4 E-money regulation in Colombia

A dicey step beyond transactional services

The new regulatory framework allows non-bank entities to offer electronic deposits under a simplified financial license. These deposits are covered by the Deposit Guarantee Fund and are not subject to amount limits, going beyond the transactional purpose of e-money services. This may pose some risks if the new players are not properly supervised.

The October 2014 law

In October 2014 the Colombian government enacted Law No. 1735, creating a new type of financial institution – Specialised Companies in Electronic Deposits and Payments (SEDPEs by its Spanish acronym) – that, under a simplified financial license, are allowed to raise funds from the general public through "electronic deposits". This product had already existed in the Colombian financial system since 2011, but its provision was restricted to credit institutions. The new law allows the SEDPEs to offer electronic deposits with the same features as those offered by banks, i.e. deposits may be remunerated and are covered by the Guarantee Fund for Financial Institutions. However, as the SEDPEs are not subject to the same regulation and supervision as banks, they are not allowed to conduct financial intermediation and must hold 100% of the funds raised in overnight deposits either at commercial banks or at the central bank. The law also establishes that the SEDPEs fall under the supervision of the financial watchdog (*Superintendencia Financiera*) and must hold a minimum capital of 5,846 million pesos (roughly 1.66 million euros) – a figure which is revised annually according to the CPI.

Second-level regulation

The October 2014 law mandated the government to establish additional financial requirements for the SEDPEs, as well as to define the limits and 'know your customer' (KYC) requirements of electronic deposits. The government did so on 13 July by Decree No. 1491, which establishes a prudential capital requirement for the SEDPEs of 2% of the funds raised. Regarding electronic deposits, the decree establishes two different categories: one with a simplified account-opening procedure (no physical presence required) but subject to limits for balances and debit transactions per month (three monthly minimum wages), and another one with the standard KYC requirements and AML/CFT procedures but which is subject to no such limits. This was particularly surprising, as the draft decree released by the government in March 2015 also set limits for the deposits with standard opening procedures; only special electronic deposits for payment collecting purposes were not subject to limits.

Colombian regulation in the Latin American context

As shown in Table 1, there are several aspects in which Colombia differs from the general regulatory approach: i) electronic deposits may be interest-bearing; ii) they are directly covered by the deposit guarantee scheme, and iii) they are not subject to amount limits when the standard KYC procedures are applied.

Table 1
Comparison of the e-money regulatory framework in Latin American countries

	Colombia	Paraguay	Peru	Uruguay
Prudential capital requirement for non-bank issuers	2%	No	2%	No
Limits to balances and transactions	Only for simplified accounts	Yes	Yes (standard accounts: only limit to transactions)	Not specified
Interest payable on deposits	Allowed	Not allowed	Not allowed	Not allowed
Deposit guarantee scheme	Yes	No	No	No
Type of assets in which non-bank issuers must hold the raised funds	Bank deposits	Bank deposits	Bank deposits, government securities (up to 30%) or other authorised liquid assets	Bank deposits, government securities or other authorised liquid assets

Source: BBVA Research

Opening the e-money business to non-bank institutions, such as mobile network operators (MNOs), has the potential to reach the unbanked population more rapidly, leveraging the MNOs' infrastructures and customer bases. However, given the simplified licensing of non-bank players as well as the transactional purpose of e-money, there should be amount limits for balances and transactions, as is the case in most of the e-money regulations worldwide. Otherwise, risks may arise if non-bank institutions are not properly supervised.

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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

Pablo Urbiola
pablo.urbiola@bbva.com

Isabel Vegas
isabel.vegas@bbva.com

With the contribution of:

Alfonso Arellano Espinar
alfonso.arellano.espinar.contractor@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

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

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

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

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

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

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Oswaldo López
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
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

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

Contact details:

BBVA Research
Azul Street, 4
La Vela Building - 4 and 5 floor
28050 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