3 Electronic money in Latin America

Pablo Urbiola

A digital tool to foster financial inclusion

In developing countries, e-money has the potential to reach millions of unbanked individuals with transactional services, providing a first step towards financial inclusion. Having flourished in Sub-Saharan Africa, e-money services are also emerging in Latin America, where several countries have recently introduced specific regulations. The general approach is allowing non-bank institutions to issue e-money while setting specific rules to protect customers' funds.

What is electronic money?

Electronic money (or e-money) is a financial instrument that stores value electronically against the receipt by the issuer of the equivalent funds. It is accepted as a means of payment by third parties other than the issuer, and may be transferred between users and converted back into cash. The value is stored on an electronic device that may be an Internet wallet, a pre-paid payment card or other smart cards such as a mobile phone card. In this latter case, e-money is sometimes referred to as 'mobile money'.

An early step to financial inclusion in emerging markets

In emerging markets, where millions of people do not use formal financial services, e-money products represent a first step for the financial inclusion of the unbanked. In those countries, mobile penetration rates have significantly increased in recent years, so mobile-based e-money products provide an attractive and easy access to basic financial services such as payments and money transfers. The potential of e-money to go beyond an early stage of financial inclusion depends on the involvement of banks in this activity, as it opens the door to offering credit and saving products. Yet, on the other hand, allowing non-bank institutions, such as mobile network operators (MNOs), to issue e-money has the potential to reach the unbanked population more rapidly. In particular, mobile network operators present two main advantages: i) millions of unbanked individuals are already part of their customer base, and ii) they have distribution agents in widely dispersed and remote areas. Given the complementary role of banks and MNOs, their partnership in the development of e-money products has the potential to foster financial inclusion in emerging markets.

Risks to be addressed

As e-money issuers take funds from the public, the risk arises of money being lost or unavailable when requested by customers. This risk is particularly relevant when the e-money business is opened to non-prudentially regulated firms, making the case for specific regulation to protect customers' funds. Moreover, financial system integrity could also be questioned if no proper anti-money laundering (AML) and combating the financing of terrorism (CFT) procedures were applied. Yet demanding 'know your customer' (KYC) requirements may hamper the access to financial services, particularly in developing countries, where documentation requirements are one of the barriers to financial inclusion.

Regulatory approaches in Latin America

E-money has been particularly successful in Sub-Saharan Africa, where there are more than 120 active services, but has more recently expanded to other emerging regions, including Latin America, with nearly 30 services in operation.[1] Since 2013, Latin American countries such as Peru, Paraguay, Uruguay and Colombia have specifically regulated e-money, creating a new legal status to allow non-bank firms to issue e-money. Those institutions are not allowed to intermediate with their customers' funds and must hold an amount of funds equivalent to the total e-money issued in certain types of liquid assets - generally bank deposits held in trust accounts. In addition, Peru and Colombia impose prudential capital requirements (2% of the customers' funds) as well as a minimum amount of capital to set up an e-money issuer firm. Regarding AML and CFT, as e-money accounts are generally subject to limits for balances and/or transactions, KYC requirements are proportionate to the risks involved. Indeed, Colombia and Peru establish two different types of e-money accounts with different limits and KYC requirements.

1: Data based on the 'Mobile Money for the Unbanked Deployment Tracker' developed by GSMA: http://www.gsma.com/mobilefordevelopment/programmes/mobile-money-for-the-unbanked/insights/tracker.

DISCLAIMER

This report has been produced by the Financial Inclusion Unit:

Chief Economist
David Tuesta
david.tuesta@bbva.com

Javier Alonso
javier.alonso.meseguer@bbva.com

Noelia Cámara
noelia.camara@bbva.com

Carmen Cuesta
carmen.cuesta@bbva.com

Pablo Urbiola
pablo.urbiola@bbva.com

Ignacio Aparicio
ignacio.aparicio.torices@bbva.com

María Rodríguez Urbano
maria.rodriguez.urbano@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech Vilariño
r.domenech@bbva.com

Spain
Miguel Cardoso Lecourtois
miguel.cardoso@bbva.com

Europe
Miguel Jiménez González-Anleo
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area
Alicia García-Herrero
alicia.garcia-herrero@bbva.com

Cross-Country Emerging Markets Analysis
Alvaro Ortiz Vidal-Abarca
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano Herrera
carlos.serranoh@bbva.com

LATAM Coordination
Juan Manuel Ruiz Pérez
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive Carrasco
jselaive@bbva.com

Colombia
Juana Téllez Corredor
juana.tellez@bbva.com

Peru
Hugo Perea Flores
hperea@bbva.com

Venezuela
Oswaldo López Meza
oswaldo.lopez@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Recovery and Resolution Strategy
José Carlos Pardo
josecarlos.pardo@bbva.com

Global Coordination
Matías Viola
matias.viola@bbva.com

Global Areas

Economic Scenarios
Julián Cubero Calvo
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo Delgado
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas Sánchez-Caro
oscar.delaspenas@bbva.com

Contact details:

BBVA Research
Paseo Castellana, 81 – 7th floor
28046 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com