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E-MONEY IN EL SALVADOR: A COMPREHENSIVE MODEL

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CONTENTS

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EXECUTIVE SUMMARY

The model for digital financial services in El Salvador, known as the “Comprehensive Model”, refers to the implementation and provision of e-money by financial institutions and new entities that draw on the strengths of each institution, such as risk management and infrastructure for retail payment services.

Developing this model required a change in mindset in the industry, which had been opposed to regulating this type of product as they intended to be the only ones that would offer e-money. To open the market to new entities required a new law: the Law to Facilitate the Financial Inclusion.

Approval of the law required many meetings, working groups and discussions with industry players and the Financial Commission of the National Congress to defend the reason for this kind of service and eliminate some of the barriers to e-money, such as risks associated with technology.

Today, El Salvador’s e-money market is growing; 16% of adults have used the service and, despite some concerns about the intangibility of e-money and the security of the platform, users are overall quite pleased with the service, the speed of transactions and the attention received.

The goal is for e-money to become a gateway, especially for those in rural areas, to receive salaries, send remittances and pay for basic services through a mobile phone without having to travel long distances. E-money will save time and money.

In the coming years, more e-money providers are expected to enter the market, and interoperability will be needed for the e-money ecosystem to grow, make transactions simpler and expand the range of digital financial services available.

INTRODUCTION

Digital financial services first emerged in El Salvador in 2011, when an entity linked to a telco began offering international remittances, bill payments and P2P transfers. As the number of transactions grew, El Salvador's central bank, Banco Central de Reserva de El Salvador (BCR), faced a regulation challenge: this type of product was not governed by existing financial laws nor did it fall under the supervision of the telecommunications authority. A new law was required and was ultimately approved:

> **the Law to Facilitate Financial Inclusion.**

Even though there was no specific e-money law in place, the entity providing these services had to comply with the country's legal framework just as any other merchant would. Therefore, while the new law was being developed and approved, the entity could continue to operate normally.

Elaborating the legal framework was a big technical challenge because financial inclusion was still an emerging issue in the region and the banking model for digital financial services was the dominant approach.

The initial assessment was that both the banking model and telco model had advantages and limitations. While the banking model may not facilitate access to financial services or create barriers to access, the telco model was not made up of financial institutions so it was difficult to monitor and supervise their financial risk management. The BCR concluded it could not choose just one model, and that it should imagine a new and more powerful model for financial inclusion.

The first effort to approve e-money regulations encountered some obstacles, primarily opposition from the country's banking industry. Because El Salvador's legal framework was centered around maintaining the stability of the financial system, a project that sought to create new institutions, like the telco model, required more work to convince a conservative industry.

This complex landscape led the BCR to discuss the design of a new law that would allow new competitors to provide financial services through e-money or e-wallets.
E-money in El Salvador is backed completely by the BCR through a deposit account, and the bank is responsible for controlling e-money in real time (very different from banking and telco models).

This paper shares the process of deliberating and designing the fundamentals of e-money in El Salvador. It is a unique case of regulation, particularly compared to other Latin American countries.

SUPPORT AND TECHNICAL ASSISTANCE FROM INTERNATIONAL ORGANIZATIONS

When the BCR began its work at the end of 2011, the landscape of e-money appeared complex and difficult to navigate. However, it received a great deal of technical assistance from international organizations, such as the United Nations Development Program (UNDP), United States Agency for International Development (USAID), the US Treasury Office of Technical Assistance (OTA) and the Alliance for Financial Inclusion (AFI). This support made it possible for the team to grasp the telco model[1] and banking model quickly, and without this support it would have been difficult to gain enough knowledge to design the legal framework.

This support also allowed the BCR to learn about experiences and best practices in digital financial services from peers around the world. It was able to have direct public-private dialogue with the banking industry and work with it to create room for new competitors and new financial products and services.

The following is a summary of the support the BCR received.

- In September 2011, the BCR and OTA signed a Memorandum of Understanding to strengthen financial inclusion as a mechanism for developing, deepening and disseminating financial services in El Salvador. The main objective was to provide technical assistance to promote greater financial inclusion in the country and develop the legal and regulatory framework to support it. As a result of this assistance, BCR was able to have a Resident Advisor in El Salvador appointed by OTA.
- In 2012, USAID and UNDP provided support for BCR staff to travel to Colombia and Paraguay on a knowledge exchange to learn about experiences with digital financial services (banking and telco models). International experts trained BCR and SSF staff in e-money supervision and overseeing the systems and computer security schemes for these services.
- In 2014, the Inter-American Development Bank approved the “Program to Support Comprehensive Strategies for Financial Inclusion”, which supported the BCR in designing a Financial Inclusion Strategy tailored to the structure, situation and size of the national market, using an integrated and coordinated approach. The result was the Guidelines for the Elaboration of a National Strategy for Financial Inclusion.
- From 2013 to 2016, AFI provided a grant to the BCR which supported, among other things, knowledge exchange visits to Mexico, Colombia and Peru, during which they learned about experiences with digital financial services, regulatory frameworks and strategies and policies focused on financial inclusion. The grant also supported the development of financial inclusion indicators, two national surveys (Access to Financial Services and Financial Capabilities), working groups with industry to discuss issues of access to credit for SMEs, and events and forums to discuss the e-money regulatory framework with industry.

Technical assistance was important for the BCR to learn about issues related to financial inclusion, to avoid the barriers and inconveniences experienced in other countries, and to consider how to apply the experiences of their global peers in the Salvadoran context.

1 A model led by entities linked to a mobile phone operator or telecommunications operator. In El Salvador, entities have emerged without any link to a telco and carry out operations through e-wallets.

REVIEW OF INTERNATIONAL EXPERIENCES: BANKING AND TELCO MODELS

In this phase, the BCR reviewed experiences with digital financial services in Kenya, the Philippines, Mexico and Peru. This information informed its first attempt to regulate e-money and build its capacity to regulate and oversee payment systems. During this process, the team spoke with the Superintendent of Electricity and Telecommunications (SIGET), who pointed out that SIGET did not have the legal authority to regulate e-money and the new provider because the service was not provided by a mobile operator.

This review also helped the BCR to clarify the basic pillars of the banking and telco models. It concluded that the strengths of the banking model were that it controlled risks, managed liquidity well and had strong equity, but its communication channels and logistical infrastructure were limited, giving it a narrower scope than the telco model. These insights were the first elements of the first draft of the e-money model.

To create a Comprehensive Model, it was necessary to evaluate different e-money models and the characteristics of each one. One of the countries studied was Colombia, which initially had a banking model, but recently enacted a law allowing entities other than banks to provide e-money, being a requirement the constitution of a minimum capital.

The review of national e-money regulations and models revealed some common features:

> In general, e-money does not earn interest (except in Colombia).
> Limits are set for e-money account balances and transactions.
> In some countries, new entities were created, such as e-money issuers, special Societies for Deposits and Electronic Payments or electronic payment entities. These institutions are not authorized to perform financial intermediation.
> Funds collected are deposited, either in commercial banks or in central banks, to ensure the total amount of money deposited is equal to the amount of e-money administered on the provider platforms, providing a guarantee for customers.
> In general, e-money products are used via mobile phones.
> Interoperability is expected to be regulated in the future.
> E-money markets are beginning to be regulated.

Following the review, El Salvador adopted a hybrid comprehensive model in which e-money providers, banks, cooperative banks and savings and loan partnerships can all provide e-money according to the Law to Facilitate Financial Inclusion approved in 2015.

In El Salvador, an e-money transaction cannot exceed USD 300 and monthly transactions and balances cannot exceed USD 1,200. Since these entities are supervised by the Superintendency of the Financial System (SSF), they cannot breach the approved financial laws and norms, otherwise they would be subject to sanctions from the SSF.

One hundred percent of e-money circulated must be guaranteed by an earlier deposit in the BCR. There are currently three potential e-money providers, and although there is not interoperability, the possibility is open based on the law and how the market develops.

EARLY DISCUSSIONS: PROPOSED RULES FROM THE CENTRAL BANK

To regulate the money transfers being provided through mobile phones at the time, an inter-institutional team from the BCR and SSF was formed to elaborate a draft e-money regulation that would consider the faculty of BCR has over payment systems and cover financial agents.

The draft regulation was developed in 2012, with industry providing feedback and comments. However, ABANSA (Salvadoran Banking Association) stated that the operations carried out and stipulated in the regulations (transfer of funds through mobile phones) constituted illegal collection of funds, which, according to the Banks Law and Cooperative Banks and Savings and Loan Partnerships Law, these institutions were the only institutions authorized to receive funds from the public and, therefore, other entities were breaking the law.

These comments were evaluated by the BCR-SSF team and it was decided that it would be best to draw up a law explicitly regulating the characteristics of e-money, the minimum requirements for entities providing e-money, and the authorization process to offer these services.

In September 2013, the first draft of the law was finalized, which was shared with the industry. Comments were received and the final draft was sent to the Ministry of Finance in December 2013. The law received legislative initiative by the National Congress in June 2014 and was subsequently approved in August 2015. This law created an explicit legal framework for the implementation of e-money, deposits in savings accounts with simplified requirements, as well as the entities that could provide them.

During this period, the BCR encountered some barriers to approving the law, including municipal elections, which shifted the priorities of the National Congress. However, BCR took advantage of this time to host working groups, meetings with industry and the Financial Commission of the National Congress to discuss the objective and content of the law, how to manage the inherent risks of the products, BCR guarantees and other issues.

These discussions clarified what was intended to be regulated. They did not keep e-money providers from operating, in fact, they were part of the discussion.

DESIGN AND DISCUSSION OF THE PROPOSED LAW TO FACILITATE FINANCIAL INCLUSION

INNOVATIVE PRODUCTS

Financial inclusion in El Salvador is clearly important, as only 23%[2] of the population has a deposit account in a financial institution. Although this is below the average for Latin America, El Salvador has the greatest access to mobile accounts in the region. Therefore, there was an opportunity to develop this field and enable those with lower incomes to access basic financial services.

The implementation of the comprehensive e-money model was based on a review of digital financial services led by banks and telcos in different parts of the world. In response, BCR has sought to facilitate payment services supported and driven by a variety of factors, including technological development, new communications networks, the mobile phone industry and innovative channels to increase financial inclusion and reduce the costs of conducting local transfers and retail payments.

The potential for growth and the impact on retail payment systems and consumer spending have not been measured, as e-money competes directly with cash and facilitates and lowers the cost of transactions. However, together, three e-money providers currently have more than 3,000 agents and 1,000,000 users, covering approximately 90% of municipalities in the country and approximately 16% of the adult population, who are able to pay invoices, make local money transfers, buy airtime, receive international remittances and perform other transactions.
Therefore, with the approval of the Law to Facilitate Financial Inclusion, the benefits of using e-money have grown, including:

- The number of agents in different municipalities increased, facilitating greater access to basic financial services for low-income populations.
- It encouraged competition in retail payments when a new entity (e-money providers) entered the market alongside existing financial institutions.
- A consumer protection scheme for e-money services was created, and entities must elaborate policies and expedited procedures to resolve customer problems.

E-money has some advantages over other financial products in the Salvadoran market, one of which is that it does not require a Tax Identification Number (NIT). In several meetings, industry players indicated the need to eliminate this requirement since many people did not have the document and were being financially excluded. At the same time, an expedited process was implemented to acquire an e-money register:

- Individuals must present an original Unique Identity Document (DUI). Non-citizens must present a passport or temporary or permanent resident alien certificate.

2 BCR, 2016, "National Survey of Access to Financial Services in El Salvador".

- They must then complete a Customer Profile Format, a form that includes the name of the holder, identity document number, address, economic activity, source of income, and name and address of beneficiaries.
- Finally, the entity must verify that the person does not have another e-money register with them.

Once the person has completed this process, which only takes a couple of minutes, the e-money register is ready to be used.

NEW COMPETITORS

The purpose of the Law to Facilitate Financial Inclusion is to stimulate financial inclusion by encouraging competition in the financial system. The participation of new entities expands access to digital financial services and reduces costs for users and customers. Approval of the law allows new entities to offer e-money registers.

The approved legal and regulatory framework provides security and builds trust among users of these services, establishes the characteristics of e-money and the requirements with which the entities providing it must comply.

The law created a new member of the financial system, an “e-money provider”, whose purpose is to provide e-money and, with authorization from the BCR, administer mobile payment systems.

E-Money Provider Societies must have a minimum equity requirement of USD 500,000, which will be adjusted every two years based on changes to the Consumer Price Index. These entities are subject to supervision by the SSF. The Law also stipulates that banks, cooperative banks and savings and loans partnerships can manage e-money without the need to establish a new entity. They only require validation from the SSF to offer the product.

These new players have allowed greater penetration in the country and helped to strengthen the existing network of financial institutions.

The entry of these new participants in the market has allowed a greater capillarity of payment services at the national level, making it easier for people to send an international remittance from an agent closest to their home or work, saving time and money. Also, with a penetration level of about 90% of municipalities, different experiences have been known, where people used to travel greater distances to pay for basic services, such as electricity or telephone bills.

E-MONEY FEATURES

E-money in El Salvador enables people to conduct basic financial operations, eliminating barriers that for years have limited access to financial services, such as the amount of documentation required to open an account. With e-money, flexible requirements have been introduced. New customers need to complete a form (Customer Profile Format) and present their identity document or passport/certificate of temporary or permanent residency.

Transaction and balance limits have been set for e-wallets to guarantee that funds are managed securely and reliably. The use of e-money encourages the use of innovative channels, such as agents or financial correspondents. However, mobile phones of any type are the preferred channel for delivering efficient and safe payments.

E-money can also be used by other mobile devices, such as prepaid cards. Currently, an e-wallet can be used to make and collect payments at affiliated merchants, send person-to-person transfers and receive international remittances and salaries.

The implementation of e-money in El Salvador has encouraged the development of safe and easy-to-use instruments. Since it is an electronic form of payment, operations are monitored and registered at both the origination and destination point, which allows suspicious transactions to be identified, and it supports measures aimed at preventing money laundering and the financing of terrorism (AML/CFT). In addition, the loss of a mobile phone no longer means loss of money since it is protected by security features. Once reported as lost, the service is blocked on that phone.

WHY A COMPREHENSIVE MODEL?

In the process of designing suitable e-money regulation, the Action Task Force reviewed the legal framework and performance of e-money models in Kenya and Paraguay (telco model) and Colombia and Mexico (banking model). The team realized it was necessary to design a model that incorporated the risk management of banking institutions and the ability of a telco to cover remote areas.

It reached some other early conclusions as well. First, the banking sector was too rigid for the type of institution that would be needed to promote financial inclusion. Therefore, to build an innovative ecosystem for e-money, it would be necessary to create a hybrid, comprehensive model that combined the best features of the banking and telco models, such as the infrastructure to reach rural populations.

Having a comprehensive model made it possible to create a new entity — an e-money provider — and two new products: the e-money register and deposit savings account with simplified requirements (i.e. a simplified account). These products would then generate market competition for retail payments, allowing people to choose the product that best meets their needs.

To develop the comprehensive model, e-money had to be implemented by both banks and non-bank institutions. This allowed e-money to be more competitive because the two new products opened access to financial services for the poorest. Simplified accounts are typically offered by banking institutions and e-money by e-money providers, but the BCR broke with this tradition when it introduced the comprehensive model.

ORIGINS OF E-MONEY IN EL SALVADOR

El Salvador has seen some of the highest growth in mobile transfers and payments in Latin America. In 2011, an entity linked to a telco offered digital financial services in El Salvador for the first time. This was the first sign that e-money had arrived on the Salvadoran market and, today, this entity has more than 2,500 agents and more than 900,000 users who pay bills, transfer money, buy airtime and receive international remittances, among other transactions.

As mentioned earlier, the BCR received a great deal of support from international institutions, which allowed the bank's technical team to understand the advantages, security aspects and potential risks of e-money, as well as how a backup scheme (trust fund) and the simplified process for account opening works.

Widespread dependence on international remittances in El Salvador influenced the decision to develop and grow this service in the interior of the country. By 2013, the entity mentioned above was seeing monthly transactions of USD 30–40 million, which made it necessary to regulate the product.

In 2017, three e-money providers El Salvador were in the process of being authorized by the SSF, and the total monthly volume of transactions had risen to USD 50–60 million.

THE FUNDAMENTALS OF E-MONEY IN EL SALVADOR

The main features of e-money in El Salvador are described below:

- Designing the legal framework required breaking with dominant paradigms for financial inclusion.
- The banking system is not the only way to achieve financial inclusion.
- It is incorrect to assume that a telco model is not as competitive as a banking model.
- Placing interoperability before the business model could be a costly mistake.

APPROXIMATION TO SOME THEORETICAL ASPECTS

E-money is a substitute for cash (a physical wallet) and then is a part of circulating money of the economy; which has the potential to substitute 100% of all circulating money.

However, since the Salvadoran economy is dollarized, it is not possible to issue money or it cannot be inorganic money; then the e-money model for El Salvador should work like a convertibly box, with a parity between e-money and its guarantee in dollars, equal 1 to 1 or 100% all the time.

In El Salvador, the banking model and telco model have been combined into one. The banking model has well-capitalized institutions with experience in risk management, such as liquidity and credit, and can offer new products like e-money. By creating a comprehensive model with the Law to Facilitate Financial Inclusion, the BCR could incorporate non-bank institutions to provide e-money. A new competitor was created with the understanding that it would be a “lighter” company with a lower equity requirement (compensated by the guarantee from the BCR), but which had the ability to connect financial services through innovative channels using well-developed infrastructure (agents and communications capacity).

CONSUMER CONFIDENCE IN E-MONEY

Innovative products are often met with negativity or wariness, typically because people do not understand what the products are or how to use them. Trust is critical to let the people know where the money is.

Many people do not trust financial institutions, perhaps because of cultural factors or the recent financial crisis. Now putting together new institutions and new products with guarantee in a trust fund is not easy for people to understand this scheme, especially those with lower incomes.

It is easy for an institution to establish a trust fund, but for most Salvadorans without access to financial services, it is difficult to understand what it is and how it works. Building trust among the population is one of the best ways for people to know their cash is guaranteed by the BCR.

FEATURES OF THE BACKUP SCHEME

In 2016, the BCR approved regulation to implement the e-money scheme in El Salvador and approved standards to regulate the opening and use of the deposit account (guarantee) that e-money providers must keep in the BCR, and the control scheme for e-money gave by e-money providers.

Providers must submit a request to the BCR to open a deposit account. To increase the amount of the guarantee, providers must use the local payment system to transfer funds from a deposit account in a financial institution to their BCR account through RTGS (Real Time Gross Settlement).

If providers want to reduce the amount and, therefore, the guarantee, they must use the mass payment system (operated by the BCR) to transfer funds from their BCR account to their deposit account in the financial institution or directly to affiliated merchants, distributors or points of attention or other entities that facilitate the e-money provider’s service.

The BCR has developed the Electronic Money Control System (CODE) to monitor and verify that the guarantee is always equal to the e-money deposited by the providers.

In short, CODE will allow the following:

TO BCR	TO E-MONEY PROVIDER
> Check that the amount of e-money is equal to the amount in the BCR deposit account (guarantee). > Validate the increase or reduction of e-money on the provider’s platform.	> Verify the balance of the BCR deposit account before making the e-money available on its platform. > Send payment instructions to lower the amount in the BCR deposit account (guarantee).

There are some additional features of the e-money model that are important to understand regarding the backup scheme. These are detailed below.

Why an Electronic Register and Not a Deposit?

In early discussions with the banking sector about the proposed e-money regulation, most of the focus was on whether the non-regulated entity providing e-money services was illegally raising funds.

To address this concern, the BCR and SSF agreed to elaborate a draft law on e-money that referenced a regulation in Peru that allowed new entities to offer an e-money register without becoming a bank.

The e-money register has similar features as bank deposits, but legally it is not a deposit and can be implemented by banks, cooperative banks, savings and loan partnerships and new e-money providers. With the approval of the Law to Facilitate Financial Inclusion, all of these entities can compete on a level playing field and deliver basic financial services to low-income people.

100% Guaranteed

In some countries where the banking model is used, e-money backup can be a bank deposit and the guarantee is a liquidity reserve. In El Salvador, the e-money provided by entities is 100% guaranteed by law and held as a deposit in the BCR. According to the Law to Facilitate Financial Inclusion, this guarantee can only be used to cover the e-money register (100% of the float).

This guarantee is crucial to build consumer confidence in the product and drive e-wallet usage across different providers.

However, the Law to Facilitate Financial Inclusion established that financial institutions could also offer simplified accounts, an equivalent product to the e-money register, but since it is a deposit these institutions are allowed to intermediate the funds of their clients.The purpose of this disposition is to balance both products (e-money and simplified accounts) in a market where there is no exclusivity to promote retail payments, and therefore facilitate financial inclusion.

Non-profitable deposit

Why does an e-money provider's deposit in BCR not make a profit? Because the deposit is a guarantee of cash that people use every day and do not profit from, it is different from a savings account that earns interest.

With the Law to Facilitate Financial Inclusion, more people are converting their cash into e-money; if they do not see a profit from this cash, e-money providers can likewise not expect to gain interest from their deposit in the central bank.

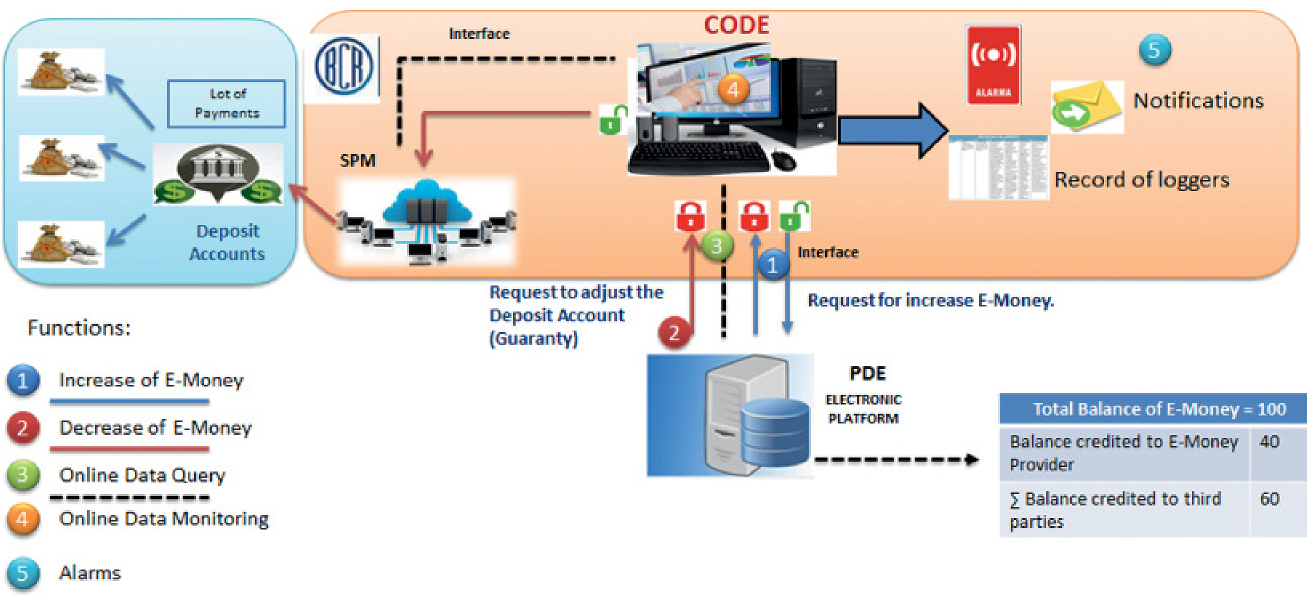
If people want to gain interest, then they must open a savings account in a financial institution rather than having an e-money register.

Controlling and Monitoring E-money in Real Time

The Law to Facilitate Financial Inclusion requires the BCR to implement e-money controls, so it has designed a system that controls and monitors the e-money balance and the balance of the guarantee in real time. This may help to instill confidence in customers that the BCR is protecting their money.

The same system will support reductions and increases in an e-money balance, and therefore the amount of the guarantee, by allowing more efficient use of cash, e-money and warranty.

ELECTRONIC MONEY CONTROL SYSTEM (CODE)



Total Balance of E-Money = 100	
Balance credited to E-Money Provider	40
∑ Balance credited to third parties	60

STRATEGIC ROLE OF AFI

Since 2012, AFI has actively supported the BCR through its working groups and training and grant programs. As joint members of AFI, the BCR and SSF set up an Action Task Force for Financial Inclusion, which was key to developing the national legal framework for financial inclusion.

The grant awarded by AFI in 2013 allowed the BCR to launch the National Financial Inclusion Project, which concluded in 2016. Some of the objectives of this project were to elaborate indicators of financial inclusion, conduct two national surveys and hold working group discussions on the role of financial institutions in financing micro and small enterprises. These all made an important contribution to expanding financial inclusion in El Salvador.

a **Knowledge exchange visit to Peru, Colombia and Mexico.** (February–May 2014) This allowed the BCR technical team to gain knowledge of international experiences with data collection and financial inclusion policies and regulation.

b **Hiring of a consultant to develop proposed indicators of financial inclusion.** (January 2015–June 2016) The consultant proposed indicators from different financial sectors and the demand and supply side to measure financial inclusion and inform the development of financial policies.

c **Event to discuss and promote the approved Law to Facilitate Financial Inclusion and its inherent regulations.** (July 2015–February 2016) This was an important stage. Because it was the first law of its kind, it was important to have discussions with the financial industry and share best practices in digital financial services with members of Congress. This was accompanied by a disclosure strategy for the Law.

d **Support for the Financial Education Program through a pilot project that designed school curriculum** (November 2015) and training for the spokespersons of the Financial Education Program on financial inclusion issues (June 2016).

e **Working groups to discuss financing policies for micro and small enterprises (November 2015) and the role of public banks in financial inclusion.** (June 2016) These discussions allowed the BCR to hear the impressions of the industry and collect suggestions on how to modify the regulation, while also sharing its perspective on the role of public financial institutions in creating greater access to financial services.

f **National Survey on Access to Financial Services and event to reveal the results.** (April–July 2016) This survey was the first of its kind conducted in El Salvador and the results were well-received from the industry and general public. The survey contributed important market insights into the state of financial inclusion in El Salvador.

g **National Financial Capabilities Survey and event to reveal the results**. (May–August 2016) Like the previous survey, this one showed the main indicators of financial education and allowed comparisons with other countries that have carried out similar studies.

Other activities that have had a great impact on the activities of the BCR include the participation of technical staff in AFI's Capacity Building and Joint Learning Programs, working groups and annual Global Policy Forum, which covers important topics such as digital financial services, SME finance, consumer empowerment, cybersecurity, FinTech, data and financial inclusion strategies.

CONCLUSIONS AND AREAS OF IMPROVEMENT

APPROXIMATION TO SOME THEORETICAL ASPECTS

Learning about financial inclusion has been rapid thanks to the support of international organizations such as AFI, which enabled the BCR and SSF to understand mobile payment models.

The design of the regulatory framework was supported by consultants from international organizations and allowed the BCR to evaluate a comprehensive model for e-money. The e-money regulations approved by the BCR were widely discussed with industry and interested parties, creating a more transparent approval process.

Regulation in El Salvador varies in the scheme of e-money backup. Requiring funds to be remained in BCR (through a deposit), establishing a real-time compliance monitoring. Support from AFI has been key to advancing financial inclusion in El Salvador and facilitating discussion of the Draft Law to Facilitate Financial Inclusion in the National Congress.

El Salvador’s comprehensive model creates a level playing field for different entities to provide e-money and promote retail payments to lower income populations. Establishing a 100% e-money guarantee for e-wallet holders has also instilled confidence in the product.

To develop this model, it was important to break with the traditional banking model. With the support of AFI, the BCR carried out a series of workshops and meetings with industry and members of the Financial Commission of the National Congress to present the figures on e-money, operability, the benefits of the product and how risks are managed. This led to a better understanding of the model and doubts about it were resolved quickly.

There are currently three e-money providers in El Salvador that are about to obtain their licenses from the SSF, but there is not yet interoperability.

There are two short-term challenges. The first is the development of a complete ecosystem to reduce the use of cash, which will allow end users to make purchases at affiliated merchants, receive salaries, make P2P transfers and other transactions. This will require promoting and facilitating retail payments.

The other challenge is financial education: raising awareness of this type of product, its advantages and how to manage the main risks.

The medium-term challenge is to develop interoperability, which will require creating an appropriate regulatory framework, developing the necessary infrastructure and reaching agreement between the parties so that any customer can use any network of points of attention and affiliated merchant.

APPROXIMATION TO SOME THEORETICAL ASPECTS

El Salvador’s electronic money market is still relatively young. It began with local fund transfers through mobile phones, but the Law to Facilitate Financial Inclusion now allows a variety of local operations depending on the ecosystem developed by each provider.

It is therefore important that the entities offering e-money develop a complete ecosystem that will discourage the use of cash, take advantage of the strengths of e-money and encourage greater security and efficiency, allowing users to receive wages and remittances directly into their e-wallets, use this money to make purchases at affiliated merchants, transfer money to others and make payments for basic services without having to make a withdrawal. Since the use of cash is a cultural practice, it would be too early to predict a cashless economy. In addition to financial education, this would require pilots that encourage the use of digital financial services, build confidence in these products and ultimately increase knowledge and facilitate usage, not only by natural persons, but also micro and small entrepreneurs.

Although smartphone use is growing, there are still people using basic mobile phones. With two of the e-money providers using apps (WiFi) for their e-money registers, access to financial services for low-income people is still limited.

APPROXIMATION TO SOME THEORETICAL ASPECTS

In various meetings, e-money providers requested that the BCR promote e-money through its Financial Education Program to raise awareness of the benefits of the product. The purpose of financial education is to get people to understand the advantages of financial products and services, how the main risks are managed and build consumer confidence.

APPROXIMATION TO SOME THEORETICAL ASPECTS

It is recognized that interoperability would make it easier for end users to conduct transactions between different users, regardless of which e-money provider they use. The Law to Facilitate Financial Inclusion does not require interoperability from the beginning, but it does indicate that the BCR will define it by regulation based on developments in the market. It has been predicted that imposing interoperability from the beginning could generate high costs or create a barrier for new participants.

There are currently no agreements between e-money providers in El Salvador to create interoperability between their systems. This lack of interoperability would require the development of a complete ecosystem that addresses providers’ technical issues and includes agreements between the different players. It would also involve electronic wallets, affiliated merchants and existing agents between providers, which may require resources and time to develop.

Nevertheless, a Mobile Payments System Administrator has been considered another option for interoperability, which would be responsible for clearing and settlement of transactions between e-money providers.

As the Salvadoran market develops, it will also be important to have interoperability between electronic money registers, deposit accounts and other types of financial products and services.

All the issues discussed here need to be implemented, but they must be driven by the market, otherwise the technological infrastructure will be underutilized.

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