

The shifting regulatory landscape in LatAm: From Mexico to Brazil, ending the bank monopoly over Mobile Accounts

Regional Regulatory Landscape

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An old message to the banking system...



a friend of mine rode through seven counties of one of the older States of the Union without being able to find any place where he could get a \$20 bill changed.

Woodrow Wilson

In office

January 17, 1911 – March 1, 1913

Our Message: Key regulatory principles



Mobile money can effectively contribute to financial inclusion, stability, integrity, and consumer protection - it helps to reduce the vulnerability of the financial system and mitigate risks due to the widespread use of cash and informal financial services

OPEN AND LEVEL PLAYING FIELD

Regulations shall allow for a diversity of payment methods and broadness of scope for funds transfer and storage. To unleash the potential of mobile money, **regulators must create an open and level playing field that allows both banks and non-bank providers to offer mobile money services** – particularly MNOs, which are well suited to building sustainable services and extending the reach of the formal financial sector rapidly and soundly

STORE OF VALUE SAFEGUARDING CUSTOMER MONEY

There exist a category of accounts, other than traditional deposit accounts, in which repayable funds can be held on behalf of the client for general purposes for a period beyond a short time frame. **To safeguard funds entering the system, providers shall keep them in pooled ring-fenced accounts held in banks. This would mitigate the liquidity risks posed by licensed non-bank mobile money providers and allow them meet customer demand to cash out electronic value**

CUSTOMER DUE DILIGENCE

Mobile money reduces the risk of money laundering and terrorist financing since electronic transactions can be monitored and traced more easily than cash. **Proportional AML/CFT regimes and simplified risk-based customer due diligence (CDD) requirements are crucial for customer adoption of mobile money.** Regulations shall allow agents to register customers and remote account opening leveraging SIM registration records. Following customer identification accounts shall be activated without delay

DISTRIBUTION AND OUTSOURCING

Regulations shall allow banks and non-banks to outsource customer registration, cash collection, and disbursement activities to third parties to lower the cost of financial services, expand their reach, and thereby increase financial inclusion. **Building an efficient mobile money distribution network depends on proportional and cost-effective regulation**

CONSUMER PROTECTION

Mobile money strikes a balance between creating innovative forms of financial access and offering an acceptable level of consumer protection. **Tailored guidance from the regulator can help mobile money providers to improve transparency in their relationships with customers and prevent third party fraud**

INTEROPERABILITY

Service providers and policymakers should work together to understand different types of interoperability, including the benefits, costs, and risks. **Policymaker shall enable market-led solutions, ensuring that they interoperability brings value to the customer, makes commercial sense, is set up at the right time, and regulatory risks are identified and mitigated**

The case for mobile money: enabling regulation



Of the **20** countries in Latin America, **8** already have mobile money regulation*



Around 70% of the population of Latin America lives in these countries

Most of these regulations were issued in the past two years and are still in a stage of implementation

The case for mobile money: enabling regulation



Clasificación		Puntaje / 100
★ 1	Perú	87
★ 2	Colombia	85
★ 3	Filipinas	79
★ 4	Chile	66
→5	India	61
★5	México	61
★7	Bolivia	58
→7	Pakistán	58
→9	Camboya	56
→9	Tanzania	56
→11	Indonesia	55
→11	Kenya	55
→11	Rwanda	55
★14	Brasil	53
★14	Paraguay	53
★14	Uruguay	53
17	Marruecos	52
→18	Ghana	51
★18	Nicaragua	51
→20	Nigeria	50
→20	Uganda	50
22	Armenia	49
→23	Bosnia y Herzegovina	48
★23	República Dom.	48
★23	Ecuador	48
★23	El Salvador	48
→23	Tailandia	48
28	Turquía	46

Clasificación		Puntaje / 100
→29	Bangladesh	45
→29	Mongolia	45
→31	Mozambique	44
→31	Panamá	44
→33	Jamaica	43
→33	República Kirguisa	43
→33	Senegal	43
→36	Guatemala	39
→36	Vietnam	39
→38	Azerbaiyán	38
→38	Georgia	38
→38	Tayikistán	38
41	Costa Rica	37
→42	Argentina	36
→42	China	36
→44	Camerún	35
→44	Honduras	35
→44	Sri Lanka	35
47	Nepal	34
48	Trinidad y Tobago	33
49	Venezuela	28
50	Líbano	27
51	Rep. Dem. del Congo	25
52	Madagascar	23
53	Egipto	21
54	Yemen	20
55	Haití	16



COUNTRIES WITHOUT MOBILE MONEY REGULATION



In most of these countries, the mobile network can be used as a channel for traditional banking.

In some countries, flexible KYC norms have been implemented, as well as branchless agency banking regulation, allowing *bank-led* wallets and payment accounts.

Countries, like El Salvador and Honduras, do not have Mobile Money financial regulation: but enable MM activities under a non-financial license.



Only banks and credit card companies (owned by a financial group) can receive deposits

- Mobile account can be linked to credit lines
- Real time transactions are required
- Transparency of fees and charges
- Full record of transactions
- Consumer support available
- Maximum monthly limits regarding amount per transaction, accrued amount and number of transactions
- Banking Agents are allowed
- Simplified KYC



Domestic remittance companies (unregulated and unsupervised).

- Allowed to use mobile account for payments and domestic remittances
- Not allowed to receive deposits
- Operations are reported to the financial watchdog for financial intelligence analysis (Anti-Money Laundering and terrorism financing)



Mobile Financial Services Market

Supervised Entities: 8

Bank-led models: 6 / 8

Non-bank models: 2 / 8

VISA

TIGO-Money

Banca Amigo (America Movil)

NOTE: Tigo Money model allows customers to store value in their mobile accounts. The financial regulator has not considered this to be a financial activity.

MOBILE MONEY REGULATION



PAYMENTS NICHE BANK

- Minimum capital: **USD 14M**
- Financial regulation and supervision
- Insured deposits

FOUR-LEVEL ACCOUNT REGIME

- 1: Anonymous, plastic only, payments and cash-out. US\$ 383 Month.
- 2: Simple KYC , natural persons, payments, cash-in/cash-out, **transfers**, linked to mobile number, USD 1150.
- 3: Normal KYC (remote opening), legal persons, linked to mobile number, maximum monthly amounts USD 3834.
- 4. Traditional bank accounts.
Full KYC. Can be linked to mobile phone.
Checkbook.



New Special financial license for payments, money transfers and E-deposits (September)



- Minimum capital: USD 3M
- Cannot intermediate funds
- The funds must be deposited in a bank account (possibly, in the central bank, too)
- MNOs shall grant **fair access** to their networks to competitors
- Agents are allowed

Electronic deposit regulation applies for banks and specialised entities :

- Deposit insurance
- Interests permitted
- Simplified KYC & remote account opening
- One per person
- Maximum monthly, and per transaction caps apply

Mobile Payments Companies



- Minimum capital: USD 806K
- Liquidity requirement: 2% of mobile money in client accounts
- Accounts are not deposits
- No intermediation
- Funds in trust account
- No interests

E-Money Account

- Only natural persons
- Simplified opening
- Payments, transfers, cash-in/out, balance
- Branchless and agents.

Limits and caps

- Each operation shall not exceed USD 350
- Each person shall not have more than USD 700 in all his/her accounts
- Accrued transactions cannot exceed USD 1400 each month

Mobile Payments Companies



- Special payment license Financial
- Minimum capital: USD 752K
- Financial Regulation and supervision
- Not deposits
- Cannot intermediate funds
 - Investment regime allows certain public bonds
- No interests

Allowed Operations:

- Cash-in/cash-out in branches, ATMs and agents
- Money transfer between mobile wallets
- Payments
- Account balance checking

Limits and caps:

- Each operation shall not exceed the equivalent to 1.5 minimum wages (USD 217)

Electronic Payment Institutions



Special payment license: financial

- MUST comply with interoperability regulation for financial institutions regarding the financial payment systems
- Funds cannot be intermediated
 - 100% of funds must remain in a trust fund account
 - Interest shall pay operation

- Agents can be used
- One account per customer per Institution
- Customer must be properly identified
- Only natural persons
- Not deposits, Not interests
- Cash-in/out, Payments, Transfers
- Financial Regulation and supervision
- Accrued transactions cannot surpass USD 655 each month

Transition Period: 3 months to comply (until June 2014), extendable for 3 more months (September 2014)

Uruguay



E-Money Issuing institutions:



- Minimum capital required: N/A (TBD?)
- Cannot intermediate funds
- Customers' funds must be stored in a trust account in financial institutions
- **SHALL** offer their services to every employee, pensioner, or independent contractor and **SHALL NOT** charge **ANY** fee for the services.
 - Mandatory free services (among others):
 - Unlimited number of balance checks
 - Five cash-out operations per month
 - Payments in POS
- Only one account per customer
- Mobile payments accounts are not deposits
- No interests
- Regulation does not apply to G2P programs
- Every salary, new pension, or independent contractor payment in Uruguay must be done thru a financial institution or an E-Money issuing institution (on-going pensions and insurance payments can opt in).

Three type of payment institutions:

1. Issuer of electronic currency
2. Issuer of postpaid payment instrument
3. Accrediting institution



- Will maintain liquid funds corresponding to the value of the balance of electronic currency kept in the payment account.
- Minimum capital : USD 890K
- Minimum equity: 2% of average monthly value of transactions.
- Not deposits
- Payment institutions must implement an **operational, liquidity and credit risk** management structure.
- No interests

Payment Accounts:

- Natural persons and legal entities
 - **Pre-paid** payment account: all money must already be residing in the payment institution
 - Limited
 - Flexible KYC
 - Balance and monthly contributions are limited to USD 667 (Approx).
 - Unlimited
 - Full KYC
 - **Post-paid** payment account: type of credit-based account
- Cash-in and cash-out, transfer, Payments, balance checking

Central Bank Monopoly for E-money Issuance

Dollarized economy since 2000



Only the central bank of Ecuador can issue electronic money backed 1-to-1 in their vaults.

- E-Money can be *distributed* by the financial institutions
- E-Money accounts are not deposits
- E-Money accounts are linked to a mobile telephone number: Mobile Wallets
 - All Mobile wallets are connected and handled in a centralised Transaction and Payment System.
- The scheme is still under construction, planning to start operating in 2014.
 - Movistar signed an agreement with the central bank earlier this year.
 - Recently, Claro (America Movil) also joined