IFC Mobile Money Scoping
Country Report: Nicaragua
Pascal SIMON
May 21, 2012
## Nicaragua Summary

<table>
<thead>
<tr>
<th>Overall Mobile Money Readiness</th>
<th>3 (Moderate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Mobile Money Solution</td>
<td>mPeso</td>
</tr>
<tr>
<td>Population</td>
<td>5.9 million (Low)</td>
</tr>
<tr>
<td>Mobile Penetration</td>
<td>71% (High)</td>
</tr>
<tr>
<td>Banked Population</td>
<td>5% (Very Low)</td>
</tr>
<tr>
<td>Remittance % of GDP</td>
<td>10.3% (High)</td>
</tr>
<tr>
<td>Percent under poverty line</td>
<td>54% (High)</td>
</tr>
<tr>
<td>Economically Active population</td>
<td>40.4% (Moderate)</td>
</tr>
<tr>
<td>Adult Literacy</td>
<td>69% (Moderate)</td>
</tr>
<tr>
<td>Main banks</td>
<td>Banco de la Producción, Banco Lafise, Banco de América Central</td>
</tr>
<tr>
<td>Mobile Network Operators</td>
<td>Claro (60% market share), Movistar (40%)</td>
</tr>
<tr>
<td>Ease of doing business</td>
<td>118th out of 183</td>
</tr>
</tbody>
</table>

### Opportunities

Nicaragua is one of the fastest growing economy in Central America but suffers from a weak banking and financial sector that was partially affected by the economic crisis. Financial inclusion numbers remain very low compared to regional standards. The mobile telecom market is shared between two large regional mobile network operators: Claro and Movistar. So far, only one mobile money solution, MNO agnostic, has been launched.
• Macro-economic Overview

• Regulations
• Financial Sector
• Telecom Sector
• Distribution Channel
• Mobile Financial Services Landscape
**Macro-Economic Overview**

**Key Country Statistics**
- Population 5,891,199 (density 114ppl/sqm)
- A very young population:
  - Median age 22.9 year-old
  - 31.7% are under 14 year-old
- $18.77Bn GDP in 2011 (PPP)
- $3,200 GDP per capita (PPP)
- Population below the poverty line: 46.2% (2005)
- Rural population: 43% (urbanization rate of 2%)
- Literacy rate 67.5%
- Banking penetration 5%
- 4.2Mio mobile phones in 2010
- Annual remittance: 10.32% of 2011 annual GDP

**Insights**
- One of the largest market opportunity in Central America with over 4m people that could be potential targets of mobile money services.
- Extremely low banking penetration and low usage of banking services combined to a relatively high mobile penetration, makes mobile a relevant channel to explore
- Significant part of the GDP comes from international money transfer, which makes mobile remittance a service to be considered
- G2P Payment is an other relevant market to explore taking into consideration the dynamism of government social assistance program in Nicaragua

Sources: IOM world, Wikipedia, 2010 CIA WORLD FACTBOOK, GSMA
Mobile & Banking Penetrations

Several factors limit banking growth

1. Banking infrastructure availability is low in Nicaragua:
   - 39 ATMs / 1000 adults (2006)
   - 1.58 ATMs / 1000 km² (2006)

2. Rural areas lack extensive access to financial services

Banking sector in Nicaragua remains small despite significant growth in the past decade. Banking penetration level is extremely low at 5% compared to 71% mobile penetration as of 2010.

Whereas mobile penetration has increased steadily

Mobile penetration rate evolution in Nicaragua

Sources: IOM world, Wikipedia, 2010 CIA WORLD FACTBOOK, GSMA
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### Regulatory Bodies

<table>
<thead>
<tr>
<th>Regulatory Body</th>
<th>Roles &amp; Responsibilities</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF)</strong></td>
<td>- Role: monitors and issues regulation for banks, nonbank financial entities (financieras), savings and loan institutions, insurance companies</td>
<td>- Nicaragua issued an E-money regulation in 2011</td>
</tr>
<tr>
<td><strong>Banco Central de Nicaragua (BCN)</strong></td>
<td>- Role: Maintain stability of the national monetary system</td>
<td>- Mobile transfers and mobile payments using the mobile phone, or other device, must be linked to a physical bank account.</td>
</tr>
</tbody>
</table>
| **Instituto Nicaragüense de Telecomunicaciones y Correos (TELCOR)** | - Role: legal authority to supervise, regulate and coordinate the Telecommunication and Postal services on behalf of government | - There are two laws in Nicaragua governing the use of Mobile banking:  
  - Norma sobre Gestión de Riesgo Tecnológico  
  - Norma para la Autorización y Funcionamiento de Entidades que Operan con Dinero Electrónico |

Source: SiBOIF, BCN, TELCOR
In recent years, Nicaragua has taken several steps aiming at improving its AML/CFT regulation:

- Establishing effective CDD measures and record-keeping requirements, in particular entities not currently regulated by the supervisory authority (Recommendation 5 and Recommendation 10)
- Establishing adequate STR reporting obligations for money laundering and financial terrorism (Recommendation 13 and Special Recommendation IV)
- Implementing an adequate AML/CFT supervisory program for all financial sectors (Recommendation 23)
- Ensuring a fully operational and effectively functioning Financial Intelligence Unit (Recommendation 26)
- Establishing adequate procedures for identifying and freezing terrorist assets (Special Recommendation III)
- Revised regulation on Microfinance to strengthen the microfinance sector

Nicaragua needs to increase efforts in adopting measures to create a standard environment for management of money laundering and terrorism risks

- Create a Financial Intelligence Unit to monitor suspicious transactions
- Account opening: Customer identification/verification
- Revise accounts limits for agents
- System audit and daily reconciliations
## Additional Regulatory Considerations

### E-Money

- **Current Regulations**
  - SIBOIF has issued a e-money regulation (Resolution CD-SIBOIF-671-1-03/2011) that defines non banking financial institutions as purveyors of financial services (payments disbursement / collection) using mobile phones and guarantee the e-money creation

- **Implications**
  - EDEs (Entidades de Dinero Electrónico) must submit an application to the SIBOIF to be authorized to offer e-money services.
  - Entities already supervised by the SIBOIF are subject to less restrictive application measures.

### Agents

- **Current Regulations**
  - EDEs are supervised and regulated by the SIBOIF
  - EDEs can facilitate payment services using the mobile device within a CTM (Circuito de Transacciones Móviles)
  - CTM is the combination of instruments, mechanisms, processes and norms for the real time storage and transfer of e-money
  - EDEs must comply with several prerequisite to be able to operate as mobile money operators

- **Implications**
  - Agents and CTMs (Circuito de Transacciones Móviles) are managed by the ETEs
Customer Protection

EDE must provide users with clear, intelligible, true and complete information on the products and services they offer, cost table, how to get access to the services, potential risks associated, authorized agents and transaction centers.

Payment Services

EDEs are authorized to provide the following services: e-wallet activation, cash-in/cash-out, balance enquiry, transaction history, P2P transfers, B2C, C2B

Implications

- No need to formally work with a bank to provide some payment services
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Financial Infrastructure

<table>
<thead>
<tr>
<th>Banks</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Commercial domestic Banks</td>
<td>4</td>
</tr>
<tr>
<td>Commercial foreign Banks</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Branches</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ATMs</td>
<td>328</td>
</tr>
<tr>
<td>Branches</td>
<td>214</td>
</tr>
<tr>
<td>POS</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Microfinance Institutions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 50,000 customers</td>
<td>1</td>
</tr>
<tr>
<td>20,000 to 50,000 customers</td>
<td>5</td>
</tr>
<tr>
<td>&lt; 20,000 customers</td>
<td>27+</td>
</tr>
</tbody>
</table>

Facts:

- Banking sector in Nicaragua is small and highly concentrated with only seven banks currently under operations (+1 additional in liquidation), and the three leading banks concentrating 78% of assets in 2010

Clearing and Settling

- Ownership: Banco Central de Nicaragua (BCN) is responsible for clearing of córdoba-denominated cheques
- Participants: Financial Institutions registered at the BRH
- Real time settlement (HTG or USD)
- 24 hours in the capital city area
- Leading local banks take up to 15 days to clear US-dollar-denominated cheques and 20 days for cheques from European or Canadian banks.

Source: BRH, HiFive, Amarante Analysis
## Bank Snapshot

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share</th>
<th>Branches</th>
<th>ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco de la Producción</td>
<td>32.8%</td>
<td>53</td>
<td>96</td>
</tr>
<tr>
<td>Banco Lafise Bancentro</td>
<td>26.5%</td>
<td>67</td>
<td>85</td>
</tr>
<tr>
<td>Banco de América Central</td>
<td>19.4%</td>
<td>29</td>
<td>108</td>
</tr>
<tr>
<td>Banco de Finanzas</td>
<td>9.2%</td>
<td>28</td>
<td>39</td>
</tr>
<tr>
<td>Banco Citibank de Nicaragua</td>
<td>5.2%</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Banco Procredit</td>
<td>3.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco Fomento de la Producción</td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SIBOIF, EIU
## MFI Snapshot

<table>
<thead>
<tr>
<th>MFI</th>
<th>Active borrowers</th>
<th>Loan Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>BANEX</td>
<td>23,931</td>
<td>$115,443,294</td>
</tr>
<tr>
<td>ProCredit - NIC</td>
<td>N/A</td>
<td>$81,936,243</td>
</tr>
<tr>
<td>FDL</td>
<td>67,095</td>
<td>$62,036,980</td>
</tr>
<tr>
<td>Financiera Fama</td>
<td>N/A</td>
<td>$22,423,265</td>
</tr>
<tr>
<td>PRODESA</td>
<td>17,324</td>
<td>$15,092,525</td>
</tr>
<tr>
<td>ACODEP</td>
<td>22,130</td>
<td>$12,676,681</td>
</tr>
<tr>
<td>PRESTANIC</td>
<td>10,349</td>
<td>$11,933,867</td>
</tr>
</tbody>
</table>

Source: Mixmarket, 2012
- Macro-economic Overview
- Regulations
- Financial Sector

**Telecom Sector**

- Distribution Channel
- Mobile Financial Services Landscape
## Mobile Network Operators

<table>
<thead>
<tr>
<th>Operator</th>
<th>Market Share</th>
<th>Subscribers (Dec 2010)</th>
<th>Market Share</th>
<th>Known MFS Project Underway</th>
</tr>
</thead>
<tbody>
<tr>
<td>América Móvil</td>
<td>99.3%</td>
<td>2.32M</td>
<td>60%</td>
<td>No</td>
</tr>
<tr>
<td>Telefonica MoviStar</td>
<td>100%</td>
<td>1.68M</td>
<td>40%</td>
<td>No</td>
</tr>
</tbody>
</table>

Sources: Wikipedia, interviews with partners, Amarante Analysis
Key Learning:

- Highly dynamic market, subscribers base exceeds the 18M mark; market penetration is largely above 100%
- Mobile market is fragmented, divided between 3 mobile operators:
  - Tigo (Comcel) is the market leader operator in the market with more than 40% of total subscribers followed by Claro with 34% and Movistar with 23%
- Mobile subscribers growth is expected to remain flat in the years to come

Sources: Telcor
ARPU has been declining over the years

- Need additional value stream to boost it
- Offering services to differentiate its offering

Key figures:
- Saturated mobile penetration rate in Guatemala, population already covered by mobile services

Need for value creation and new revenue streams beyond traditional voice
Mobile Outlook - a Prepaid Market

Key figures:
- As of end June 2011, Prepaid customers account for 95% of total customer base
- Claro’s postpaid customers (as a %) has been relatively stable whereas Movistar postpaid customers has been declining

Consequence:
- Market likely to be more volatile as competition increases
- Two MNOs (market leaders) have already introduced MFS

Sources: Telcor
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Distribution Landscape

- The retail market is relatively small, mainly concentrated in the urban areas (Managua, Granada, Chinandega...)

- Most of the distribution is made through self-service stores (supermarkets, convenience stores) and retail channels (mom and pop stores, informal channels)

Source: US Embassy
- Macro-economic Overview
- Regulations
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Current MFS Initiatives in Nicaragua

- **Level of financial integration**
  - +
  - -

- **Regulatory barrier for non FI to issue accounts**
  - +

- **Operator-led model**
  - Service entirely distributed and managed by the operator under its own license and own brand

- **Operator-driven model**
  - Service distributed and managed by the operator under a partnering bank’s license

- **Joint Venture model**
  - Service co-branded and co-distributed with the operator and/or the bank

- **Bank-led model**
  - Mobile channel is only seen as an access channel (bearer) to banking services

- **Third-party led Model**

- **Highlights**

  - As of today, there is only one mobile money service in Nicaragua and that can work with any phones and any mobile network operators

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**Current MFS Initiatives in Nicaragua**

- As of today, there is only one mobile money service in Nicaragua and that can work with any phones and any mobile network operators.
MFS Implementations

- Service launched in Nicaragua in Jan 2011
- Services: Domestic transfers, International transfers, Bill payments, Donations, Salary/pension disbursements, Loan Distribution/payments
- Technology: NSDT (near sound data transfer) using tagpay platform (Tag Attitude)
- Partners: works with Claro and Movistar
- Distribution network: 97 agents (pulperias, pharmacies,...)
- Mpeso tariffs:
  - Registration: free
  - Remittances and Cash-out: C$5 for transactions between C$1 and C$150, C$20 for transactions between C$151 and C$1000, C$30 for transactions between C$1001 and C$2500

US$ 1 = C$ 23.35