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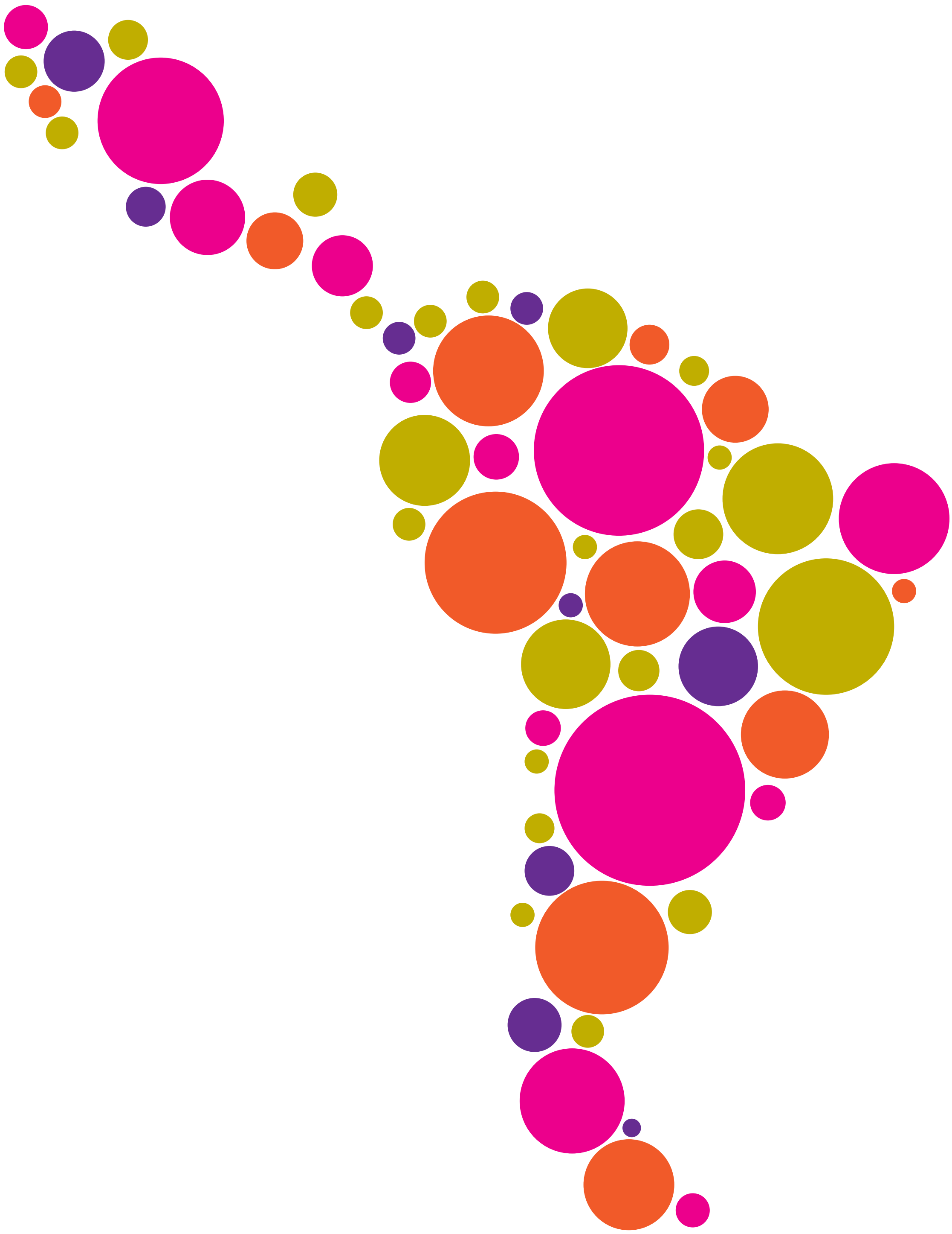
Bringing smart policies to life

Regulatory Approaches to Mobile Financial Services in Latin America



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Introduction

As part of a growing effort to advance financial inclusion in Latin America and the Caribbean through mobile financial services, the Alliance for Financial Inclusion (AFI), together with the Ministry of Finance and Public Credit of Colombia, organized the seminar, "Smart Policies for Mobile Finance in the Americas: The Next Financial Inclusion Breakthrough," in Cartagena de Indias, in February 2013.

Nearly 70 participants gathered in "The Heroic City", including policymakers and regulators from 12 Latin American countries.[1] The core focus of the event was case studies from Colombia, Guatemala, Mexico, Paraguay and Peru, which featured the lessons learned from diverse policy approaches to mobile financial services (MFS).

A range of issues were analyzed at the meeting: the progress that has been made in several countries despite the absence of proper regulation; the importance of maintaining a dialogue between regulators and operators in the market; the need to develop a common vision on issues such as risks and interoperability; and that, at least in Latin America, there is still an obligation to prove the business case for entities that intend to provide mobile financial services to segments of the population that have so far been excluded.

The seminar concluded with a decision by the Superintendents of Guatemala, El Salvador, Paraguay and Peru to create a regional leaders group to promote MFS, which was later embraced by regulators from Colombia, Mexico and Bolivia, which all agreed to take part in the initiative.

The first meeting of the Regional Roundtable, held in April 2013 in Antigua, Guatemala, reviewed and analyzed the issues mentioned above. It was unanimously decided that a study would be conducted to reveal the common features of countries that have experienced the most progress, as well as their experiences implementing MFS.

The purpose of this special report is to draw lessons from these countries' shared experiences, explore what has been done in each country to develop and advance MFS and examine the diverse approaches required by the unique socioeconomic contexts in which these regulators and policymakers operate. It highlights views on alternative mobile financial services models (bank and non-bank) used in each country and, to the extent possible, explores the results achieved so far, even though they are quite recent reforms or still in the project phase. This study will allow AFI member institutions to learn about a broad range of practices from both within and outside the region aimed at regulating mobile financial services.

This work is based on reports by the regulators of Bolivia, Colombia, Guatemala, Mexico, Paraguay and Peru, who were tasked with preparing a document in which they narrate their experience with mobile financial services. AFI also participated in a review of two country experiences outside the region that employ different regulatory approaches. We express our special thanks to all of them. Special mention should be made of the Association of Supervisors of Banks of the Americas (ASBA), which contributed suggestions and comments to this initiative, as well as the Superintendency of the Financial System of El Salvador for accompanying us throughout this process.

This special report adopts the definition of mobile financial services (hereinafter "MFS") proposed by AFI's Mobile Financial Services Working Group (MFSWG)[2]:

The use of a mobile phone to have access to financial services and carry out financial transactions. This includes both transactional and non-transactional services, such as visualizing financial information in a user's mobile phone.

1 Colombia, Chile, Ecuador, El Salvador, Guatemala, Haiti, Mexico, Panama, Paraguay, Peru, Dominican Republic and Uruguay.

2 AFI, July 2013, "Mobile Financial Services: Basic Terminology," Guideline Note No. 1.

1 The Status of Financial Inclusion in Six Latin American Countries

The six countries included in this study have major differences in terms of size, geographical area and per capita income. Table 1 shows how the group is segmented in terms of GDP per capita compared to the average in Latin America. Mexico is the only country with a higher GDP per capita than the regional average, while Colombia and Peru have a GDP per capita of 85% and 71% of the average respectively, and Paraguay, Guatemala and Bolivia have a GDP per capita less than 45% of the regional average.

However, these levels are not necessarily reflected in the access and usage of financial services in these countries since, as already mentioned, there are differences in terms of geographical reach and complexity. In fact, if the availability of touch points in the financial system is considered an indicator of access to financial services, major differences are revealed. For example, Colombia and Peru have the most touch points (branches, ATMs and agent banks) per 100,000 adults in the group, while Paraguay has the least. Table 1 reveals that Colombia and Peru have the highest number of bank agents per 100,000 adults, even more than the number of branches and ATMs, as a result of the strategies used to promote this service channel and the fact that the regulation enabling its use was issued in the second half of the last decade.

Guatemala stands out in terms of touch-point coverage, with branches and agent banks in 100% of regions and municipalities reaching 100% of the population. Colombia, Mexico, Bolivia and Peru follow. Coverage in Colombia and Peru is worth highlighting, where the number of agent banks per 100,000 adults has already surpassed the number of branches and ATMs, which provide important support for mobile financial services, as discussed below.

The level of coverage by municipality and population illustrates the challenge of creating access to financial services in all these countries, although it does not mean that Guatemala has necessarily met this challenge (see Table 1). In fact, the ratio of municipalities and towns covered shows that, except in the case of Guatemala, it is the less populated municipalities or districts that are still excluded from the financial system. The efforts of these countries to promote agent banks as a low-cost channel has led them to remote towns, but it is still too costly for municipalities with few inhabitants far from urban areas. In several countries, this situation has prompted discussions about the potential of MFS as a tool to cover their entire population and territory.

Another complex challenge to be solved in terms of financial services use is that the percentage of the population holding a deposit or credit account is still very low.

The percentage of adults with a deposit account is comparable to the regional average in three of the six countries, but the percentage of all countries is significantly lower than that of the European Union, where 91% of adults have at least one deposit account. For credit, the numbers are even lower.

These indicators show that, even if 100% physical coverage is guaranteed, regulatory reforms need to be studied in depth to: (a) avoid obstructing the development of financial products that can adapt to the needs of the population, in such a way that ensures they are really useful and sustainable over the long term; and (b) promote the development of accessible and appropriate media channels for customers to use these products when they need them, regardless of geographical location, and reduce, to the greatest extent possible, the transaction costs customers have to pay to use financial services. These are precisely the purposes of the regulatory reforms that have made it possible for MFS to be part of the region’s financial inclusion strategy.

Table 1. Financial Inclusion Indicators, by Country

	BOLIVIA	COLOMBIA	GUATEMALA	MEXICO	PARAGUAY	PERU
GDP per capita in current terms	2,716	7,933	3,313	9,742	3,813	6,573
Total population	10,027,254	46,528,107	15,073,375	120,847,477	6,601,424	30,135,875
Adult population (over 15 years old)	6,916,732	33,658,833	7,895,314	85,791,432	5,387,244	20,773,134
Number of Administrative Units (Municipalities)	339	1,102	334	2,456	N.D.	1,835
ACCESS						
Number of points of access per 100,000 adults	52.4	156.2	110.8	90.55	21.69	159.09
Number of bank branches per 100,000 adults	16.97	23.20	41.40	15.68	8.53	20.21
Number of ATMs per 100,000 adults	27.41	42.01	3.90	47.33	11.92	40.04
Number of agent banks or correspondents per 100,000 adults	8.02	91.0	65.5	27.54	1.24	98.83
Percentage of administrative units with at least one access point	45%	98.7%	100%	60.7%	N.D.	39.0%
Percentage of total population living in an administrative unit with at least one access point	86%	99.8%	100%	95.2%	N.D.	85.0%
USAGE						
% of adults that have a deposit account with a regulated entity	28.0%	31.9%	22.3%	35.5%	22.0%	20.5%
% of adults that have at least one credit with a regulated entity	16.6%	11.9%	14.6%	27.5%	14.9%	29.0%
Depositors in regulated entities per 1,000 adults	N.D.	1,539	437	940	378	1,009
Credits in regulated entities per 1,000 adults	179	468	245	379	149	571

Source: Based on indicators estimated by the countries, Findex and Financial Access Survey

91% European Union

% of adults with a deposit account with a regulated entity

28%	32%	22%	35%	22%	20%
Bolivia	Colombia	Guatemala	Mexico	Paraguay	Peru

2 Why Initiate Reforms to Facilitate MFS?

The countries in this study began creating reforms in 2007 and earlier this decade.[3] While some countries began implementing reforms to authorize innovative channels, such as agent banks, as early as 2005, and established basic deposit accounts and simplified regimes for bringing more customers into the financial system beginning in 2007, it was not until 2009 that specific standards were established for mobile financial services.

In all six countries, certain conditions fostered the creation of regulatory frameworks for MFS: a concern for promoting competition in the financial system and an interest in facilitating greater financial inclusion. In 2005, countries like Bolivia, Colombia, Mexico and Peru began looking for regulatory mechanisms that would allow them to reduce the cost of expanding the geographical coverage of the financial system and authorizing the use of banking agents to achieve more financial inclusion.

While these efforts have had major outcomes, as shown in Table 1, it was necessary to study the reforms in-depth to create even lighter, user-friendly channels to provide financial services to people living in towns and areas far from urban centers. Authorities decided to facilitate the use of a mobile channel to provide traditional financial services at a lower cost.

Developing the regulatory framework for an MFS channel led authorities in several of these countries to consider regulating financial products other than traditional ones, keeping in mind that the initial needs of low-income customers are making payments and sending money orders.

In the case of Bolivia[4] and Guatemala,[5] MFS regulation emerged as the market evolved and the regulator became aware of the interest of non-regulated companies in developing initiatives that seized the potential of the mobile phone to provide financial services. This process has also been evolving in Paraguay for some time,[6] although regulations in that country are now beginning to be developed due to the fact that a telco in the market is already offering a mobile wallet product that is not regulated.

These processes have been the result of mobile phone companies taking the initiative to provide mobile payment services and moving closer to developing innovative financial instruments beyond traditional financial services.

In other cases, such as Colombia, regulation has been the result of market evolution, but responds to the initiatives of the banks. For example, when one of the country's banks launched an electronic wallet product that was operated using a mobile phone, it became necessary to define "electronic deposit" for bank-authorized transactions. A similar situation arose in Guatemala, but in this case by a credit card-issuing company that wanted to offer mobile phone-enabled services.

As discussed below, this type of initiative, as well as regulators' interest in promoting an environment enabling greater financial inclusion in their respective countries, has led to discussions of the differences between regulating financial services typified by deposit taking or financial intermediation, and those purely related to payments or money orders.

It has also led to discussions of the role of MFS in the financial system, whether as a channel, a management strategy and/or a product leading even to the definition, in some cases, of new transactions with electronic money or the creation of new licenses within the financial system structure. The experiences of the six countries outlined below reveal different approaches within this range of alternatives.

Number of points of access per each 100,000 adults

52 Bolivia	156 Colombia	110 Guatemala
90 Mexico	21 Paraguay	159 Peru

3 The regulations issued by each country are included in this report and will also be available on the AFI website.

4 The main mobile operator in Bolivia informed the regulator that it wanted to offer a "mobile wallet" (which, for purpose of this report, is understood as a store of value registered electronically and channeled through the mobile phone, and which serves to make payments, money orders and transfers), but the supervision authority and the Central Bank stated that such transactions had to be under the supervision of financial entities using a specific framework, which was developed in 2013.

5 In Guatemala, the banks drove the interest in MFS, approaching the regulator and telcos as allies.

6 For the past three years, the two main mobile phone companies in Paraguay have operated mobile wallets and money orders, one of them in association with a bank that uses banking accounts, and another that does not. The latter is not regulated, as it has been decided that it does not act as an intermediary of the funds and, therefore, is not subject to financial regulation under the laws of the country. The regulation to be studied aims at addressing circumstances such as these.

3 Regulatory Approaches and Reforms

3.1 General Framework

The legal frameworks in most of the countries in the study set forth financial intermediation as an activity under the control and supervision of the state that must first be authorized, essentially defining it as taking deposits from the public to be used as credit. This is the case in Bolivia, Guatemala and Paraguay.

In Bolivia's regulation, the definition of MFS is broader, setting forth the provision of financial services and any other activity related to the handling, use and investment of savings as being in the public interest.

In contrast, in Colombia's and Mexico's regulations, raising public funds is reserved to and subject to the control of the state, and can only be carried out with prior authorization. It is illegal to do otherwise.

While the scope of financial activities seems clear, it may not be for innovative payment activities and even those related to money orders. This is the result of developing new initiatives based on mobile services, and it has raised concerns about the best way to protect public funds. In some cases, this discussion—and its gaps—has left room to implement payment schemes using mobile devices operated by non-bank entities. Paraguay is one example where difficulties with linking the concept of deposit taking with the concept of intermediation facilitated the development of a mobile payment model outside the financial regulation.

In other cases, such as Peru, the financial regulation was prepared to develop mobile financial service initiatives, and although the payment system legislation included the concept of "payment service suppliers", financial authorities deemed it necessary to perfect the legal and regulatory framework to bolster competition and create initiatives related to financial inclusion.

The development process for these regulations and discussions around the meaning and scope of MFS have led to the adoption of several regulatory approaches that may be grouped into two trends. On one hand, there are countries that have focused on the development of MFS as a channel and a means for providing traditional financial services on behalf of a bank. This is the case in Mexico, where regulations clearly state that the provision of financial services, in its broadest sense, is subject to regulation and specialized supervision from the state, particularly when related to taking deposits from the public. Also, financial services may only be developed by entities that are expressly authorized to do so, and where mobile phones are considered a channel for the provision of such services.[7]

Likewise, in Colombia and Guatemala, the regulatory approach adopted so far considers MFS as an additional channel for carrying out financial transactions, along with branches or agent banks, ATMs and POS. However, since each of them has different service and security features, the Mexican regulation, like the one in Colombia and Peru, ensures that mechanisms are established to handle and control the appropriate and specific risks of each channel.

The other approach is to consider MFS as a payment transaction, as in the Bolivian case, which allows payment systems to be regulated under Bolivia's Central Bank Law, thus allowing a regulatory framework to be created that allows new operators to provide such services, subject to specialized supervision of the state.

Finally, other countries consider MFS not only as a channel through which traditional financial services may be delivered, but also as a new operation that includes the issuance of electronic money, which may be stored in cards or mobile devices.

In these cases, a new type of regulated institution is authorized to be created, as in the case of the law already approved in Peru, the draft law in Colombia and the draft circular to be issued by Paraguay's central bank, as explained below.

The differences in the regulatory approaches of different countries are not only due to the types of institutions that may provide MFS, but also their role, which may mean they should be distinguished as payment services that are entirely separate from deposit taking, types of deposits or new financial transactions (Table 2).

7 The schemes established by América Móvil with Banamex and Inbursa (Transfer) have naturally derived in terms of business, to the share of Ra diomóvil Dipsa (AMX operator in Mexico) as agent bank of such credit institutions.

3.1 General Framework
continued

In some cases, it is understood that MFS implies deposit taking, since money in mobile wallets may be stored for an indefinite period of time. Therefore, mobile wallets may only be offered by companies authorized to accept deposits, such as banks or other licensed financial institutions.

In other cases, MFS is understood as the transformation of physical money into electronic money and, therefore, is allowed to be managed by both banking and non-banking institutions, provided that electronic money is repaid equally. In the case of Bolivia, MFS is more similar to a payment service, so it may be offered by payment-providing entities, while in the case of Peru, MFS may be supplied through bank deposits or electronic money, as appropriate and depending on the type of license the provider holds.

For all countries, regardless of the type of MFS, these services are subject to the control and surveillance of the state. The different approaches taken by the countries to develop suitable standards for MFS were based on their particular legal framework which defined their regulatory path.

In cases where the regulation considered MFS a payment service, the central bank's authority was used as the governing body with duties created under the law. This is the case in Bolivia, where, even though a new operator was created, it was not necessary to issue a law because the authority of the Central Bank was used to regulate the payment system operators, and the powers of the Financial System Supervision Authority were used to create the mobile payment service companies. This seems to be the same path taken by the Central Bank of Paraguay.

The countries that have considered MFS a payment service linked to the issuance and use of electronic money have had to adopt regulations consistent with their respective regulatory frameworks.

The countries that have considered MFS a payment service linked to the issuance and use of electronic money have had to adopt regulations consistent with their respective regulatory frameworks. In cases where it was decided to create a new license for developing new transactions, a law had to be issued that reformed the financial system structure, as in the case of Peru, so as to allow electronic money to be issued.[8] This will be the path Colombia will follow, where a new law must also be created.

Countries such as Mexico and Guatemala, which consider MFS transactions to fall within the traditional transactions of regulated financial institutions, developed a special regulatory framework (described below), as did authorities in Peru and Colombia, where the provision of MFS in the traditional financial system required various changes to be made to allow banks to provide MFS, especially handling and mitigating risks.

8 Although it must be emphasized that MFS did not require this legal change as such, several initiatives related to the establishment of MFS by the banking sector were already underway.

3.1 General Framework
continued

Table 2: A Comparison of Regulatory Approaches to MFS

COUNTRY	REGULATORY APPROACH
BOLIVIA	**Banking and non-banking** **Mobile payment service as an electronic payment instrument: it is not a deposit; therefore, is not subject to intermediation and does not generate interest.** Regulated payment transaction within the payment system: the Financial System Supervision Authority is responsible, in coordination with the Central Bank of Bolivia.
	Mobile payment service through mobile devices: a new service that intermediation entities and auxiliary service companies may provide, prior non-objection or authorization, as the case may be. Authorized mobile payment service companies, which are specialized entities within the payment management company's group. Regulation: Regulations on Electronic Payment Instruments Resolution 126/2011, October 2011, Central Bank of Bolivia; Resolution from the Financial System Supervision Authority 772/2011, November 2011.
COLOMBIA	**Banking** **Deposit taking from the public: may only be developed by entities subject to specialized supervision from the state.** Flexibility of regulations regarding channels and KYC. Regulation: diverse regulations issued by the Ministry of Treasury and Public Credit and the Financial Superintendence from 2009.
	Electronic deposit: defined within the authorized transactions for intermediation entities as on call deposits, other than current accounts and savings accounts. May accrue interest. Regulation: Executive Order 4687 of 2011. **Non-banking** Subject to submission and approval of the bill on issuers of electronic deposits.
GUATEMALA	**Banking** **Financial intermediation (deposit taking for lending) only with prior authorization; banks are the intermediaries authorized to provide MFS.** Credit card management companies may also supply MFS. Regulation: Regulations for the Provision of Mobile Financial Services, prepared by the Superintendence of Banks and authorized by the Monetary Board under Resolution JM-120-2011.
MEXICO	**Banking (and regulated financial institutions)** **Deposit taking from the public: activity reserved to regulated and supervised entities responsible for safeguarding public funds.** 2008-2009: Creation of the "niche bank," with capital requirements proportionate to the authorized transactions. Regulatory flexibility: Use of the mobile channel, transactional products depending on the risks, simplified requirements and limits on account openings. Regulation: several regulations issued by Banxico, SHCP and CNBV as from 2009.
PARAGUAY	**Banking and non-banking** **Financial intermediation: Only deposit taking from the public for intermediation is regulated.** Lack of clarity on mobile wallets (for payments and remittances) resulted in a 2009 proposal to allow both bank and non-bank issuers. Regulation: Draft reform to mobile wallets that store value and through which remittances and payments are made. Internal consultation process is underway at the Superintendency since the Central Bank has sufficient authority.
PERU	**Banking and non-banking** **Financial intermediation: Reserved to institutions from the financial system.** Flexible regulation for channels and KYC to allow the use of mobile phones as a channel. Regulation: Several. Banks and Insurance Superintendency.
	Development of the concept of electronic money (beyond mobile banking), and authorization for electronic money issuers to operate. Regulation proportional to risk and technologically neutral, simplified KYC regime. Regulation: Law 29985 of 2012. Standards of the Superintendence published for review and comments.

Source: Based on documents prepared by the countries.

3.2 Reform Elements

The following section reviews the main features of the reforms implemented in each of the six countries to develop a framework for MFS.

3.2.1 New Electronic Money Issuers or Payment Services

As explained above, not all of the countries that addressed the MFS regulation opted to create a new license in the financial sector for a specialized operator. In fact, in Colombia (with the current regulation), Guatemala[9] and Mexico, authorities decided to incorporate MFS into the existing banking model, thereby allowing only financial system institutions to develop services, enabling the use of the mobile channel.

Countries that created a new license for specialized operators include Peru, which issued the respective law at the end of 2012, and Bolivia, which created it through regulations related to the payment system issued by the Central Bank and the Financial System Supervision Authority. For Paraguay, creating a new license will depend on the study conducted by the Central Bank and, in the case of Colombia, a new operator will be created if the bill is approved.

These new operators all specialized in supplying electronic instruments (whether mobile devices or cards) that can store value and make payments and money orders. This allows a proportionate and, in general, lighter regulatory regime than the one in place for commercial banks or other entities who act as intermediaries of deposits from the public.

In fact, in Peru and Bolivia, these entities may not act as intermediaries of the funds, and may only carry out conversion and reconversion transactions, payments, transfers and purchases. This suggests that their income is derived from commissions from customer transactions. Given that electronic money is not a deposit, fund protection mechanisms are based on an obligation to create a trust for the entire amount of outstanding electronic money.

Regulations in these countries also lay out the investment regime for the funds. In Bolivia, the funds can only be invested in sovereign risk securities issued by the Central Bank of Bolivia or the National General Treasury of Bolivia, or in negotiable instruments of the public treasury of other countries that have a sovereign risk rating. The regulation published for review in Peru states that they may be invested in deposits of “multiple transaction companies” rated A+, in Treasury Bonds of the Peruvian Government, or securities of the Central Bank and other liquid assets authorized by the Superintendency.

In Bolivia, the electronic wallet is considered a payment service. The new license was created as a sub-group within “auxiliary services companies” (already subject to supervision) as a payment service company, specifically mobile payment service companies. This development was allowed by the payment system law, which has a conceptual scope that extends to electronic payments.

In Peru, the law that creates and defines the features of electronic money issuers states that electronic money issuers may only issue and manage electronic money stored in electronic media, generally including mobile phones, and requests as backup the funds invested in a trust. This transaction is also allowed for other financial institutions operating in the country.

In Colombia, where the bill is in the process of being approved and authorities are contemplating creating new operators, the companies specializing in electronic deposits would be authorized to provide electronic deposits covered by deposit insurance, but may not act as intermediaries of the funds, and must keep the deposited funds backed up by electronic money in investments regulated by the Ministry of Treasury and Public Credit.

In Mexico, regulators are contemplating the possibility of creating specialized operators under the concept of “niche banks” already included in the Banking Law, under which deposit-taking, payments and remittances would be subject to regulation based on the types of risks they pose.

One of the special features of the new licenses is a minimum capital requirement for institutions to start operations, which is lower than that required to establish a commercial bank. This indicates a decision to allow a greater number of players to participate in the system, but with the initial support of investors.

The minimum capital entry and other prudential regulations for specialized operators are determined based on the transactions they are authorized to perform and the risk these transactions pose. They show, in any case, the proportion of minimum capital required for commercial banks in each country (see Table 3).

9 In Guatemala, these are incorporated into a single regulation: Resolution of the Monetary Board JM-120-2011, Regulations for the Provision of Mobile Financial Services.

3.2 Reform Elements
continued

Table 3. Requirements for New Operators or Specialized Operators

	BOLIVIA	COLOMBIA*	MEXICO	PARAGUAY*	PERU
AUTHORIZED OPERATORS	Mobile payment service companies	Companies specialized in electronic deposits (Project)	Niche banks or specialized banks **		Entities issuing electronic money
MINIMUM CAPITAL STOCK FOR SPECIALIZED ENTITIES (A)	US$ 752,000	US$ 3 million	US$ 14 million	US$ 2 million	US$ 806,000
MINIMUM CAPITAL STOCK FOR BANKS (B)	Multiple banks: US$ 8.0 million. SME Banks: US$ 5 million	Commercial banks: US$ 40 million	Multiple banks - Level I: US$ 34 million	US$ 8 million	US$ 8.9 million
A/B RATIO	9.4%	7.5%	40.0%	25.0%	9.0%
CAPITAL ADEQUACY	Not required	Yes. Subject to further regulation.	Yes, the provisions issued for full license multiple banking are applicable, but only in regard to transactions carried out.	Not required	Draft regulation: EIEMs must have an effective net worth not less than 2% of the total money in circulation
AUTHORIZED TRANSACTIONS	Load of mobile wallet, conversion to cash, transfers, balance and transaction inquiries	Electronic deposits, management of prepaid cards, payments, collections, money orders, domestic transfers	Deposit taking, payments, prepaid cards, remittances	Electronic wallet, money orders	Conversion to electronic money, reconversion to cash, transfers, payments, remittances from abroad, disbursement of credits, among others. Mobile phones, prepaid cards and any other electronic devices may be used.
BACKUP MECHANISM	Trust (banks: 100% statutory reserve)	100% of the value of deposits have to remain in banks. Deposit insurance.	Deposit insurance. 100% of funds invested in liquid form.	Trust	Trust (other entities as well)

* In Colombia and Paraguay, regulatory projects are being studied.

** Credit institutions (multiple banking) that, unlike other institutions, obtain the license by setting limits in their bylaws on the activities to be performed; thus, the minimum capital requirement is lower. This allows entry costs to be reduced to acquire the banking license.

Source: based on documents prepared by the countries

3.2 Reform Elements
continued

The regulations that allow new operators to enter the market are very similar to those issued in other parts of the world when it is accepted that mobile financial services may be provided by non-bank entities.

Such is the case in the Philippines, which is known in the industry for having two of the most important non-bank business models (Box 1 below).

3.2.2 Product Diversity

Several of the countries have developed special MFS products as a result of the debate over whether they should be considered deposits and the differences and similarities between MFS products and traditional banking products. The discussion is complex, addressing whether or not electronic money is a deposit in the traditional sense. It also depends on the application of specific prudential regulations, including the development of deposit coverage mechanisms or the development of other mechanisms that reduce the risks and consequences of insolvency (Table 4).

Box 1: The Regulatory Approach in the Philippines

A staged approach to a non-bank electronic money model

Two of the first and best-known mobile wallets worldwide, **SmartMoney and G-Cash**, were developed in the Philippines. SmartMoney was created through an alliance of Smart, a mobile carrier, and Banco Oro, which managed the accounts storing the funds. G-Cash was established under a special concept authorized by the Central Bank of the Philippines under which Globe, another mobile carrier, created G-Xchange to operate the G-Cash wallet in 2004.

Given that the Philippines regulations only allowed banks to act as intermediaries (grant loans) with funds received from the public, and Globe did not intend to grant loans, but rather facilitate transfers among its clients, the Central Bank allowed it to operate the mobile wallet under a “money transfer agent” license (which could be called a remittance entity). To mitigate the risks this initiative entailed, the Central Bank obliged G-Xchange to maintain liquid funds with commercial banks equal to the funds stored in the wallets at the end of the day. Therefore, it established certain minimum anti-money laundering requirements, while also authorizing that cash-ins and cash-outs from the wallets would be made at duly trained agent banks.

The experience gained through these two initiatives allowed the Central Bank to advance its regulatory framework and, in 2009, it issued Circular 649 titled “Electronic Money.” This Circular, capturing the Central Bank’s goal to promote the development of an “efficient and convenient” payment and transfer system, contemplates the authorization of banks, non-banking financial entities and non-banking entities to act as electronic money issuers, requiring them to have a minimum capital stock of US$ 2.2 million, in contrast with the US$ 54 million required from a commercial bank. The regulation provides that electronic money may be stored in a card or mobile device, and does not constitute a deposit. It therefore has no deposit guarantee, nor can it accrue interest, and only one person may charge, in one or several wallets from the same issuer, a maximum amount of US$ 2,250 per month.

As a mechanism for safekeeping funds, all non-banking entities are required to maintain funds invested in liquid form in the amount equal to the electronic money issued, in government debt papers and banking deposits. Likewise, it sets forth other stipulations that seek to provide a proportionate regulation for operational risks and consumer protection standards.

Finally, in 2010, Circular 704 was issued, which sets forth the regulations that allow electronic money issuers to outsource the operation of the technological platform to a third party to manage the entire operation.

This regulatory framework is complemented by Circular 706, which sets forth the parameters to be used by financial institutions and electronic money issuers to develop their anti-money laundering and combating the financing of terrorism (AML/CFT) models, so as to implement a system for classifying the clients according to their risk, allowing simplified processes for clients matching a particular profile. These processes allow outsourcing of the physical verification of customer ID.

Even though Circular 268 does not authorize the use of agents when dealing with financial products such as deposits, it does authorize them to be used for remittance transactions, which requires the individual record of each agent and attendance at training provided by the Central Bank, related to anti-money laundering. In the case of G-Xchange, the Bank allowed a massive registration process based on the company’s commitment to assume all related risks.

According to the latest figures published by the BSP, in December 2012, there were 24 banks and three non-bank entities authorized to issue electronic money; together, Globe and Smart had 15,365 agents and there were 1 million electronic wallets operating, with G-Cash customers making at least one transaction in the previous month and 7 million wallets operating, and SmartMoney customers conducting at least one transaction in the previous six months.

In sum, the Central Bank has responded cautiously to the progress of the market, but with flexibility, allowing innovation within security standards, understanding the elements of the business and identifying the risks to be mitigated as well as the schemes to do so.

Source: Prepared with the support of the AFI team.

3.2 Reform Elements
continued

Countries such as Guatemala and Mexico consider MFS merely a channel through which to use traditional banking services. In Mexico, changes were made to traditional deposit products, simplifying certain account opening and documentation requirements to better suit the features of electronic channels, such as mobile devices, and imposing some transactional and operational capacity controls to comply with the financial system integrity (AML/CFT) and security requirements for all users.

Table 4. **Special MFS Product Definitions**

COUNTRY	PRODUCTS
BOLIVIA	**Electronic money:** monetary value stored electronically **Mobile wallet:** an electronic payment instrument
COLOMBIA	**Electronic deposit:** on sight; transactional For individuals or legal entities. Maximum withdrawals or debits: Two minimum legal monthly salaries (SMLM). (US$ 725). Linked to two or more handling methods, and may include the concept of prepaid card, as it may be repaid in goods. Maximum term with no funds: 3 months. Interest rate: could be borne.
GUATEMALA	Not defined
MEXICO	No specific products defined, but there are four levels of accounts to control money laundering, which may be linked to mobile phone transactions (see risks' section).
PARAGUAY	**Electronic wallet:** store money in accounts. Money orders or domestic remittances: they are not deposits; maximum withdrawal within 72 hours; the beneficiary is different from the sender. Transaction limits not greater than US$ 2,250 per month (6 SMLM).
PERU	**Electronic money:** store value through electronic means; accepted as a means of payment, convertible to cash, does not constitute a deposit and does not generate interest. Allows payments and transfers, international remittances and disbursements of credits. **Transaction limits:** US$ 1,400. Prepaid cards are a modality of electronic money. The main issuance method is opening electronic money accounts, which, based on their features, may be opened under the simplified or general regime for the purposes of ML/TF prevention and user information.

Source: Based on documents prepared by the countries.

While this is also the case in Colombia, since 2011, the regulation has defined a type of electronic deposit other than savings or current accounts which differentiated it completely from the regulations governing such products, and that, despite being simplified, the banks argued that they did not allow it to be electronically handled in full. For example, signing requirements for their opening, sending of periodical abstracts, etc.

This deposit may be offered by all banks, as well as the new specialized operators once the bill is approved. Although it differs in nature from traditional deposits, it is subject to the existing mechanisms to protect public savings, such as deposit insurance.

Countries such as Bolivia and Peru define electronic money as a new type of financial transaction that implies the use of deposits from the public, but differs in terms of the uptake of savings, term deposits or current accounts.

Electronic money is understood as a store of value and, given that it is not a deposit, may not be used as an intermediary— only to make payments and transfers.

This defines the scope of activities for the new specialized operators, as well as the characteristics of the prudential regulation that apply to them. Paraguay will include the same interpretation in its regulation.

The countries that integrated MFS into electronic money or payments (Bolivia, Paraguay and Peru), in addition to allowing banks to supply traditional products using the mobile channel, understand MFS as a store of value that may be used to carry out transfers, money orders and payments. Even Bolivia, which considers the electronic wallet to be a payment service, allows money to be stored in the mobile phone, as in the case of cash kept in the wallet.

Table 4 shows the amounts that some countries have included as part of their product definitions, which in many cases are related to the limits set for products with simplified KYC and operational risk regimes. In the case of Guatemala, even though there are no defined limits for MFS, the regulation requires the boards of directors to define them.

The product definitions also include simplified account opening documents and requirements for MFS, in order to adapt them to electronic products, primarily mobile phones. These requirements eliminate the obligation to have a signature upon opening the account and to send print abstracts to the clients and print the opening form (Colombia, Mexico and Peru). However, the consolidation of this type of changes requires a law permitting the use of a digital signature. In the absence of such a law, Bolivia, for example, has not been able to move forward in this direction.

3.2 Reform Elements
continued

3.2.3 Agent Banks or Correspondents: An Indispensable Complement to MFS

Many Latin American countries began their search for low-cost channels to provide financial services by authorizing the use of agent banks or correspondents, which many know as "branchless banking," even before considering mobile alternatives. The process of developing the agent banking channel, combined with the need to further reduce the costs of financial services, ultimately allowed the identification of agent banks as a key complement to MFS, able to reach dispersed populations with low-value products through cash-in and cash-out points. Colombia and Peru were the first to follow in Brazil's footsteps on agent banking implementation authorized in 2005 and 2006 respectively. Then, in 2009,[10] Bolivia and Mexico authorized the use of third parties to provide financial services; Guatemala allowed it in 2010 and Paraguay in 2011.

It is clear that authorizing the use of existing infrastructure is indispensable for the development of any product linked to a mobile phone, particularly when transformational models are used. That is, using the mobile phone as a mechanism to attract clients to the financial system for the first time.

The importance of making MFS feasible led authorities to change several of the transactions authorized to be used through these types of channels, such as opening a savings account. While the responsibility for financial services supplied through agent banks lies with the financial entities in all countries, it was necessary to create mechanisms for opening savings accounts at agent banks and even through the mobile channel (i.e. a remote channel). To do this, many print documents that had previously been required were eliminated and technological tools were enabled to verify the identity of clients in real time. This has allowed Colombia, Mexico and Peru, for example, to provide services that customers can sign up for anywhere in the country using a mobile phone, instead of meeting with a bank representative in person. (This obviously applies to products with simplified KYC requirements.)

In Guatemala, banking agents are only able to accept the documents required to open accounts and to process a customer's sign-up information. There is no possibility of opening accounts at these touch points.

The Bolivia regulation is the only one that includes an express standard, whereby mobile wallet operators must ensure that sufficient funds are available at the agent banks or at a nearby touch point, in order to fulfill requests to issue a money order or top-up a wallet.

The need to quickly expand agent coverage led to the authorization to use agent network aggregators or managers, allowing financial entities to contract many agents through managing entities. In theory, this should also facilitate agreements among financial institutions and mobile phone companies with broad distribution networks.

In Pakistan, the branchless banking model was used to address MFS regulation within a bank-led model. The main characteristics of this model are detailed below in Box 2.

3.2.4 Regulations on Risk Management and Mitigation

Among the factors identified in several countries as barriers to access to financial services, there are some regulatory requirements for risk management in which progress has been made to introduce proportionality elements to their management.

The risk management mechanisms applied to all financial products, irrespective of the market in which they are used or the risk they represent, could imply high costs and burdensome processes and documentation requirements, especially if intended to serve low-income markets. This would ultimately restrict the access and usage of financial services, both for the supply and the demand sides.

Simplified approaches, especially in the KYC due diligence process, were introduced in several countries even prior to the mobile phone being considered a tool for offering financial services. However, several countries had to make changes when MFS were introduced, including adjusting the operational risk prevention and control mechanisms to incorporate new technologies. These changes were designed using the proportionality principle, based on the level of risk mobile products and services posed to the financial system.

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

In 2006, Colombia, Mexico and Peru began the process of identifying and reducing the regulatory costs of managing the risk of low-value deposit products. Such efforts were focused mainly on simplifying the requirements and KYC processes for low-value deposit products, without prejudice to the permanent monitoring requirements for financial movements (expos control).

Colombia, for example, began reducing the mandatory information to sign-up customers in 2006, and in 2007 issued a decree that creates low-value savings accounts, which had some exemptions, and had to be offered with no minimum opening balance and two free transactions and one free balance inquiry per month.

10 In the case of Mexico, some multiple banking institutions authorized in 2006 and who started operations in 2007, had already contemplated the provision of certain services through third parties, mainly the collection of credit cards at cashiers in retail chains. However, the amendments to the Credit Institutions Law, on February, 2008, gave rise to prudential provisions that regulated such activity, which became effective during 2009.

3.2 Reform Elements
continued

Box 2: Pakistan's Branchless Banking as a Foundation for MFS

Provision of financial services through a "branchless banking" model

Under the Law of Payment Systems and Electronic Transfers and branchless banking standards issued in 2008 (and updated in 2011), Pakistan defined a branchless banking model as a channel for offering cost-effective financial services, which may only be provided by banking or microfinance institutions.

These channels use the mobile phone as one of its devices, as well as agent banks, for which the regulation differentiates three types of agents: super agents, who directly manage sub-agents and may be gas stations, post offices or supermarket chains; direct agents, which are companies that manage and process a network of independent sub-agents; and the sub-agent, which operates the outlet where services are provided.

The regulations authorize the provision of typical services, as well as services similar to those in the majority of the Latin American countries for agent banks, including, among others, the opening and maintaining of accounts, transfers between accounts or person-to-person, payment of bills and goods, as well as disbursement and repayment of credits.

These regulations are complemented by regulations setting forth a KYC process with requirements in proportion to the risk, and applied in all branchless banking models. Four levels of accounts were established, with levels 0 and 1 supplied only to individuals, and levels 2 and 3 supplied to different types of legal entities.

Transactional limits and security requirements were assigned to each level. The 0 level account is best suited to the agent channel, as it entails simplified KYC requirements, does not require physical support materials and allows accounts to be opened directly with the agent bank, provided that the digital platform for opening accounts is used there. It also includes a digital photo of the client, as well as a digital image of his/her ID document, all of which must be sent to the financial entity. These accounts are subject to limits of US$ 145 per day, US$ 240 per month and US$ 1,150 per year.

Special attention was given to consumer protection regulations, with specially determined requirements for expediting the handling and resolution of claims, for example, requiring claims to be processed within 24 hours, assigning a specific number to the claim and specifying the estimated response time and broadly disclosing the mechanisms to customers, including the telephone numbers they can call to submit claims.

Under this regulatory approach, and using a bank-led model, there are already five banks in the country providing mobile banking services, three of which are microfinance banks acquired by the mobile carriers. With five other banks piloting mobile-based products, Pakistan is well underway to becoming one of the most competitive markets in the world for MFS.

The above is illustrated by some data: through December 2012, 2.1 million accounts were opened through these innovative channels, using over 40,000 agents.

Source: Prepared with the support of the AFI team.

However, the market did not embrace the product, and in late 2008, regulations were issued for electronic savings accounts with the same general features, except that the channels and handling methods were electronic, which reduced costs significantly.

The supervisory authority then went even further, establishing a simplified procedure for opening savings accounts. This applied to accounts below the limits described in Table 5 below, without restricting the fees that could be charged.

In 2011, additional progress was made when electronic deposits were regulated using a simplified regime for opening accounts and KYC. This, combined with the use of technological platforms, primarily the mobile phone, allowed financial products to be opened remotely from a mobile phone, and managed completely electronically.

Mexico also used a phased process to define low-value deposit products with implications for KYC requirements. The process began in 2007, with basic accounts having mandatory features related to costs, product simplicity and minimum opening documentation. Then, in 2009, a different approach was used, whereby the minimum requirements for risk controls were simplified based on the transaction, types of transactions, channels and authorized methods. The regulation currently in effect was issued in 2011, which defines four levels of accounts with light and differential requirements depending on the risk, channel, method, volume and type of authorized transactions, and the minimum management requirements proportional to the risk. They even allow, in account level 1, the possibility of being anonymous, thus mitigating the risks that can arise by imposing limits on amounts and channels.

In Peru, in 2011, the Superintendency created two regimes: the simplified regime and the general regime. Under the simplified regime, general criteria are established related to low-risk products in the financial, insurance and pension system, and the client linkage requirements are reduced. While relevant products fall under the general regime by default, both the regulator and the regulated entities can decide to include diverse products in the simplified regime.

3.2 Reform Elements
continued

In 2012, with the issuance of the electronic money law, entities that issue electronic money may open electronic money accounts, which, depending on their characteristics, may fall within the simplified regime or the general regime.

Paraguay recently issued regulation on simplified accounts for clients considered low risk and who conduct less than US$ 2,500 per month in transactions, which allows outsourcing due diligence.

In Guatemala, in 2011, a simplified regime was established that applies to any type of low-risk client, has low transaction volumes and monthly and annual transaction limits, as detailed in Table 5.

The remaining countries are still in the process of making small changes to address simplified minimum KYC requirements. In Bolivia the general regime is still applied, even for mobile wallets.

Operational Risks
Usually, all six countries apply the general operational risk management regime to MFS, except for Colombia and Mexico (Table 7).

In Bolivia, a clear effort has been made to ensure that mobile wallets operate properly as a payment mechanism, whereas in other countries the regulator shows interest in identifying the technological platform to be used, ensures the confidential management of users' information and, in several countries, explicitly contemplates the possibility of outsourcing one or several parts of the operation.

In any case, minimum transparency and security requirements are established in these contracts, while in other regulations this authorization is generally given. This is the case in Guatemala, which offers a broad framework so that entities may submit their risk models and demonstrate how risks have been mitigated in the model, without providing any details on specific requirements. Thus, the supervisor has the flexibility to become familiar with several options for service provision.

Peru has deemed it unnecessary to make additional changes to the regulation related to the operational risk management of providing MFS, maintaining a neutral approach from a technological standpoint.

The simplified regime for managing operational risk in Colombia is applied to simplified accounts and electronic deposits. To manage such risks, entities may establish limits in addition to transactions and operations, and limit the channels as well. In regard to security, exemptions are established for the minimum requirements, such as the obligation to customize the handling methods, the use of a different password for each medium or channel, the creation of a transactional profile, the creation and delivery of supporting materials, and the supply of debit cards with solid authentication mechanisms, among others. However, it incorporates certain data security and encryption requirements that, in practice, limit the possibility of using SMS technology for monetary transactions and the USSD for transactions with higher values.

Mexico has developed a special regime to manage risk based on the account level, the handling methods and channels. Rules are established for authentication elements in such manner that the higher the transaction limits and scope of the account, the greater the authentication requirements and operational risk controls. In terms of operational risk management and fraud prevention, the values that determine the use of authentication and registration mechanisms are related to the four levels of accounts defined for KYC procedures and money laundering control.

However, the Mexican regulation sets additional limits on security requirements for the channel and electronic banking, some of them specific to the mobile channel. Mobile payment, mobile banking and Internet banking categories are used,[11] and each channel maintains specific encryption requirements, authentication elements and others, with maximum caps on the transactions that can be conducted. The limits on financial products offered through a mobile phone depend on two separate features of the product:

- the account level; and
- the type of technological controls used to operate the mobile phone, for which two types of services are defined: mobile payment, where data is not required to be encrypted nor use two authentication elements (which imposes operational limits), and mobile banking, which requires data encryption and two authentication elements, with no operational limits.

The regulation authorizes an entity to use limits or elements other than the one it sets forth, provided that any claim from a client is addressed in a maximum 48-hour period and the bank is authorized to carry out additional investigations. For the purpose of implementing this principle, when the value of the limits due to operational risk fails to coincide with the values allowed by the account level, the controls corresponding to the most restrictive limit shall be applied.

Regulations in Mexico continue to change as products are developed and the market evolves. For example, in June 2013, flexible new regulations were introduced for electronic channels, allowing agent banks to operate offline when individual balances are stored in the handling method and when there is the express authorization of the CNBV.

11 See Annex 63, "Guideline for the Use of Electronic Banking Service," which is included in the General Provisions for Credit Institutions (the bank's only circular).

3.2 Reform Elements
continued

Table 5. Managing the Risk of Money Laundering and Terrorist Financing

COUNTRY	ML/TF REQUIREMENTS: KNOW YOUR CUSTOMER (KYC)
BOLIVIA	General regulations apply; there is no simplified regime Accounts must be opened in person Maximum amount per transaction in mobile wallet: 1.5 times one minimum wage: US$ 170.
COLOMBIA	**Simplified process** Minimum information: name, number and date of issue of ID document Maximum monthly amounts of electronic deposit: • Withdrawals: 3 SMLM (US$ 1,088) • Balance: 3 SMLM (US$ 1,088) One single deposit per person throughout the financial system Account opening: no fingerprints or signatures required. In practice, the OTA opening is allowed.
GUATEMALA	**Simplified KYC regime:** Applicable to national residents with low transactional risk or low business volume for opening financial products; also applies to MFS. Maximum transaction limit: US$ 625 per month Maximum store limit: US$ 2,500 per year
MEXICO	**Simplified process to open debit accounts:** **Level 1:** Anonymous opening, only with prepaid cards. Monthly cash-ins up to US$ 288. Balance up to US$ 383. **Level 2:** Individuals, remote opening may be through mobile phone, simplified file including information such as name, state, date of birth, gender and address. May be linked directly to mobile phones and opening through a mobile device. Monthly cash-ins up to US$ 1,150. **Level 3:** Individuals and business entities (companies). Physical presence is required for opening, but may be opened at branches, through mobile devices and through commission agents or agent banks. Simplified file. Monthly cash-ins of US$ 3,834. **Level 4:** Traditional accounts, complete file, opening in person inside a bank branch; no transaction limits, except the limit agreed upon between the client and the financial institution. These accounts may also be linked to a mobile phone.
PARAGUAY	**Simplified regime:** Low-risk clients (up to US$ 2,000 per month in deposits). KYC may be outsourced for MFS, even if the banking entity is responsible. Allows remote opening
PERU	**Simplified regime:** The simplified regime applies to ML/TF, as well as to the simplification of information requirements and means of communicating with the user. Similar criteria for banking or electronic money accounts, which consider maximum balance and transaction volume limits. Maximum transaction and transaction volume limits vary under the simplified regime, depending on whether they are banking or electronic money accounts. Minimum information required related to the national ID document. The mobile telephone service number is required in certain cases. Account can be opened using a mobile phone, remotely for national or foreign individuals in domestic currency. Used in the national territory. In domestic currency. Used in the national territory. In case of electronic money, the limits are as follows: • Transaction limit: US$ 350 • Balance of one same holder: US$ 700 • Monthly volume: US$ 1,400

Source: Based on documents prepared by the countries

3.2 Reform Elements
continued

While this creates other security challenges, it also solves the telecom's infrastructure problems in some areas. The flexibility also allows remote product opening, activation of the mobile phone as a handling method in ATMs—something that was already allowed in Colombia and Peru—and raising the amounts of mobile payments that can be made without a personal ID number (PIN) (to US$ 98 per transaction).

3.2.5 Consumer Protection

In the area of consumer protection, all of the countries tend to apply the same general regulations to traditional financial services. Bolivia, Colombia and Mexico have set up the same general regime as they developed for the rest of the system. In Peru, a simplified regime is used, which it also applies to areas such as consumer protection for traditional financial services and those developed for electronic money. Guatemala is in the process of developing a consumer protection regime for the bottom of the pyramid, and a general regime is being developed in Paraguay.

Special attention has been given to providing sufficient information to customers about costs, special conversion processes for electronic wallets, and the importance of using channels to submit claims and complaints, all of which demonstrate a concern for the types of clients that MFS will target.

However, some of the documentation requirements that were eliminated in some countries through the simplified processes could represent a challenge for authorities aiming to protect the interests of the financial consumer. For example, challenges could arise from eliminating the printed abstract or account statement, information on security, or fees for transactions prior to carrying out the transactions. In such cases, the important thing is to find a balance between the costs of the printed material or frequent information and the need to protect the consumer, by keeping the information on the transactions available in some media and publishing in general the rates for transactions.

Table 6: **Monthly limits for products and ratio with GDP per capita**

	BOLIVIA	COLOMBIA	GUATEMALA	MEXICO	PARAGUAY	PERU
GDP per CAP 2012	2,576	7,933	3,313	9,742	3,813	6,573
ML/FT Limits	170 Maximum transaction	1,088 Withdrawals and balance	625 Stored	2,061 Cash-ins	2,000 Cash-ins	1,400 Maximum stored transactions
Limit / GDP per CAP	7%	14%	19%	21%	52%	21%

Source: Based on documents prepared by each of the countries in the study

3.2 Reform Elements
continued

Table 7. Regulations to control operational risk in MFS

COUNTRY	REQUIREMENTS TO CONTROL OPERATIONAL RISK
BOLIVIA	Risk management: responsibility of the entity; the general regime is applied. Minimum operational requirements. Those defined by the Central Bank are applied: • Linking the account number, ID document and mobile phone number • Keeping a record of transactions for at least 10 years • Mechanisms to authenticate and verify the identity of electronic payment instruments in each transaction • Integrity: protected against alterations and fraud • Confidentiality: encrypted mechanisms to avoid unauthorized disclosure • Non-repudiation: none of the parties involved in the transaction may deny their participation therein • Availability: the processing system must be available for the users, according to the contractual provisions • User authentication password • Session is closed after 20 seconds of inactivity
COLOMBIA	Simplified regime sets forth exemptions and, for accounts opened under the simplified process, it does not require: • Customization of media and passwords per medium • Creation of a transactional profile • Creation and delivery of physical support materials • Training on security measures • Information on costs prior to carrying out transactions • Receipts and clearance documents • Debit cards with strong authentication mechanisms. Technology: "strong end-to-end encryption" in the case of products with transactions over US$ 310 per month
GUATEMALA	Real-time registration of transactions that keeps the balance updated Specific MFS risks: • Description of technological platform • Mechanisms that guarantee the confidentiality, integrity and availability of information. Application of general standards for risk management establishing minimum guidelines
MEXICO	Operational risks: Reduced by the limits defined in each type of account, including channel and media limitations. Minimum requirements are established for the use of mobile channels and electronic banking: Minimum sign-up requirements: user ID; authentication elements; conditions required for the institution's authentication by the user; security elements for transactions carried out by the user through mobile devices; requirement to register destination accounts; notification of transactions by the institution to its clients; limits on transaction amounts and respective controls; security elements in sending passwords and personal ID numbers (PIN); and finally, activation and deactivation of services.
PARAGUAY	Application of general rules
PERU	General regulation is applied, which allows the Superintendency to accept or reject the technological model or support platform to be implemented and, in general, the risk management model of each operator. Balance of one same holder: US$ 700 Monthly volume: US$ 1,400

Source: Based on documents prepared by each of the countries in the study

3.3 Regulation for Mobile Operators

In all the countries included in this report, there is a specialized regulator for mobile operators independent from the financial sector regulator.

This situation poses a challenge for MFS when alliances are created to provide financial services through mobile operators. Another area that needs to be explored is competition restrictions and access to mobile channels, which could arise if financial services are provided directly by these types of entities.

Only Peru's electronic money law addresses this issue, setting forth a proper framework for accessing telecom services for mobile financial services, which include all those provided through the mobile channel, not only those related to electronic money. To do this, the law authorized the telecom regulator (Osiptel) to facilitate access to the channel when dealing with mobile financial services.

The regulator's draft standard sets forth legal and regulatory considerations that seek to ensure access under similar conditions for all stakeholders, and resolution mechanisms when there are barriers to access. This may include defining the conditions of the telecom regulatory body in the absence of an agreement between the parties. When it comes to interoperability, the Peruvian law authorizes the Superintendency of Banks and Insurance and the Central Bank to determine the conditions under which clients can conduct transactions with any counterpart.

In Mexico, work is being done to improve the interoperability of mobile payment systems through the SPEI system (operated by the central bank) by linking an account number to a mobile phone number. In Peru, a project led by the banking industry has been announced which seeks to implement a new technological platform, in addition to the current electronic clearing house (to be regulated by the Central Reserve Bank), that will offer real-time clearance, interoperability between banking and non-banking payment systems, as well as interoperability among telcos. Stakeholders would voluntarily sign up for this system.

4 Primary Outcomes

Given that MFS regulation and implementation are relatively new in several of the countries, some have not yet generated data on the results of MFS.

Given that MFS regulation and implementation are relatively new in several of the countries, some have not yet generated data on the results of MFS.

In Bolivia, a dedicated company specializing in mobile payments has been created, with 490 points of service in non-financial agent banks spread throughout the country's nine regions, covering a total 135 localities.

In Colombia, the electronic deposit developed by the Davivienda Bank (Daviplata) already has more than 2 million accounts, including 900,000 beneficiaries of conditional grants from Familias en Acción, which operate exclusively through a mobile phone. The Banco AV Villas developed a basic account product that works only with a mobile phone. It was linked to the Transfer wallet in 2012 (in association with Claro, the Colombian affiliate of América Móvil), and in 2013, Bancolombia launched a simplified account that works exclusively through a mobile phone, with no handling fees. It reached 60,000 clients within the first six months, 70% of which are using the financial system for the first time.

The recent issuance of regulation in Guatemala has not yet shown any statistical results, but there are seven entities supplying MFS.

In Mexico, during 2012, more than six authorizations were granted to niche banks, including the Banco PagaTodo, S.A., whose corporate purpose is to supply payment methods that allow users to carry out simple transactions. The number of contracts using mobile phone banking began to be reported in the second quarter of 2012 and, by the end of May 2013, there were 175.54 mobile banking agreements per 10,000 adults, with a total 1,207,634 accounts. In 2013, four mobile payment products were in operation, supplied not only by banks, but also by a product promoted by WOCCU (World Council of Credit Unions) in two cooperative microfinance institutions.

Paraguay has not yet produced any results given that the regulation is still being developed. In Peru, several banks and some microfinance entities supply mobile banking services to their clients, where the mobile phone is used as an additional service channel. One of the providers is a local bank that has implemented a "mobile wallet" product targeted at small enterprises, mainly warehouses, which can make payments to their distributors using a mobile phone. The payments are made from simplified deposit accounts or "basic accounts" that the warehouses hold with the bank. There are several other MFS projects being developed by banking companies, microfinance institutions and other entities, which in some cases include the use of electronic money or bank deposits.

5 Final Considerations

For several years, regulators in several Latin America countries have demonstrated an interest in fostering a regulatory framework that facilitates financial inclusion. The regulatory initiatives that have been developed for mobile financial services represent an important stage in this process.

The development of MFS regulation has generated discussions on how to define the financial activities supervised by the state, and the relations and differences with MFS. In fact, the review of the concepts of intermediation and deposit taking from the public vis-à-vis the provision of money orders and payment services produced discussions on the borderline of financial services versus payment services (payment system).

The difference in approaches comes from determining who is allowed to develop MFS products and services. In Colombia, Guatemala and Mexico, it is clearly established that only financial system entities, especially the banks, can develop these services, but they are understood as a channel for supplying traditional financial services. In these countries, there is no possibility that non-banking entities would be considered to develop MFS.

In other countries, an interest in facilitating entry to other types of entities prompted authorities to propose the creation of a new type of entity, with an understanding that it would be an independent company under the regulation and supervision of the financial authorities, and would adjust the regulatory requirements depending on the risk assumed.

This process has been accompanied by the design of products and processes aimed at conducting low-value transactions and operations, which allows for risk reduction and leads to the development of simplified processes for customer linkage and managing operational risk. These product definitions and simplified processes also lead to decisions being made about which channels and means to use based on their security features and management of operational risk, in several cases.

Several institutions included in this study had support from AFI to analyze the experiences of their peers, which was useful as a benchmark, but they ultimately had to adapt their regulatory frameworks to provide MFS. The changes were made based on the nature of their respective legal frameworks, the reality of their financial markets and the considerations and potential issues that emerged from in-depth discussions on products, channels, risks and legal authorizations.

Equally important was the participation of private entities, both financial and mobile phone service entities, in defining the need for regulation in the financial market. The experiences of the six countries demonstrated the importance of maintaining ongoing communication with market players and diverse interest groups to develop a regulatory framework suited to market requirements, as well as the principles of financial regulation.

In several countries, it was necessary to develop a definition for a new financial transaction, and even to amend the structure of the financial system to allow specialized electronic money issuers to enter the market. It is worth mentioning that all regulatory initiatives have had equitable market competition as a guiding principle and regulations followed the principle of proportionality, based on the risk of the transactions. Therefore, those who decided to create a new concept through the legal channel, and those who opened a space for specialized entities through the regulatory channel, both aimed to align MFS regulation with the regulatory requirements of the full financial intermediation entities and avoid market distortion.

It is important to point out that all MFS initiatives in the Latin American countries featured here have been delimited within the financial regulation, respecting the protection of public savings and activities that are in the public interest, such as typical deposit taking.

As a result, in five of the six countries that were analyzed, MFS may only be supplied by regulated entities, whether bank or non-bank, subject to the specialized supervision of the state. Likewise, authorized entities must have a sole corporate purpose, since, if a mobile phone company wishes to develop mobile payment services, it would have to create an affiliate to do this, which would be subject to the same supervision of the financial system.

There are still some areas that need to be studied in more detail to determine the “playing field.” These include the interoperability of mobile operators for the provision of financial services, the range of telecommunications to allow transactions to be conducted online and in real time in all regions, and equitable access to the mobile channel to provide financial services, to name only a few.

Políticas Efectivas para la Banca Móvil en América Latina

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