's going to be a good stimulant.

- LB: Again, on the culture. I'm always very impressed with the transparency that you have on your fees. To the extent if there's a route that's cheaper with someone else, you'll actually inform the customer.
- KK: We do. Of course we try to change that, so that there is no one cheaper. But what do we have to lose? At least the customer trusts us, that they're going to come back next time to check. And hopefully next time we're going to be better.
- LB: I think we're at the end of the session. Kristo, thank you for such an interesting conversation. But also, thank you for what you've delivered, both for Scottish Mortgage shareholders in terms of the value creation, and what you've delivered to us as consumers. You've made our holidays potentially cheaper and I think for that, we will be forever grateful.
- CS: You can hear more from the Invest in Progress podcast by listening to seasons 1 and 2, available on all streaming platforms. And we look forward to launching season 3 in the new year so watch this space! In the meantime, you can learn more about Scottish Mortgage by visiting our website scottishmortgage.com. Thank you for listening.