

IFC Mobile Money Scoping Country Report: El Salvador

Pascal SIMON

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El Salvador Summary

Overall Mobile Money Readiness	2/3 (Low/Moderate)
Current Mobile Money Solution	Tigo Money
Population	6.1 million (Very Low)
Mobile Penetration	126.53% (Very High)
Banked Population	26% (Low)
Remittance % of GDP	15.7% (High)
Percent under poverty line	36.5% (High)
Economically Active population	42.2% (Moderate)
Adult Literacy	81% (High)
Main banks	Banco Agrícola, Banco Citibank de El Salvador, Banco HSBC Salvadoreño, Banco Scotiabank El Salvador
Mobile Network Operators	Tigo (51.2% market share), Claro (32.1%), Movistar (16.7%)
Ease of doing business	112 th out of 183

Mobile Money readiness	
Regulation	1
Financial Sector	2
Telecom Sector	3
Distribution Channel	3
Market Demand	4

Opportunities

El Salvador is one of the most densely populated **country** of Central America. Its microfinance sector is strong and highly competitive whilst its banking sector remains focused on middle to high-income customers. The base of the pyramid remains largely unaddressed by the financial system. El Salvador lacks of a clear regulatory framework for the use of Mobile Financial Services and branchless/agency banking which has limited so far the development of such solutions. As of today, only Tigo has launched a Mobile Money solution in El Salvador.

- Macro-economic Overview
- Regulations
- Financial Sector
- Telecom Sector
- Distribution Channel
- Mobile Financial Services Landscape

Macro-Economic Overview

Key Country Statistics

- Population 6,090,646 (density 289ppl/sqm) as of 2012
- A young population:
 - Median age 24.3 year-old
 - 30.6% are under 14 year-old
- \$44.78Bn GDP in 2011 (PPP)
- \$9,300 GDP per capita (PPP)
- Population below the poverty line: 36.5% (2010)
- Rural population: 36% (urbanization rate of 1.4%)
- Literacy rate 81%
- Banking penetration 26%
- 7.823Mio mobile phones in 2011
- Annual remittance: 15.70% of 2011 annual GDP

Insights

- El Salvador is a relatively small market in terms of customer potential for mobile financial services ,with about 3 to 3.5m potential target customers
- Banking penetration and usage of banking services are very low, but with a high mobile penetration rate, mobile can become an enable factor to promote financial inclusion
- Microfinance and international remittances are highly dynamic markets in El Salvador and may present interesting opportunities for MFS providers providing an adequate infrastructure is built
- G2P payments may present an interesting opportunity as well

Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA

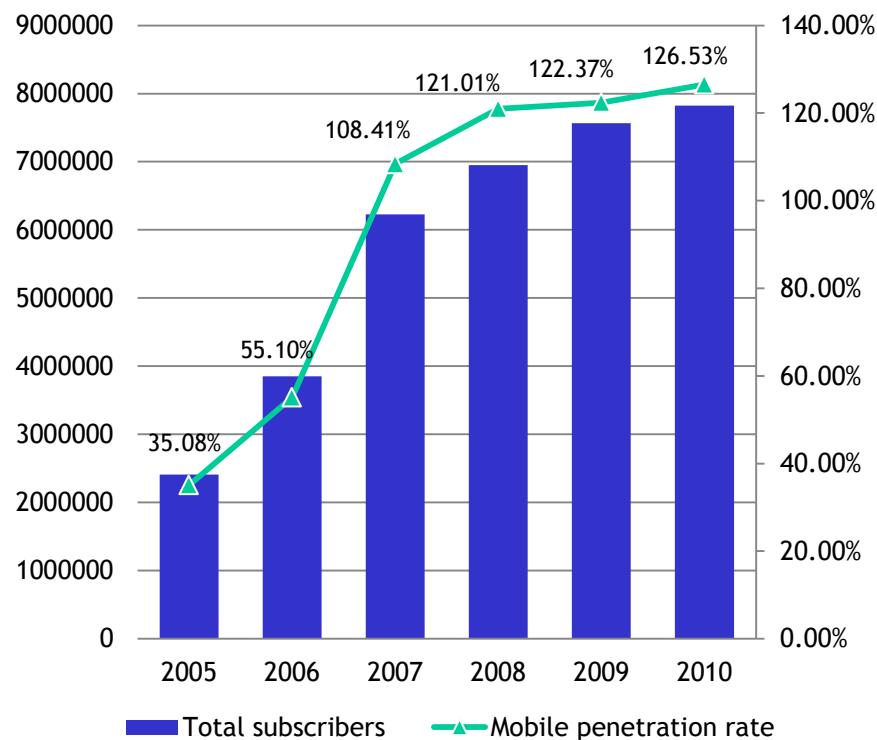
Mobile & Banking Penetrations

Several factors limit banking growth

1. In comparison with other central American countries, banking infrastructure availability is relatively good in El Salvador:
 - 27.21 ATMs / 1000 adults
 - 53.96 ATMs / 1000 km²
 - 520.83 ATMs / 1000 adults
 - 1,032.67 ATMs / 1000 km²
2. Some banks (Banco Cuzcatlan, HSBC and Banco Agrícola) offer free and simple savings accounts targeting to low-income clients, and compete directly with credit cooperatives and microfinance institutions

Whereas mobile penetration has increased steadily

Mobile penetration rate evolution in El Salvador



Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA

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Regulatory Bodies

Roles & Responsibilities

Banco Central de Reserva de El Salvador (BCR)

- Role: maintain stability and liquidity of the financial system, promote the development of an efficient competitive financial system. BCR is consulted in the SSF's regulatory process

Superintendencia del Sistema Financiero (SSF)

- Role: responsible for the regulation and the supervision of the financial system, which includes banks, nonbanks and insurers

Unidad de Información Financiera (UIF)

- Role: Supervise and monitor formal AML policies and procedures, KYC policies and procedures, ongoing monitoring of customers, and filing suspicious transaction reports (STRs)

Superintendencia General de Electricidad y Telecomunicaciones (SIGET)

- Role: legal authority to supervise, regulate and coordinate the Electric Power and Telecommunication services

Implications

- Branchless banking is still in its early stage in El Salvador
- The current legal and regulatory framework is not clear on the use of retail agents and branchless banking
- However, some banks and financial institutions have started exploring the agent model and mini-branches
- In addition, one nonbank-based mobile money initiative has been launched by Tigo

Source: SSF, BCR

Regulatory Framework & Requirements

KYC/AML Requirements

Current Regulations

- El Salvador signed the Central American Treaty against Money Laundering in 1997
- Financial institutions are required to have policies and systems in place that give them access to the identity and transactional profiles of their clients
- In order to open a bank account, clients need to complete a form in which they provide their name, birth place and date, nationality, address, profession and marital status. Clients must also present an identity card, although the law does not specify which documents are acceptable
- Banks and insurance companies must inform the FIU of any transaction (or multiple transactions) over USD 500,000
- Data storage of all transactions must be for a minimum period of 5 years.
- Bank accounts must be opened in person by the client, as a way to reduce the risk of the use of such accounts for criminal purposes.

Implications

- **Account opening:** Customer identification /verification. Law is flexible enough to allow customer due diligence procedures to be conducted by a third party such as retail agents
- **Data storage** for 5 years. Processes will need to be developed for data collection & storage.
- Current regulatory framework for AML/CFT does not pose significant barriers to the development of branchless banking, the financial authorities could create an enabling framework by issuing clear risk-based rules for customer due diligence in transactions conducted through agents and other electronic means

Source: CGAP

Additional Regulatory Considerations

Current Regulations

E-Money

- 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

Agents

- There is no regulation on agency or on outsourcing of bank activity
- Bank law is not clear whether banks and cooperative banks may operate outside branches but does not explicitly prohibit the use of agents for the delivery of payments and banking services

E-transactions

- The banking law recognizes electronically-authorized financial transactions
- The banking law puts electronic documents at the same level as paper-documents
- There is a draft law currently under consideration in congress pertaining to the advanced legal security of electronic transactions.

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

- Conflicting interpretations regarding the use of agents exist among regulators
- In order to allow the development of agent banking, it is necessary to publicly and clearly authorize licensed and supervised institutions to use retail agents
- Some banks have already started using limited forms of agents

- Electronic financial transactions rely on the commercial code as the main legal basis? A draft law will clarify the principles of digital signatures for financial transactions

Source: CGAP

Additional Regulatory Considerations

Current Regulations

Payment systems and Services

- There is no national payments law in El Salvador apart from the general norms contained at the Central American treaty on payments
- Payment services providers are not regulated or supervised to date
- BCR has regulatory power over check clearinghouse and other payment systems

Customer Protection

- There is no specialized agency or a comprehensive regulatory framework that deals with financial consumer protection
- Consumer protection law has many provisions to protect financial services users and the banking law also provides some basic protections

Data privacy and security

- Data collection between a client and a financial institution is not regulated in El Salvador (there is a draft law in congress to govern data privacy)
- data collected by credit bureaus is regulated.
- Bank customers – regardless of the type of delivery channel used – are also protected by the bank secrecy rule

Implications

- Need to define a clear regulatory framework for payment services and payment service providers

- Need for a clear framework dealing with customer protection and data privacy and in particular for technology use
- Banks must clarify consumer rights and obligation in e-transactions and put in place a system for e-signature

Source: CGAP

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Financial Infrastructure

Banks	
Private banks	12
State owned banks	2
Branches	
ATMs	1135
Branches	378
Microfinance Institutions	
> 20,000 customers	4
10,000 to 20,000 customers	2
< 10,000 customers	12+

Clearing and Settling

.There are no electronic links between BCR and the commercial banks and thus no same-day settlement

.There is one formal cheque clearinghouse run by BCR

Credit Bureaus

There are several Credit Bureaus in El Salvador

Infocred is a credit bureaus specialized in Microfinance

Facts:

- The four largest private banks retain 80% of the total assets of the banking system
- The microfinance and international remittances sectors in the country are highly developed
- Credit bureaus are particularly strong in El Salvador. Private bureaus cover 83% of adult population
- Limited interoperability in retail payments (most banks have their own POS and ATM networks)

Source: CGAP, Economist Intelligence Unit

Bank Snapshot

Banco Agrícola	• 27.8% market share	• 68 branches • 285 ATMs
Banco Citibank de El Salvador	• 16.3% market share	• 31 branches • 9 mini banks • 174 ATMs
Banco HSBC Salvadoreño	• 14.6% market share	• 71 branches • 189 ATMs
Banco Scotiabank El Salvador	• 14.6% market share	• 56 branches • 121 ATMs
Banco de America Central	• 9.5% market share	• 36 branches • 228 ATMs
Banco Hipotecario	• 4.2% market share	• 21 branches • 39 ATMs
Banco Promerica	• 4.2% market share	• 30 branches

Source: Superintendencia del sistema financiero, banks websites




MFI Snapshot

ProCredit - SLV	• Active borrowers: <i>N/A</i>	• Loan Portfolio: \$ 216,731,870
Apoyo Integral	• Active borrowers: <i>N/A</i>	• Loan Portfolio: \$ 66,955,490
ACCOVI	• Active borrowers: <i>N/A</i>	• Loan Portfolio: \$ 60,955,050
CCAMETRO	• Active borrowers: 10,632	• Loan Portfolio: \$ 23,416,155
AMC de R.L.	• Active borrowers: 13,811	• Loan Portfolio: \$ 16,369,890
Fundación CAMPO	• Active borrowers: 6,948	• Loan Portfolio: \$ 8,811,743
ENLACE	• Active borrowers: 30,157	• Loan Portfolio: \$ 7,923,927

Source: Mixmarket, 2012

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Mobile Network Operators

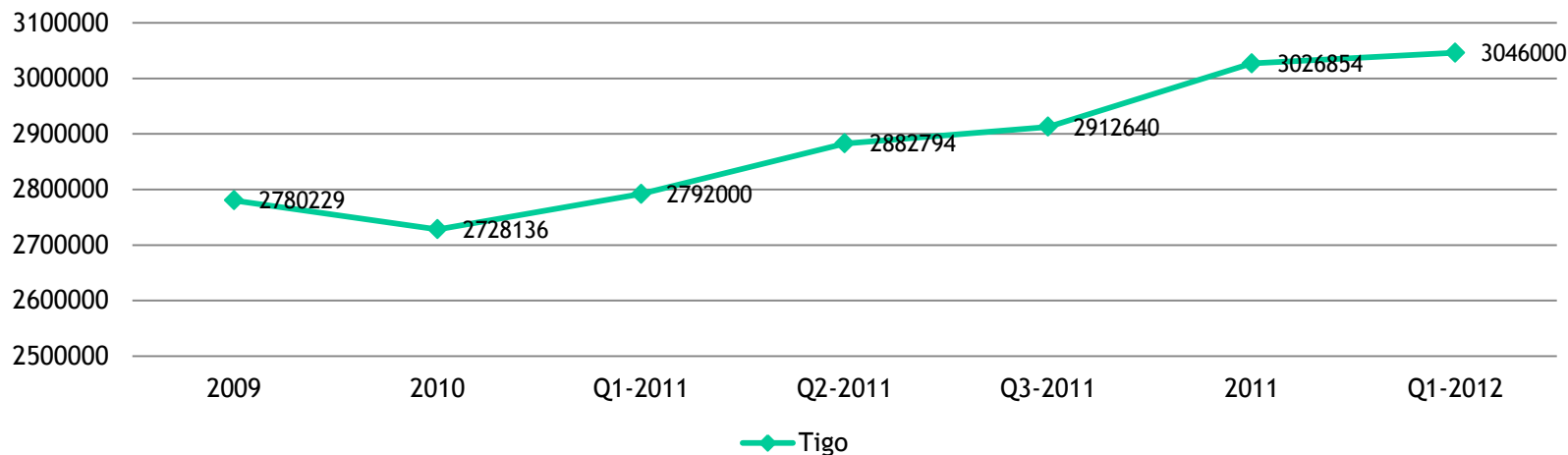
	<ul style="list-style-type: none">• 100% MIC	<ul style="list-style-type: none">• 3.05M subs (Mar 2012)• 51.2% Market share	<ul style="list-style-type: none">• Tigo Money launched in 2011
	<ul style="list-style-type: none">• 95.8% América Móvil	<ul style="list-style-type: none">• 1.91M subs (2012 est.)• 32.1% Market share	<ul style="list-style-type: none">• No known MFS project underway
	<ul style="list-style-type: none">• Telefónica	<ul style="list-style-type: none">• 0.99M subs (2012 est.)• 16.7% Market share	<ul style="list-style-type: none">• No known MFS project underway

Note: Claro acquired Digicel El Salvador in 2011

Sources: Wikipedia, MNOs websites, Amarante Analysis

Mobile Outlook - a Dynamic Market

Mobile Subscribers



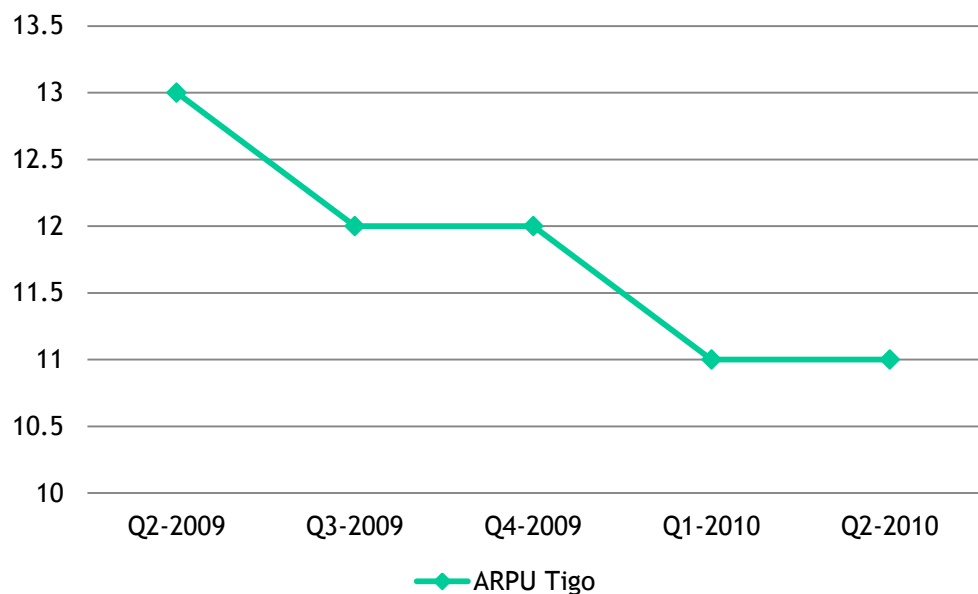
Key Learning:

- As of 2010, estimated total subscribers base is above 7.8M with a very high market penetration of 126%
- Three international mobile network operators operate since the purchase of Digicel by Claro:
 - Tigo is the market leader with an estimated 51% market share followed by Claro that benefited from the acquisition of Digicel customers
- Despite a high penetration rate, Mobile-phone subscribers continue to grow in El Salvador but at a lower rate since 2008 (2 to 3% average yearly growth rate)

Sources: Tigo

Mobile Outlook - ARPU Trend

ARPU/Operator (\$US equivalent)



Sources: Tigo

Key learnings and conclusions

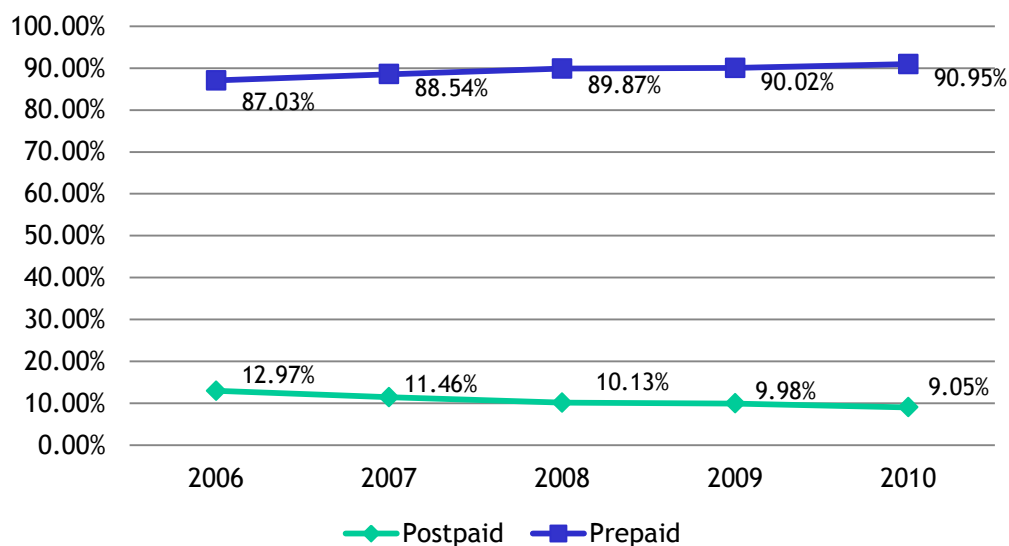
- **ARPU has been declining over the years**
 - Highly competitive environment
 - Some users have more than one mobile phone and split their mobile expenses between their phones
- **Consequences:**
 - Offering services to differentiate offering and boost ARPU levels



Need for value creation and new revenue streams beyond traditional voice

Mobile Outlook - a Prepaid Market

Prepaid/postpaid customers (as a %)



Sources: Siget

Key learnings and conclusions

- **Key figures:**
 - As of 2010, Prepaid customers account for close to 91% of total customer base
 - Prepaid customers have been on the increase over the past years
 - Prepaid customer base is very high compared to other Central American countries.

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Distribution Landscape

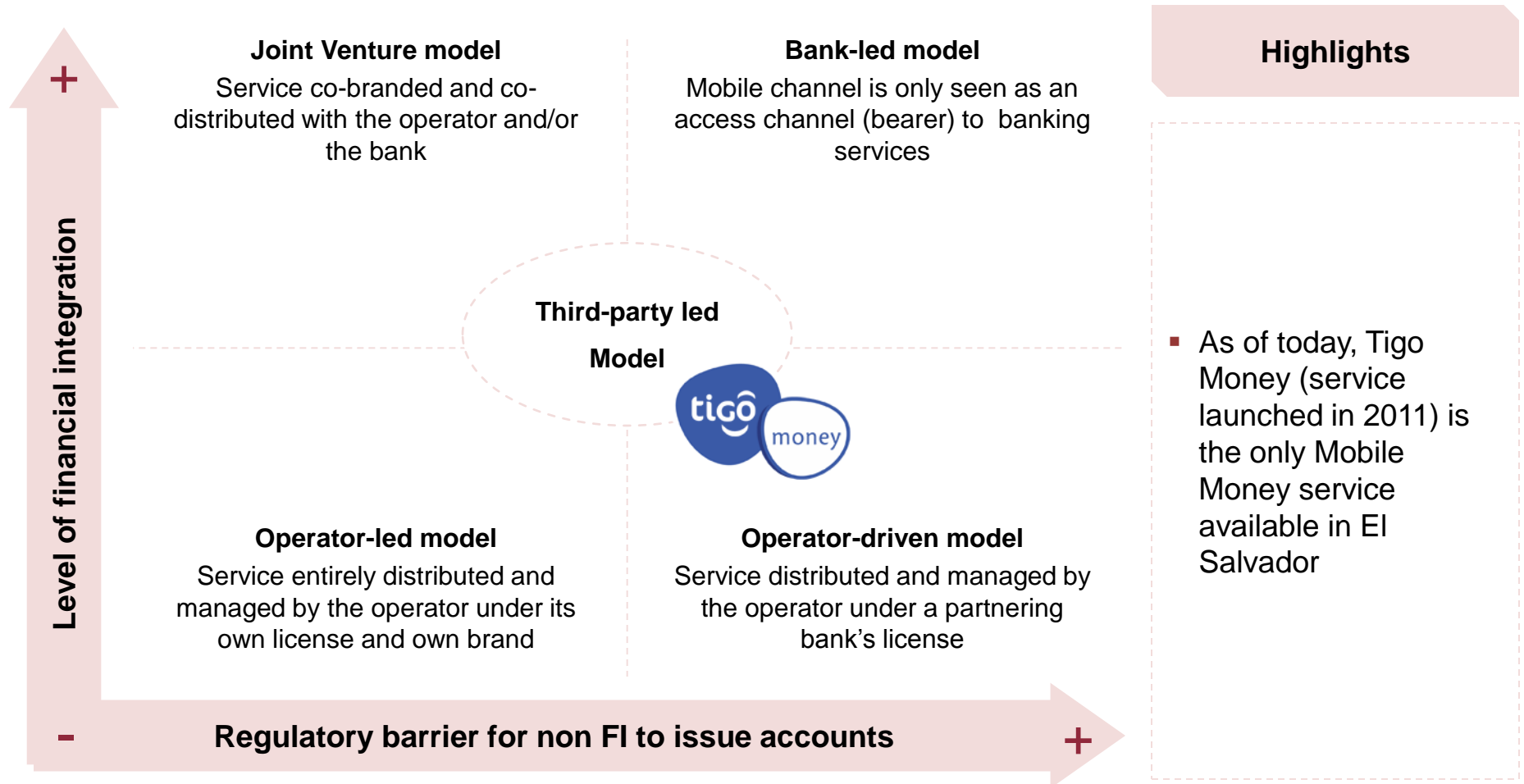
- The retail sector is a dynamic market in El Salvador dominated by 3 main supermarket chains that coexist with tradition corner stores and mom-and-pop shops
- The nation's three most populous cities (San Salvador, Santa Ana and San Miguel) account for most of the retail distribution infrastructure

Source: USDA



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Current MFS Initiatives in DR



MFS Implementations



- Service launched in El Salvador in 2011
- Services: Airtime Top-up, Domestic Money Transfer
- Distribution network: 44 affiliated agents including Mini centros de servicio
- Tigo Money tariffs:
 - Registration: FREE
 - P2P Transfers: \$0.5 of total amount.
 - Can send up to \$300/day, \$1,500/week and \$2,500/month
 - At launch, 50% of the money was received as promotional minutes