

IFC Mobile Money Scoping Country Report: Dominican Republic

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Federal Department of Economic Affairs,
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Dominican Republic Summary

Overall Mobile Money Readiness	3 (Moderate)
Current Mobile Money Solution	Tpago
Population	10.1 million (Low)
Mobile Penetration	90.7% (Very High)
Banked Population	29% (Low)
Remittance % of GDP	7.3% (Moderate)
Percent under poverty line	42% (High)
Economically Active population	46.8% (Moderate)
Adult Literacy	87% (High)
Main banks	Banco Popular Dominicano, Banco de Reservas de la Republica Dominicana, Banco BHD
Mobile Network Operators	Claro (51.5% market share), Movistar (37.7%)
Ease of doing business	108 th out of 183

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

Opportunities

Dominican Republic is one of the most populated country in the Caribbean Region and has one of the highest rate of mobile phone per capita of all Latin America. Despite an important development of its banking system, both from regulatory and infrastructure points of view, banking access remains low with most of the population still classified as unbanked or under-banked. The potential for mobile financial services is strong even though, as of today only one solution has been launched, with relatively good success.

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

Macro-Economic Overview

Key Country Statistics

- Population 10,088,598 (density 208ppl/sqm)
- A young population:
 - Median age 26.1 year-old
 - 29.5% are under 14 year-old
- \$93.23Bn GDP in 2011 (PPP)
- \$9,300 GDP per capita (PPP)
- Population below the poverty line: 42.2% (2004)
- Rural population: 31% (urbanization rate of 2.1%)
- Literacy rate 87%
- Banking penetration 29%
- 8.836Mio mobile phones in July 2010
- Annual remittance: 7.33% of 2011 annual GDP

Insights

- DR is one of the largest markets in terms of size potential in the Caribbean region
- Median age and high literacy rate are enabling factors
- A very large segment of the population is not banked, spurring the need for a new access channel and a new financial instrument to serve the unbanked and under-banked with relevant services
- With strong migration (to and from DR) and significant international money flows, international remittances appear as a market to consider (outbound to the US, Europe... and Inbound from Haiti...)
- Similarly, there are likely to be significant money flows from/to urban areas to/from rural areas and inner island (e.g. people going to study in the city)

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

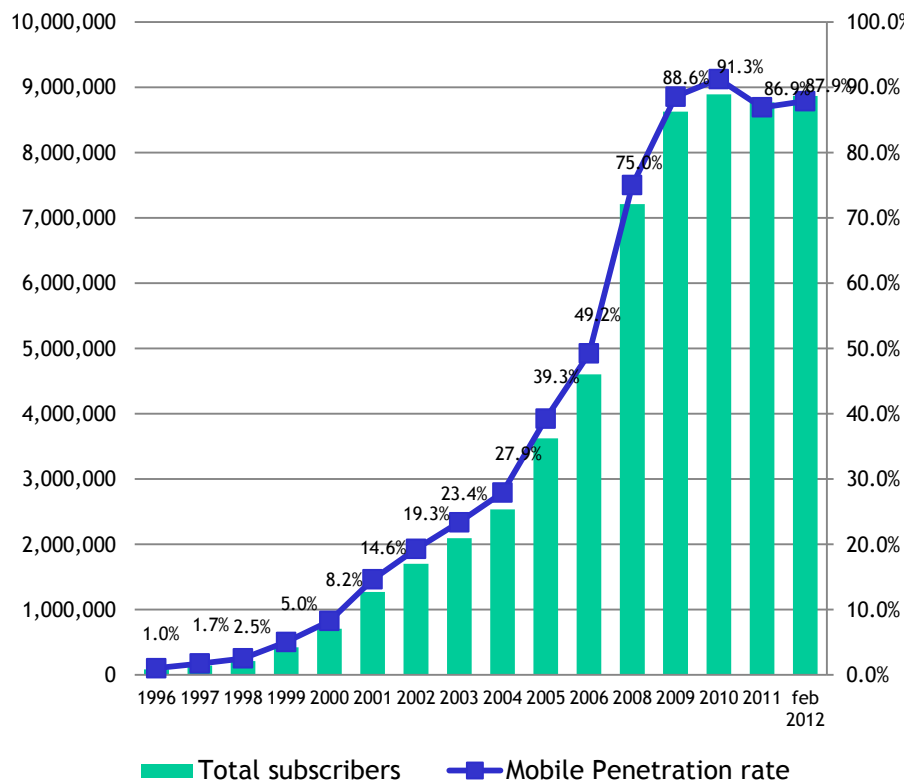
Mobile & Banking Penetrations

Several factors limit banking growth

1. Financial institutions have a limited presence in the country:
 - 27.11 ATMs / 1000 adults
 - 37.58 ATMs / 1000 km²
2. Dominican Republic has fallen behind other Latin American countries in developing the non banking correspondent model and;
3. Has failed to build an extensive banking infrastructure reaching out the most remote populations

Whereas mobile penetration has increased steadily

Mobile penetration rate evolution in DR



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

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Regulatory Bodies

Roles & Responsibilities

Superintendencia de Valores (SIV)

- Role: institution acting on behalf of the government whose main role is to promote, regulate and supervise the domestic securities market

Banco Central de la República Dominicana (Bancentral)

- Role: guarantee stability of prices, the appropriate regulation of the financial system, the suitable operation of the payment systems, acting as issuer and executor of the monetary and exchange

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)

Instituto Dominicano de Telecomunicaciones (INDOTEL)

- Role: legal authority to supervise and regulate the development of the telecom market

Implications

- In Dominican Republic, Mobile Financial Services fall into the sphere of payment systems that are regulated by the « Ley Monetaria y Financiera » (Monetary and Financial law)
- in 2006, DR started a project to reform its national payment system that led to the establishment of a RTGS system that allows real time payment and opened the door for mobile payment services

Source: Bancentral, Felaban

Regulatory Framework & Requirements

KYC/AML Requirements

Current Regulations

- Law No. 72-02 “Ley de Lavado de Activos Provenientes del Tráfico Ilícito de Drogas y Sustancias Controladas y Otras Infracciones Graves” criminalizes Anti Money Laundering
- Customer identification: Regulation does not acknowledge validity of eSignatures or electronic fingerprints. Only physical signatures or fingerprints are valid forms of identification
- Customer verification: comply with KYC procedures
- Transaction verification & thresholds:
- All transactions exceeding \$10,000 are treated as suspicious under the law. Banks and FIs are required to report all suspicious transactions to the UIF within 24 hours
- Record keeping: minimum of 10 years

Implications

- AML/CFT framework in Dominican Rep. complies with the international directives on AML/CFT.
- **Account opening:** Customer identification /verification
- **Financial services:**
 - Repeated transactions should be clearly defined
 - A monthly transfer limit should be set for all users to minimize KYC burden
 - A limit should be defined for each transaction.
 - A limit should be defined on the account balance.
 - Maximum daily transfer
- **Data storage** for 10 years. Processes will need to be developed for data collection & storage.
- System audit and daily reconciliations.

Additional Regulatory Considerations

Current Regulations

E-Money

- Dominican Republic has not issued any specific regulations related to electronic money
- E-money is regulated under the payment system law.

Agents

- Dominican Republic is one of the few Latin American countries that has not adopted a specific regulation dealing with non banking correspondents
- Dominican Republic has made more flexible the setting-up of offices, agencies and branches, especially starting 2010 at the Haitian border to ease banking operations after the earthquake

Customer Protection

- The regulation addresses the principles of consumer protection and user rights
- In particular, the following aspects are being addressed: pricing transparency, contract policy...

Implications

- Regulator needs to develop a new provision for regulated banks, MNOs and third-parties who want to provide e-money services.

- Need for a clear regulatory framework dealing with the use of non banking agents

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Financial Infrastructure

Banks	
Bancos Múltiples	16
Bancos de Ahorro y Crédito	24
Corporaciones Crédito	18
Asociaciones de Ahorros y Préstamos	11
Branches	
ATMs	2 058
Branches	931
Microfinance Institutions	
> 20,000 customers	2
10,000 to 20,000 customers	4
< 10,000 customers	7+

Clearing and Settling

A real time gross settlement (RTGS) has been developed in 2006 and brings together banks, distribution channels, mobile operators, payment system administrators and the central banks

- Ownership: Bancentral
- Participants: banks, distribution channels, mobile operators, payment

Facts:

- The three main local banks together own more than 60% market share
- There are few international banks in Dominican Republic; the main foreign banks is Scotiabank that has a regional presence in the Caribbean region
- Credit & Savings Financial Institutions (bancos de creditos y ahorros) have a strong footprint in Dominican Republic

Source: Bancentral, SIV

Bank Snapshot

Banco Popular Dominicano	• 24% market share	• 197 branches • 682 ATMs
Banco de Reservas de la Republica Dominicana	• 25% market share	• 160 branches • 417 ATMs
Banco BHD	• 12% market share	• 91 branches • 282 ATMs
Scotiabank	• 5% market share	• 81 branches • 90 ATMs
Banco Multiple Leon	• 4% market share	• 75 branches • 182 ATMs
Banco Dominicana del Progreso	• 5% market share	• 54 branches • 155 ATMs
Banco Multiple Caribe Internacional	• 2% market share	• 16 branches • 25 ATMs

Source: Superintendencia de Bancos de la Republica Dominicana





MFI Snapshot

ALNAP	• Active borrowers: 40,058	• Loan Portfolio: \$ 281,720,514
Banco ADEMI	• Active borrowers: N/A	• Loan Portfolio: \$ 216,570,415
Banco ADOPEM	• Active borrowers: N/A	• Loan Portfolio: \$ 65,996,728
FONDESA	• Active borrowers: 30,746	• Loan Portfolio: \$ 26,789,384
PYME BHD	• Active borrowers: 8,761	• Loan Portfolio: \$ 8,074,279
ASPIRE	• Active borrowers: 13,659	• Loan Portfolio: \$ 7,691,337
FDD	• Active borrowers: 11,698	• Loan Portfolio: \$ 4,372,280

Source: Mixmarket, 2012

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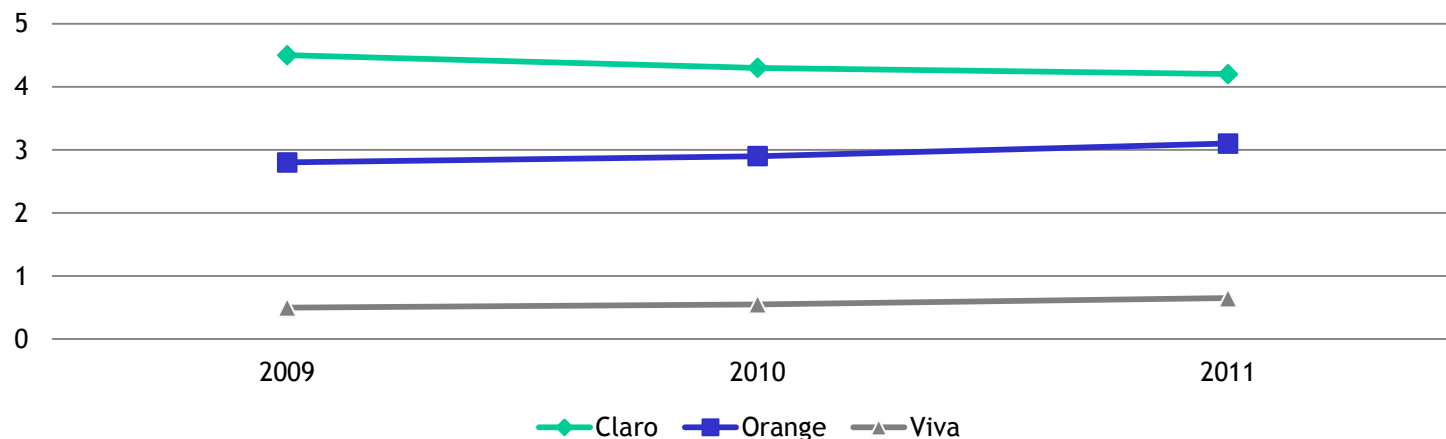
Mobile Network Operators

	<ul style="list-style-type: none">• 100% América Móvil	<ul style="list-style-type: none">• 4.2M subs (Dec 2011)• 51.5% Market share	<ul style="list-style-type: none">• No known MFS project underway
	<ul style="list-style-type: none">• 100% Orange - France Telecom	<ul style="list-style-type: none">• 3.1M subs (Dec 2011)• 37.7% Market share	<ul style="list-style-type: none">• No known MFS project underway
	<ul style="list-style-type: none">• 100% Trilogy International partners	<ul style="list-style-type: none">• 0.65M subs (Dec 2011)• 7.9% Market share	<ul style="list-style-type: none">• No known MFS project underway
	<ul style="list-style-type: none">• 100% Tricom	<ul style="list-style-type: none">• 0.25M subs (Dec 2011)• 3% Market share	<ul style="list-style-type: none">• No known MFS project underway

Sources: Wikipedia, Orange, Amarante Analysis

Mobile Outlook - a Dynamic Market

Mobile Subscribers



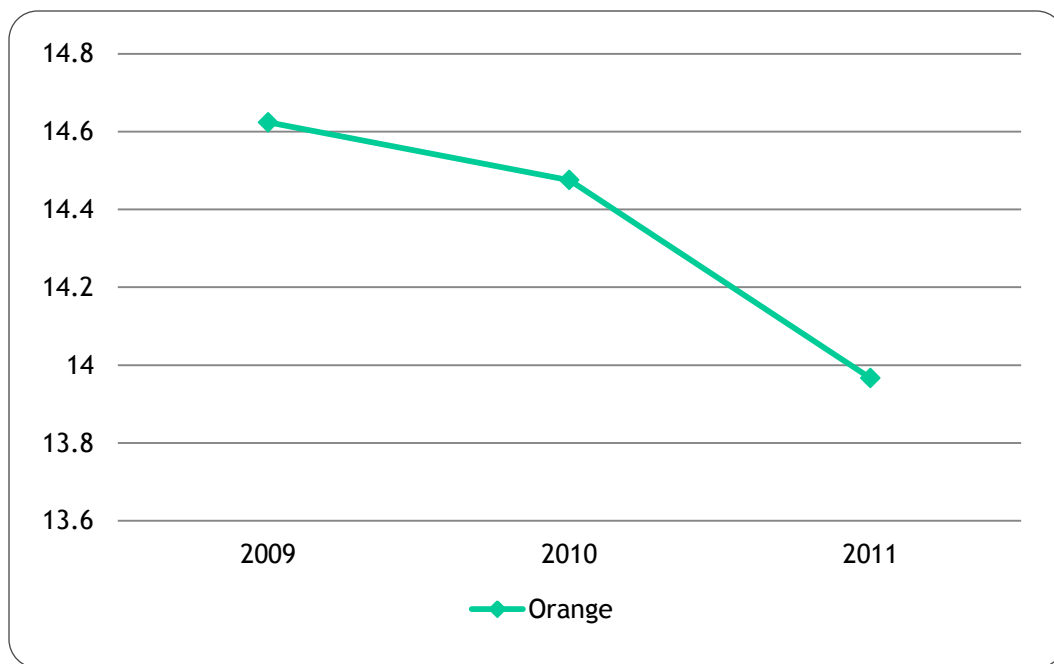
Key Learning:

- Total subscribers base is close to 9M; market penetration is above 90%
- There are 2 main mobile network operators:
 - Claro is the market leader operator with above 50% market share whereas Orange has a 37% market share (2011)
- Mobile-phone subscriber growth has fallen since 2010, reflecting the relatively high penetration
- The regulator in early 2012 allocated digital dividend spectrum for mobile services, which will go far to extending services to underserved rural regions

Sources: Orange, Indotel, Budde

Mobile Outlook - ARPU Trend

ARPU/Operator (\$US equivalent)



Sources: Orange

Key learnings and conclusions

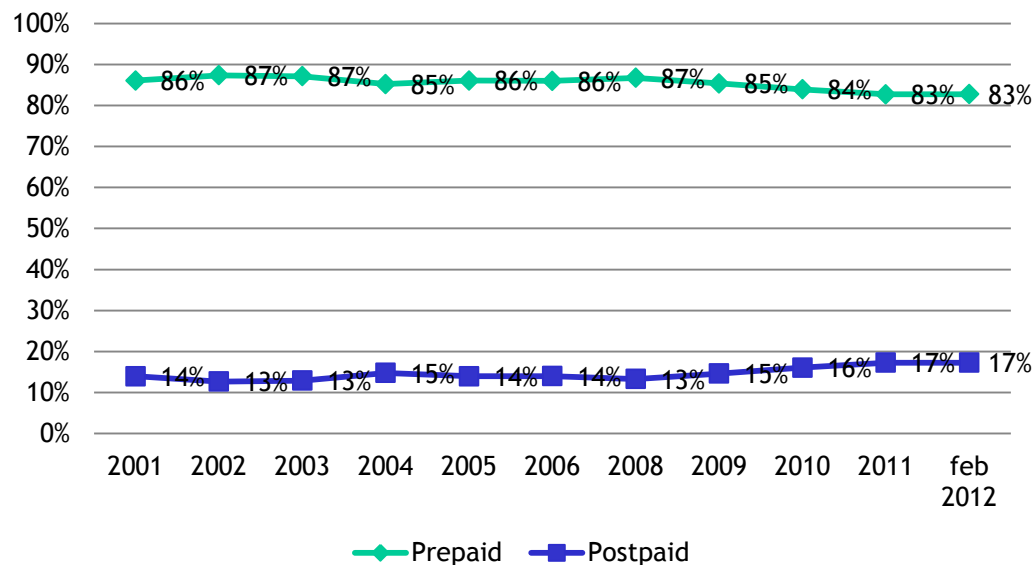
- **ARPU has been declining over the years**
 - Highly competitive environment
 - ARPU from new users is below ARPU level from existing customer base
- **Consequences:**
 - Offering services to differentiate offering and boost ARPU levels
 - e.g.: Orange has recently launched dedicated offers for smartphone postpaid users



Need for value creation and new revenue streams beyond traditional voice

Mobile Outlook - a Prepaid Market

Prepaid/postpaid customers (as a %)



Sources: Indotel

Key learnings and conclusions

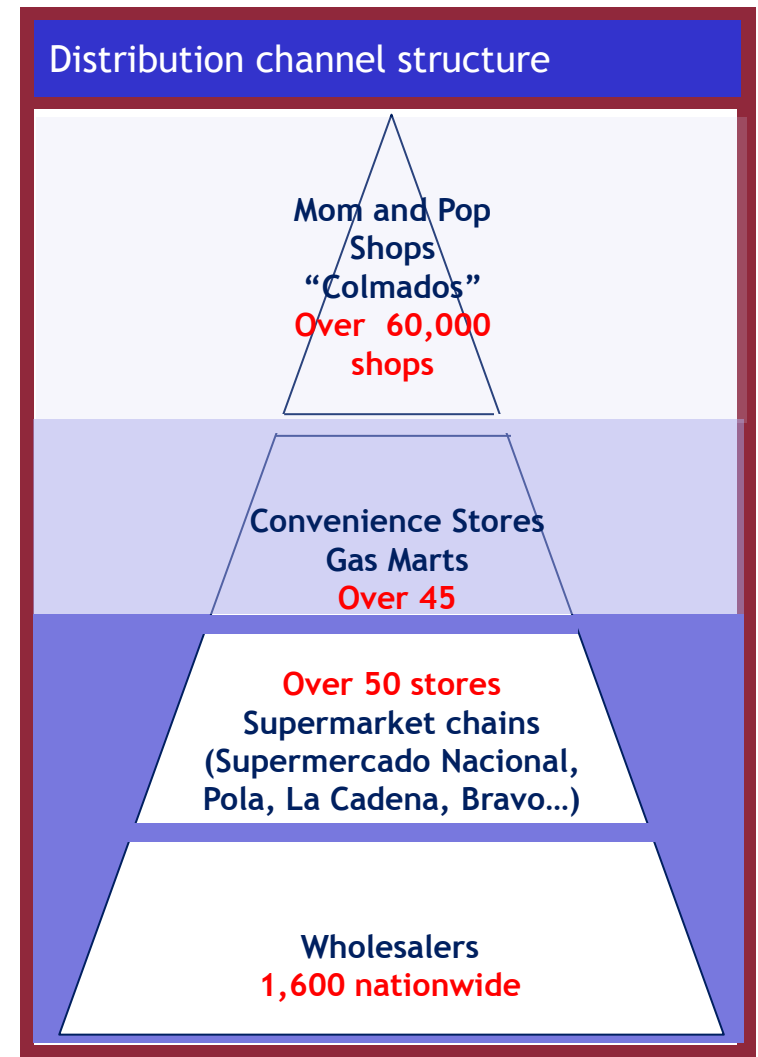
- **Key figures:**
 - As of end June 2011, Prepaid customers account for 83% of total customer base
 - This relatively high figure for LAC is largely supported by Orange who, in comparison to other MNOs, has more postpaid customers (as a %)

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Distribution Landscape

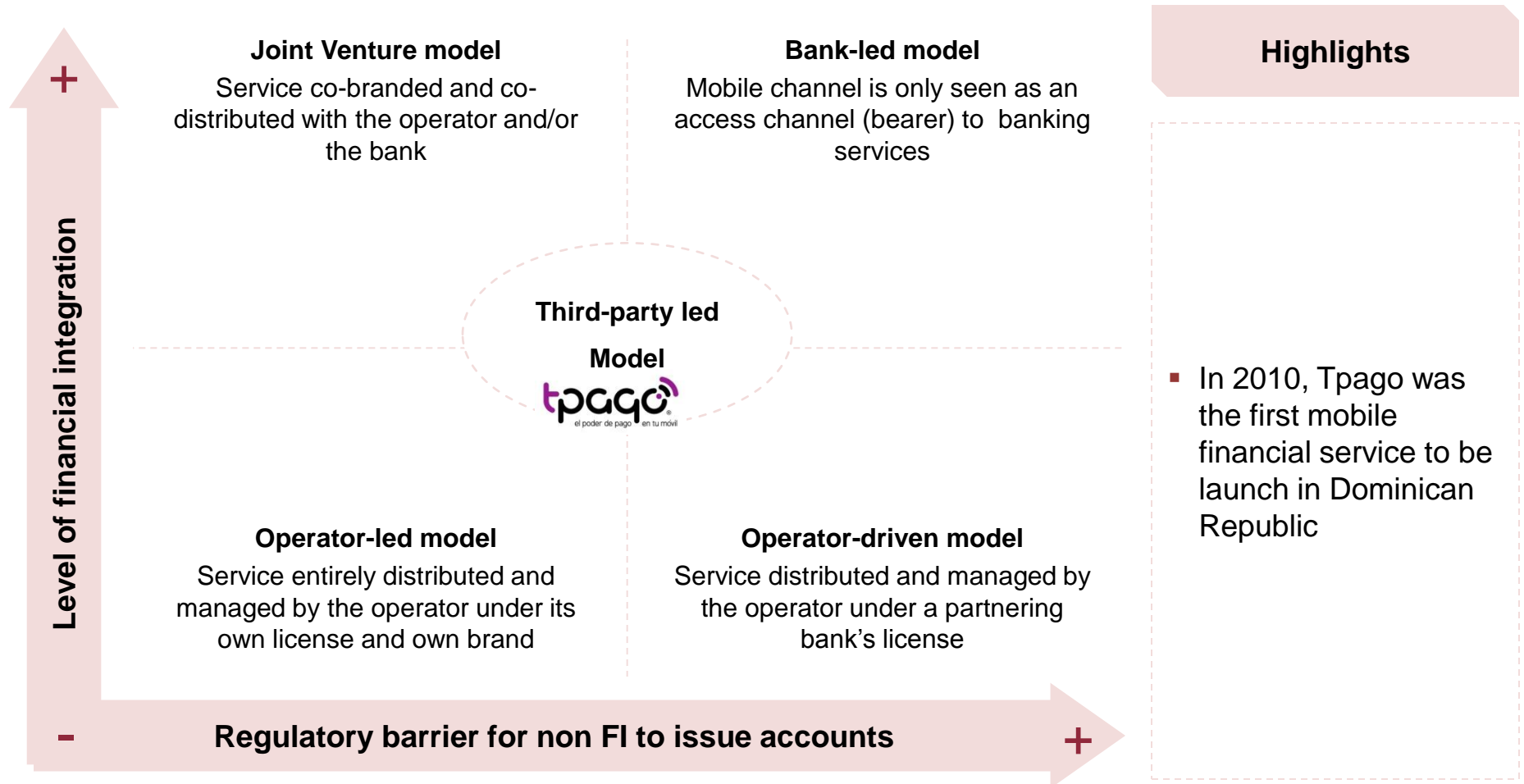
- There are several supermarket chains in Dominican Republic mainly located in the major urban centers (Santo Domingo, Santiago, La Romana, San Francisco de Marcoris...)
- Convenience store (mainly located in gas marts) complete Mom & Pop stores (called “Colmados” in Dominican Republic)
- Colmados account for a large portion of national sales

Source: USDA



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Current MFS Initiatives in DR



MFS Implementations



- Launched in DR in 2011
- Services: Airtime Top-up, Bill Payment, Domestic Money Transfer, Merchant Payment
- Technology: USSD
- Distribution network: 1956 agents (Gas station, Pharmacies, Hotels, Restaurants, Supermarkets, Taxis...)
- Affiliated banks/MNOS:
 - MNOs: Claro, Orange, Viva (cellphone bill pay)
 - Banks: Banco popular, BanReservas, Banco Progreso, Alaver, Banco lopez de Haro, Banco BDI
- T_pago tariffs:
 - Registration: FREE
 - Merchant payment, Airtime top-up, bill payment: FREE
 - Monthly payment: 20 DOP up to 4 transactions
 - Balance Inquiry, account statement: 2 DOP
 - P2P Transfers: 1.5% of total amount