

## How Enabling is the Latin American Environment for Mobile Money?

Briefing Note 1: August 2009

*This Briefing Note includes new ratings of the enabling environment for mobile financial services in five Latin American countries - Brazil, Mexico, Ecuador, Bolivia, and Peru - drawing on information from a 2008 report by Afi. Countries in this region currently tend to be relatively less certain and less open in key regulatory dimensions than in other countries such as Philippines, South Africa and Kenya which have experienced rapid growth in adoption and usage of mobile money. Nonetheless, there are now signs of increasing interest and early deployment of innovative mobile money models in some of the Latin American countries covered here.*

The provision of financial services using mobile phones (known collectively as ‘mobile money’ models) holds great promise for extending access to financial services in the developing world. Early signs of increased access have been seen in countries as diverse as Philippines, South Africa and Kenya, where the regulatory environments have helped support the early growth of mobile money models. An analysis of mobile money activity in other countries also supports the conclusion that an enabling policy and regulatory environment is a necessary, although not sufficient, condition to realize the promise that mobile money models hold for increasing access to financial services.

Bankable Frontier Associates (BFA) developed a tool for rating the policy and regulatory environment for mobile money, and previously applied it to four diverse countries in which mobile money is active: the three countries above and India<sup>1</sup>. However, the value of such a rating tool is enhanced by applying the analysis to additional countries to achieve a greater sense of how countries compare, and using the outcomes to monitor the environment in each over time. This Briefing Note does both.

First, we update the previous rating score for the Philippines following the introduction in March 2009 of new regulations for the issuance of e-money. We have also slightly revised the scoring methodology as described in Appendix 1.

Our main focus, however, is the application of the methodology to cover five Latin American countries: Brazil, Mexico, Ecuador, Bolivia, and Peru - in terms of their policy and regulatory environment. This we do here

based on information provided for each country by Analistas Financieros Internacionales (Afi), based on their 2008 report for the Inter American Development Bank/ MIF entitled “M-Banking: oportunidades y barreras para el desarrollo de servicios financieros a través de tecnologías móviles en América Latina y el Caribe<sup>2</sup>”. This report collected primary and secondary information from interviews undertaken with policy makers, financial and telco players in these five countries.

### **What does it mean to have an “enabling environment” for mobile financial services?**

An enabling environment has two key dimensions<sup>3</sup>:

- 1) Openness: new, potentially transformative, mobile money models, are allowed to start up; and
- 2) Certainty: clear regulatory frameworks or guidance exists in a way which reduces arbitrary regulatory discretion over new approaches and hence the risk for private sector operators.

Ideally, an environment should have both sufficient certainty and sufficient openness for market development, though in practice there may be tension between the two dimensions - some countries have many regulations and rules, giving more certainty, but as a result, may not be open to innovations which are not covered or are barred by the rules (e.g. India). Others may have few rules, and therefore be wide open for innovation, and this may be sufficient to start up, but the lack of a clear framework is likely to hinder growth over time (e.g. Kenya).

<sup>1</sup> “Mobilizing Money through Regulation”, Porteous, *Innovations Journal* Special edition for the GSMA Mobile World Congress 2009, p.125-141

<sup>2</sup> Report and methodological note available at <http://www.iadb.org/mif/forum/mbanking.cfm>

<sup>3</sup> BFA (2006) “The enabling environment for mobile banking in Africa”, report for DFID available via <http://www.infodev.org/en/Document.76.aspx>.

As described more fully in the article in Innovations Journal, the BFA rating methodology evaluates and assigns a score to a jurisdiction in terms of how well it performs across each dimension focusing on important attributes such as:

- Prudential: including the ability of non-banks to issue e-money;
- Prudential/ operational: including the use of agents or correspondents for cash handling;
- Financial integrity: including the nature of information and the process required for customer due diligence on new accounts.

The evaluation is based on answers to a short, focused questionnaire which gathers information about the presence or absence of policy, legislation, regulation or guidance across these and other regulatory domains.

In the same article, we presented an analysis of the four leading countries in this area, and reported that the relative rating of each country correlated quite well with the observed level and diversity of mobile money implementations. In particular, in the Philippines and Kenya, where there was relatively high openness, there were more diverse approaches and greater initial traction compared with India, where there was much more certainty provided by regulation, circulars and guidance but less openness, due to the restrictiveness of those issuances.

### **Increased certainty in the Philippines**

Since the initial rating in 2008, the Filipino regulator has introduced new regulation which has provided greater certainty around the definition of e-money and the types

**Table 1: Latin American Country Context**

Country	GDP per Capita (US \$ PPP)	% Banked	% Mobile Penetration
Bolivia	4,084	30	34.2
Brazil	9,703	43	63.1
Ecuador	7,242	35	75.6
Mexico	14,120	25	64.1
Peru	7,809	26	55.3

Source: Afi reports (2007 data)

<sup>4</sup> Circular 649, available via <http://www.bsp.gov.ph/regulations/regulations.asp?type=1&id=2346>

<sup>5</sup> See Appendix 2 for discussion.

of non-banks allowed to issue it.<sup>4</sup> As a result, non-bank mobile money models such as G-Cash now come under a uniform framework whereas previously, G-Cash alone was granted specific approval. This change has raised the country's certainty rating by 0.5 points, boosting it into the quartile of greatest openness and certainty relative to other countries we have rated, as one might expect.

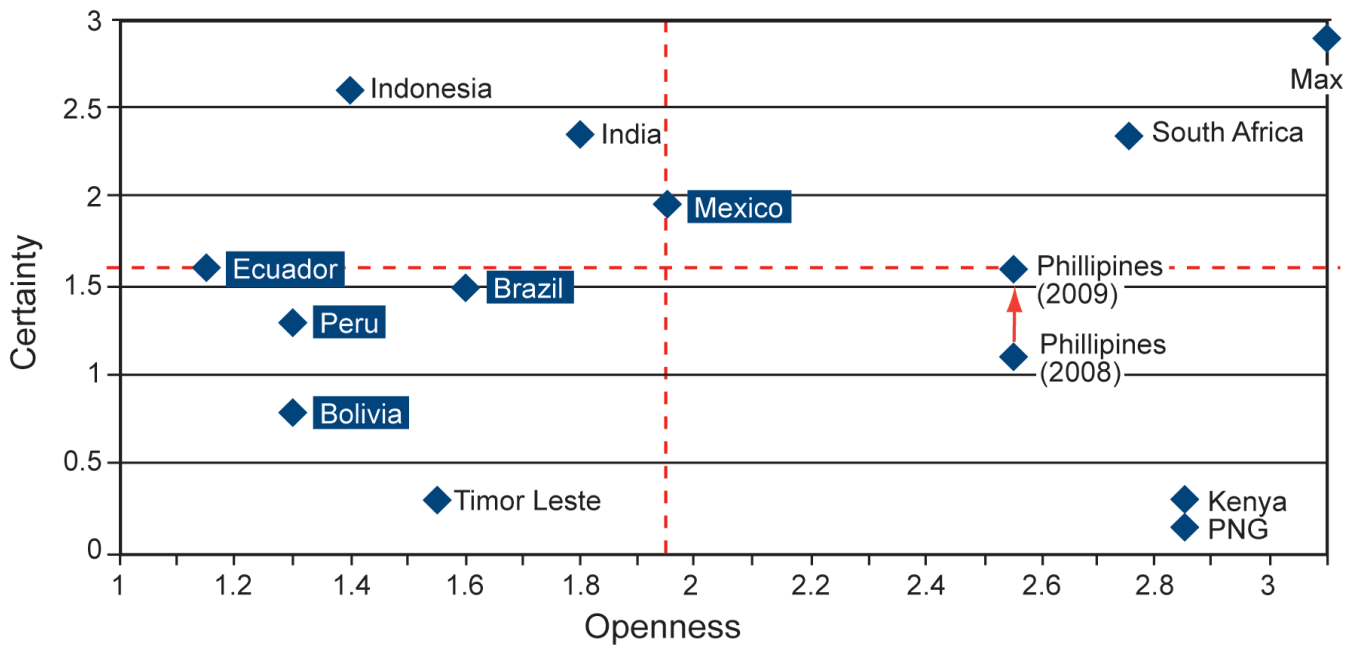
### **New ratings for Latin American Countries**

As previously mentioned, this note extends previous work to incorporate the analysis and scores of a more diverse range of countries. We now turn specifically to a discussion about five Latin American countries, for which Afi's report provides considerable background. A few relevant measures are summarized in Table 1, which highlights the variance between these countries in terms of income levels and mobile penetration (with Bolivia the lowest on both counts). Interestingly, however, they are more similar in terms of the percentage of people banked, which in all cases is less than the mobile penetration rate. It is this differential which raises the hope that the mobile channel can be used to enhance access to formal financial services.

Based on information provided by Afi, we calculated certainty and openness scores for these five countries which are plotted in Figure 1, against those of other countries around the world. We have also included scores recently calculated for Papua New Guinea, Timor Leste and Indonesia based on recent data obtained by BFA. The space is divided into four quadrants using the median scores from a sub-group of nine of these twelve countries.<sup>5</sup>

Figure 1 shows that, at least relative to the other countries depicted, these Latin American countries score fairly low on both the certainty and openness axes. Mexico lies on the threshold of the top right hand quadrant (in which regimes are relatively open and relatively certain). Even then, the Mexican environment is more certain than open for mobile money. This highlights a few interesting hypotheses about the relationship between the relative levels of openness and certainty to other country characteristics.

Figure 1: Enabling Environments for Mobile Money



The first observation is that all of these Latin American countries follow civil law jurisprudence. An argument could be made that civil law environments often militate against openness in that what is not expressly permitted, is usually not allowed; unlike common law countries (such as South Africa and Kenya) where the absence of express laws prohibiting new developments may actually create space for innovations to develop. Taking it one step further, lack of certainty and openness may therefore move more in concert in civil law jurisdictions than in others. As a corollary, on the positive side, when specific enabling laws are passed, such as recent changes to laws in Mexico allowing bank correspondents (which happened after the publication of the Afi report and is being currently implemented), the enabling environment may improve rapidly. Although the available evidence is still very incomplete, it is interesting to note a different pattern possibly emerging in common law and civil code countries:

(i) in common law countries, the correlation between openness and certainty can be negative (with openness being the key determinant for an enabling environment in the early stages of market development, so that countries in the lower-right quadrant have a considerable potential for development);

(ii) in civil code countries the correlation tends to be positive (in other words, the only way to reach a certain level of openness is through increases in certainty, which implies that only countries in the upper-right quadrant have a potential for development). An extension of the sample

would be necessary however to confirm this very rough and stylized pattern.

The second observation is that the higher income countries (Brazil, Mexico) have more comprehensive laws, and hence greater certainty, which lends weight to the previously presented hypothesis that certainty and income levels are related.

Finally, in many Latin American countries, payments regulators (typically the central banks) are not in the same institution as the banking supervisors (superintendencias), or under the same government ministries as the consumer protection agencies or telco regulators. The resulting web of different regulatory agencies reporting to different ministries can make it hard to formulate a consistent enabling approach for mobile money. Therefore, the current lack of an enabling environment is also in part a symptom of coordination failure.

In fact, despite the turbulent international banking environment, financial inclusion remains an important long-term goal for regulators and policy makers in the region. Financial providers increasingly recognize that their future growth will come from the ability to acquire and manage lower income customers in a profitable manner. Branchless banking approaches, particularly mobile money models, offer cost-effective distribution channels that have the potential to reach underserved populations, support current microfinance practices and improve the cost, reliability and speed of both domestic and international remittance flows.

## Conclusions:

This Briefing Note has added information from five additional Latin American countries to the growing database of countries where we have rated the enabling environment for mobile money.

This Note is therefore another step in the process of broadening the country coverage and enhancing the rating methodology for tracking changes in the environment across a wider group of countries. As more regulators seek actively to enable mobile money, and more financial providers add mobile channels and products, we will continue to learn better which types of environments work best. This approach can help policy makers target and prioritize changes to improve country frameworks; and providers decide on which markets have the most potential from a regulatory perspective.

## Appendix 1: Methodological changes to rating system in this Briefing Note

Since first introduced in 2007, we have modified the rating methodology slightly in order to increase the quality and simplicity of the results. For example, we initially assigned negative scores to a few answers in order to reflect regulatory measures we felt were particularly disabling. We have since removed this feature and will rely on the weighting of the scores to emphasize the relative importance of

the various domains. Additionally, while most answers are given either a “0” or a “+1” score, we have reduced the maximum score of a few questions to 0.5 in order to reflect their dependency on a previous question.

However, the core methodology remains the same, and hence the comparisons consistent. We will continue to review and enhance the methodology as we learn more through a larger country data set.

## Appendix 2: Calculating the median

The five new Latin American countries generally received lower scores on the Openness scale than the existing countries we have rated before. Since the median lines are mainly used to show the relative placement of the country scores, the disproportionate number of Latin American countries pulled down the simple median. Hence, in the diagram, we show representative medians adjusted to reflect a better balance across regions: LAC, Africa and Asia. These median lines are drawn based on scores for the following countries: India, South Africa, Kenya, Philippines, Papua New Guinea, Mexico, Indonesia, Timor Leste, and Brazil (i.e. all the countries plotted except Ecuador, Peru and Bolivia). Information from more diverse countries will certainly help to develop more globally representative medians over time, with better benchmarking possible on a regional and global basis.

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**Bankable Frontier Associates (BFA)** is a niche consulting firm based in Boston MA, USA, with a network of associates in various parts of the world.

BFA specializes in the design and evaluation of strategies and policies to extend financial services to underserved people worldwide. Our approach is to facilitate strategic thinking about emerging markets and products to serve them, in partnership with cutting edge development organizations and businesses.

BFA works in three main practice areas;

- Strategy and policy for technology-enabled financial services;
- Strategy and products for affordable housing finance;
- Design and evaluation of social investment programs.

*For more information about our regulatory work, please see [www.bankablefrontier.com](http://www.bankablefrontier.com), or contact David Porteous, Director, at [dporteous@bankablefrontier.com](mailto:dporteous@bankablefrontier.com)*

**Analistas Financieros Internacionales (Afi)** is a reference institution in Spain in professional services, highly specialized in economic-financial consultancy, training and supplying information systems for decision-taking. The stability of its management team and the academic and technical qualifications of its 130 professionals, as well as their multidisciplinary background, guarantee a rigorous strategic focus in consultancy.

Thanks to the knowledge of our clients' operating conditions, the sector dynamics in which they are immersed and their relative positioning, our collaboration is based on a permanent answer and a close relationship with our clients' human resources, but, specifically, on a continuity base oriented to the consecution of results and the creation of value.

*For more information about our regulatory work, please see: [www.afi.es](http://www.afi.es), or contact: Santiago Fernández de Lis, Director of the International Department, [sfernandezdelis@afi.es](mailto:sfernandezdelis@afi.es)*



Supplement To Briefing Note 1: August 2009

## Current and Potential Developments of Mobile Money in Latin America

While an enabling policy and regulatory environment may be a necessary condition for the emergence of sustainable mobile money models, it is not sufficient. The perspective offered by Briefing Note 1 is given more color and context by other information in Afi's report<sup>1</sup> on current and potential developments of mobile money in each country, summarized in the table below.

Country	Comment on Mobile Money Models and Potential
Bolivia	While Bolivia was one of the first countries to develop banking agent schemes, current regulation for branchless banking is strict, which may be limiting the scope for new transformational models, such as mobile banking or e-money schemes, to emerge.
Brazil	Banking agents have been operating in Brazil since 1973, with their scope broadened over time in several resolutions from the National Monetary Council. Notwithstanding telco market consolidation and active telco regulators, Oi Paggo (a payment provider) has emerged as one of the first m-payments solutions in Latin America. If the existing POS infrastructure cannot be leveraged, it may be a drawback for new models.
Ecuador	Branchless banking is relatively nascent, but new regulation was passed in 2008 which allowed banks to have agents. This regulation has already had an effect, with Banco de Guayaquil alone opening more than 420 "bancos del barrio" (their name for banking correspondents) in less than 1 year.
Mexico	Branchless banking has developed only recently. Additive m-payments services such as Nipper (and, previously, Celopago) have been offered in Mexico, but there are still few transformational m-banking services. Nevertheless, the financial regulator, CNBV, has adopted financial inclusion as one of its core goals and the Central Bank has recently passed regulation which would create a more enabling environment for transformational m-banking, but implementation is still in early stages. Specifically, regulation was recently adopted that allows mobile banking accounts to be opened with low "Customer Due Diligence" (CDD) procedures and hold up to 2000 UDIs (aprox. 2000 USD). Although the funds must be ultimately stored in a bank, the new figure of banking commission agents (comisionistas bancarios) can be used by mobile operators to offer e-money services.
Peru	Banking agents already operate on behalf of the main banks in the country and transformational m-banking pilots have already launched. Besides, Visanet recently launched Pago Móvil in partnership with Movistar and the largest banks in the country, although their approach can be considered as additive. In order to ensure an enabling environment for new transformational models, the Peruvian banking supervisors (SBS) are working together with an international consulting team led by Afi (supported by BFA).

Looking ahead, Afi concluded that amongst these countries, Mexico and Brazil appear best positioned for growth in mobile money models since they have large markets, high mobile penetration and existing mobile banking activity. Mexico is particularly interesting due to its relatively low levels of access to formal financial services (especially if compared to countries with similar income per capita, such as Brazil or South Africa). Brazil already has widespread infrastructure in place for banking agents. However, the main impediments for faster roll out of transformational m-banking have included stringent telecoms regulation, the recent consolidation of the mobile telecoms sector (which delayed reaching agreements with mobile operators), and the fact that the pervasive card acceptance infrastructure reduces the need for new technology.

Ecuador and Peru are smaller markets, but each has innovative financial institutions with the potential to deliver impressive levels of impact, if supported by the right types of regulatory reforms. Peru is already working on such reforms, and there is a strong political will in favor of greater financial and social inclusion in Ecuador.

<sup>1</sup>Afi (2008) "M-Banking: oportunidades y barreras para el desarrollo de servicios financieros a través de tecnologías móviles en América Latina y el Caribe", Report and methodological note available at <http://www.iadb.org/mif/forum/mbanking.cfm>.