

IFC Mobile Money Scoping Country Report: Peru

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Schweizerische Eidgenossenschaft
Confédération suisse
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Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

Peru Summary

Overall Mobile Money Readiness	3 (Moderate)
Current Mobile Money Solution	None
Population	29.2 million (Moderate)
Mobile Penetration	69% (Moderate)
Banked Population	26% (Low)
Remittance % of GDP	1.8% (Low)
Percent under poverty line	34.8% (High)
Economically Active population	36.2% (Moderate)
Adult Literacy	93% (High)
Main banks	BCP, BBVA Continental, Scotiabank and Interbank hold over 80% of all assets
Mobile Network Operators	Movistar(54%), Claro (42%) and Nextel (4%)
Ease of doing business	36 th out of 183
Opportunities	Banks, MNOs and 3 rd Parties are very interested in entering the mobile money space and many of them are actively involved in some ways. MNOs claim to see the value of either providing services to banks or partnering with banks and consider themselves to be better positioned to reach the unbanked than banks. MNOs are planning to enter the market with banks and are also looking ahead to the day when they can get their EDE licenses to go on their own.

Mobile Money readiness (1-5)	
Regulation	3
Financial Sector	3
Telecom Sector	3
Distribution Channel	4
Market Demand	3

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

Macro-Economic Overview

Key Country Statistics

- Population: 29,248,943 (July 2011, density 23ppl/sqm)
- Age distribution:(2011 est.)
 - 0-14 years: 28.5%
 - 15-64 years: 65.1%
 - 65 years and over: 6.4%
- Urban/rural split: 75/25 (1.6% urbanization rate 2010-2015)
- GDP (PPP):US\$ 275.7Bn in 2010
- GDP per capita (PPP): US\$9,200
- Literacy rate: 92.9%
- Banking penetration: 26%
- Mobile phone penetration: 69%
- Remittance (% of GDP): 1.8% in 2009 (inflows)

Insights

- Actual potential market size of around 20m people makes Peru one of the top 5 market in the LAC region in terms of volume.
- Low banking penetration and strong regional disparities make mobile a relevant channel to explore to expand financial reach
- MFI sector has a strong footprint across the territory and could benefit from mobile money services to expand its outreach and its customer base
- Several MFS opportunities can be envisaged (from transfers to payment) to serve the large number of people with little to no access to financial instruments whereas international remittance shows limited immediate opportunity

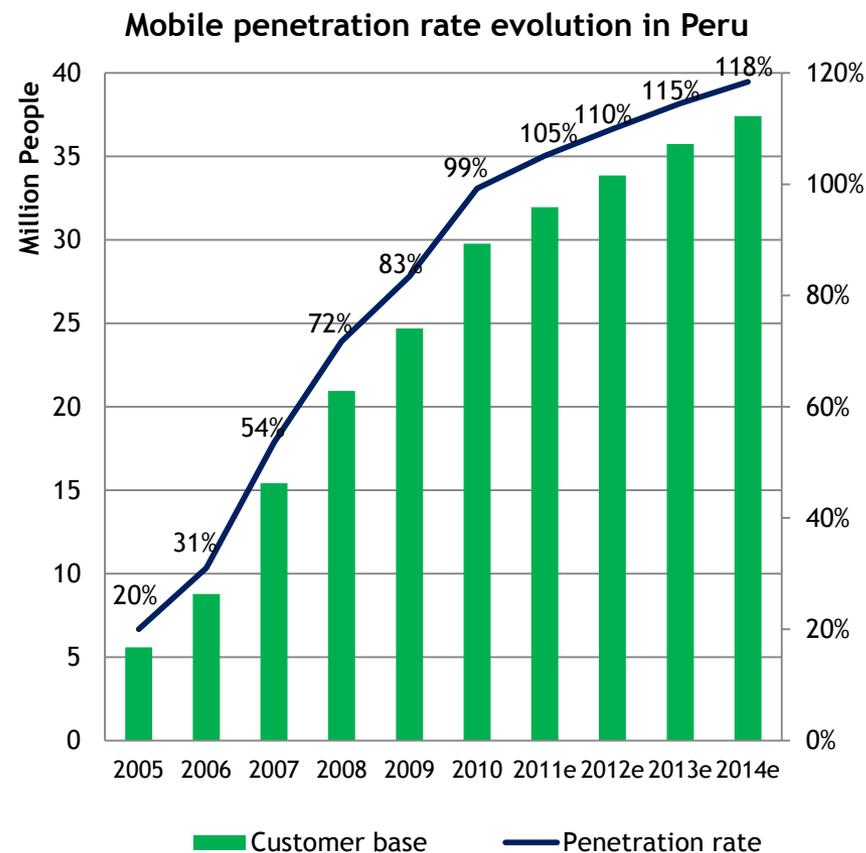
Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA

Mobile & Banking Penetrations

Several factors limit banking growth

1. Banking infrastructure availability is relatively good in Peru but with strong disparities among the regions:
 - 4.58 bank branches / 100,000 hab.
 - 12.11ATMs / 100,000 hab.
 - Agent networks are concentrated in Lima (51%) and other major cities (31% in the remaining 24 capital cities)
2. According to the Economist Intelligence Unit's analysis, "rising incomes and growing trust in the banking sector will gradually lift banking penetration rates"
3. But limited competition in the financial sector combined with cautious lending practices and high interest rates should limit this growth

Whereas mobile penetration has increased steadily



Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA, Economist Intelligence Unit

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Regulatory Bodies

Superintendencia de Banca, Seguros y AFP (SBS)

Banco Central de Reserva del Peru (BCRP)

Organismo Supervisor de Inversión Privada en Telecomunicaciones (OSIPTEL)

Ministerio de Transportes y Comunicaciones

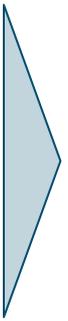
Roles & Responsibilities

- Role: Regulatory and supervisory body of the Financial System, Insurance and Pension. It is in charge of detecting and preventing money laundering and financial terrorism as well as protecting consumers and affiliates.

- Role: Preserve monetary stability and design and implement the monetary policy of Peru.

- Role: Maintain fair and competitive environment in the telecom sector

- Role: Establish policies, develop and propose regulations. Also responsible of giving out licenses.



Implications

- Peruvian banks have developed a fairly extensive network of retail points outside traditional branches.
- Agents were established in 2005 following a SBS regulation allowing the use of agents by banks.
- Banks do not charge customers for transacting at agents (and do not allow agents themselves to charge customers either), thus positioning agents as the lowest cost channel. This has become the standard in agent business, although it is not required by regulation
- Current regulations enable banks to provide most elements of a full mobile banking service.
- Agents are able to open “cuentas basicas”.
- There is no e-money regulation prohibiting MNOs and third-parties to participate in a mobile money offering without the participation of a bank. When the e-money law before Congress is passed, these entities will have to acquire licenses to operate in the mobile money space, but it is unlikely for that to happen in the near term
- Companies emitting electronic money will be called EEDE (Empresas Emisoras de Dinero Electronico)

Regulatory Framework & Requirements

E-money

Current Regulations

- A new short and simple law, that defines e-money, is being revised at the Congress
 - The difference between deposits and money is crucial for the SBS, which believes that if they do not create a distinction between deposits and e-money then MNOs cannot participate.
 - A pre-paid card is not money according to the SBS and airtime will not be money.
 - Money can stay in the EDE account. There is no limit to the amount of money in the account. As soon as the law is enacted, then the amount of money that can be kept in accounts will be determined.

Retail Agents

- 2005 SBS regulation allows banks to use retail agents
- An amendment to the agent banking legislation:
 - Allows FI to sell products that are not described in the current financial regulations
 - Allows agents to open individual accounts, which was previously not possible
 - Develops three account levels: low level for money transfer for non-banks, second level for savings etc, and higher level
 - Removes money-laundering rules for simple accounts, of which there will be many options. E-money would fall under the simplified level.

Implications

- Currently there is no law preventing MNOs to enter the mobile money space freely.
- The e-money law will mandate players (MNOs and other non-banks) to obtain an e-money license, or to become an EDE (through a subsidiary).
- EDEs would also have to wait until circulars are developed that provide additional opportunities, like enabling these EDEs to create agent networks.

- The leader in agent banking is BCP followed by Interbank
- Agent networks are concentrated in Lima and other major cities
- On average, 51% of agents are in the Lima metropolitan area, and a further 31% are in the remaining 24% capital cities.
- Agents are primarily used to decongest branches, by pushing low-value transactions away from costly branches. Accordingly, many agents are located within a block or two of a branch of the same bank
- An amendment to the agent banking legislation enables agents to acquire customers.

Regulatory Framework & Requirements

Current Regulations

- Several laws govern AML/CFT (Law 356/1997, Penal Code (Law 599/2000), Financial System Bylaws (Law 510/1999 amended by Law 795/2003), Law 747/2002, Law 793/2002, Capital Markets Law (Law 964/2005), Law 1121/2006, and Law 1108/2006)
- SFC has regulatory and supervisory authority over financial entities regarding AML/CFT, including payment service providers
- KYC procedures for account opening and one-time transactions include obtaining customer information through an application form and verifying such information.
- **Transaction verification & thresholds:** Financial Institutions have to report to the Financial Intelligence Unit (FIU):
 - Cash transactions above US\$5,000 (exchange houses must report transactions above US\$500) except payments to MNOs, public utilities, and government; provided that the financial institution must report information monthly on all exempted transactions;
 - Transactions using foreign-issued credit or debit cards, if the monthly total is more than US\$5,000;
 - Foreign exchange over the equivalent of US\$200

Implications

- Simplified Accounts (Cuenta de ahorro básica) model to lower AML/KYC requirements (res. SBS 2108-2011):
 - Basic accounts, in which KYC barriers are either relaxed or removed
 - Also a simplified regime for customer protection
 - Very basic requirements – coverage and rates. Maximum 2,000 soles is the monthly balance (\$600 – equal to 3 monthly salaries)
 - A daily transaction limit of 1,000 soles
 - Likely that these simplified accounts would be used by EEDEs
 - Customers who need additional savings and other capabilities would leap to a bank.
- Third parties or intermediaries can be used to provide verification services, or to attract new businesses or develop commercial activities of the financial services company. Such third parties or intermediaries must take adequate measures to gain the required KYC information. (Mobile banking regulation -2010, Article 4)
- Under the Simplified Regime for due diligence and KYC:
 - Information and verification requirements are greatly reduced.
 - Financial services companies can apply to the SBS to use the simplified regime for products, services and distribution
 - Basic accounts fall under this regime. (Mobile banking regulation -2010, Article 7)
 - The financial services company must present information about the product, a study detailing the product's operational and business plan (including distribution channels) and a risk management plan for the product.

KYC/AML Requirements

Additional Regulatory Considerations

Current Regulations

Customer Protection

- The basic legal framework for general consumer protection are Law Decree 25868/92 (Consumer Protection Law) and Law Decree 691, establishes many standards for marketing to protect consumers.
- Law 26702/96 (Financial System Law), art. 9, 28587/05 (Financial Consumer Protection Law), and Resolution SBS 1765/05 (Transparency Resolution), set the foundation for consumer protection in financial services

Data Privacy

- Law 27269 deals with electronic contracts, authorizing the use of digital certificates and signatures. The law clarifies the fact that digital signatures can be rescinded if the information it contains is false or modified or if the signature holder does not comply with the rules of the certifying agency
- Civil Code was modified in 2000 by Law 27291 to recognize legal value of electronic contracts and electronically authorized transactions such as those conducted through branchless banking channels.

Interoperability

- ATM networks are not entirely interoperable, although Visa and MasterCard are accepted in most ATMs. For years the banks have tried, but have not agreed on a shared system.

Implications

- Consumers may enter into various transactions without being physically present at a bank branch or staffed agent.

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Financial Infrastructure

Financial Institutions	
Multiple Banks	11
Rural Savings Banks	10
Municipal Savings Banks	12
Financieras	10
Edpymes	9
Branches	
ATMs	4,822
Banking correspondent agents	9,746
Credit cards	>6,800,000
Debit cards	
Microfinance Institutions	
> 100,000 customers	10

Clearing and Settling
Telefonica •Ownership: Telefonica •Participants: many banks •Many banks do not want to clear in real time because they are using the clients' money
LBTR •Ownership: Central Bank •Participants: 48
CCE •Ownership: Central Bank •Participants: 17
Credit Bureaus
Certicom & Equifax Perú •More than 95% market share

Facts:

- Very dynamic microfinance market with a US\$ 7.6bn loan portfolio as of June, 2011 and 3.2mm active borrowers (~US\$ 2,366 average loan)

Source: SBS, 2011

Bank Snapshot

BCP	<ul style="list-style-type: none"> • 309 branches • 1,109 ATMs 	<ul style="list-style-type: none"> • 2,897,051 clients 	<ul style="list-style-type: none"> • 3,354 agents
Interbank	<ul style="list-style-type: none"> • 222 branches • 1,526 ATMs 	<ul style="list-style-type: none"> • 1,580,793 clients 	<ul style="list-style-type: none"> • 1,276 agents
Scotiabank	<ul style="list-style-type: none"> • 164 branches • 373 ATMs 	<ul style="list-style-type: none"> • 1,115,907 clients 	<ul style="list-style-type: none"> • 690 agents
BBVA Continental	<ul style="list-style-type: none"> • 229 branches • 732 ATMs 	<ul style="list-style-type: none"> • 1,607,451 clients 	<ul style="list-style-type: none"> • 1,073 agents
Banco de Comercio	<ul style="list-style-type: none"> • 20 branches • 24 ATMs 	<ul style="list-style-type: none"> • 78,534 clients 	<ul style="list-style-type: none"> • None
Citibank	<ul style="list-style-type: none"> • 17 branches • 18 ATMs 	<ul style="list-style-type: none"> • 136,279 clients 	<ul style="list-style-type: none"> • None
MiBanco	<ul style="list-style-type: none"> • 108 branches • 71 ATMs 	<ul style="list-style-type: none"> • 431,597 clients 	<ul style="list-style-type: none"> • 402 agents

Source: SBS

MFI Snapshot

Crediscotia	• 724,738 active borrowers	• US\$ 1,013,587,745
MiBanco	• 420,027 active borrowers	• US\$ 1,406,240,420
Financiera Edyficar	• 321,371 active borrowers	• US\$ 413,415,799
CMAC Arequipa	• 202,778 active borrowers	• US\$ 640,257,880
EDPYME Efectiva	• 149,730 active borrowers	• US\$ 53,017,024
CMAC Piura	• 142,788 active borrowers	• US\$ 501,923,500
CRAC Nuestra Gente	• 136,798 active borrowers	• US\$ 279,059,788

Source: Mixmarket, 2011

Mobile Payment Service Provider Snapshot

Yellow Pepper

- Services offered : SMS, top-ups local
- Banking partners: Scotiabank, MiBanco, Banco Credito + others
- MNO partners: None
- Type of technology: SMS

GLOBOKASNET
(GKN)¹
(March 2008)

- Number of agents: 1,300 (80% of network outside Lima)
- Services offered: bill payments, plans to connect supply chain of companies...
- Banking partners: MiBanco, BBVA Continental
- Other partners: Gilat
- Mobile Money activities: Considering Mobile Money

1. Currently only uses POS technology.

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Mobile Network Operators

	<ul style="list-style-type: none">• 100% Telefonica	<ul style="list-style-type: none">• 11.9 M subs (2010)• 54% Market share	<ul style="list-style-type: none">• Will implement financial services for the owners of their cell phones• Trivnet is tech partner
	<ul style="list-style-type: none">• 100% América Móvil	<ul style="list-style-type: none">• 9.2 M subs (2010)• 41.6% Market share	<ul style="list-style-type: none">• Currently negotiating with banks to provide m-banking services• Interested in mobile money
	<ul style="list-style-type: none">• NII Holdings	<ul style="list-style-type: none">• 1 M subs (2010)• 4.4% Market share	<ul style="list-style-type: none">• No known mobile money project underway

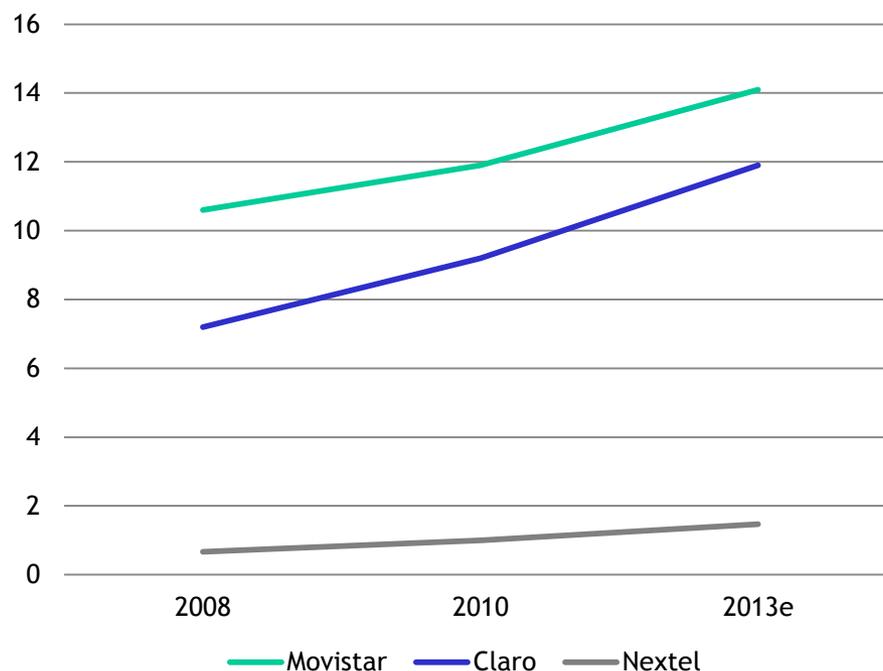
Sources: Wikipedia, Amarante Analysis

Mobile Outlook - a Dynamic Market

Key Learnings

- Mobile phone penetration is relatively low in Peru with approximately 70% of the population having a mobile phone
- However the market is very dynamic, experiencing double digit growth
- Many remote and rural areas are still without coverage
- 4G should enter in the market in 2011
- There are 3 MNOs in the market but two of them (Movistar and Claro) together hold a 95% market share
- Forecast predicts that Movistar's market share will decline to 51% in 2013 while Claro's and Nextel's market shares will increase to 43% and 5% in 2013
- Government might auction a fourth mobile license at the end of this year

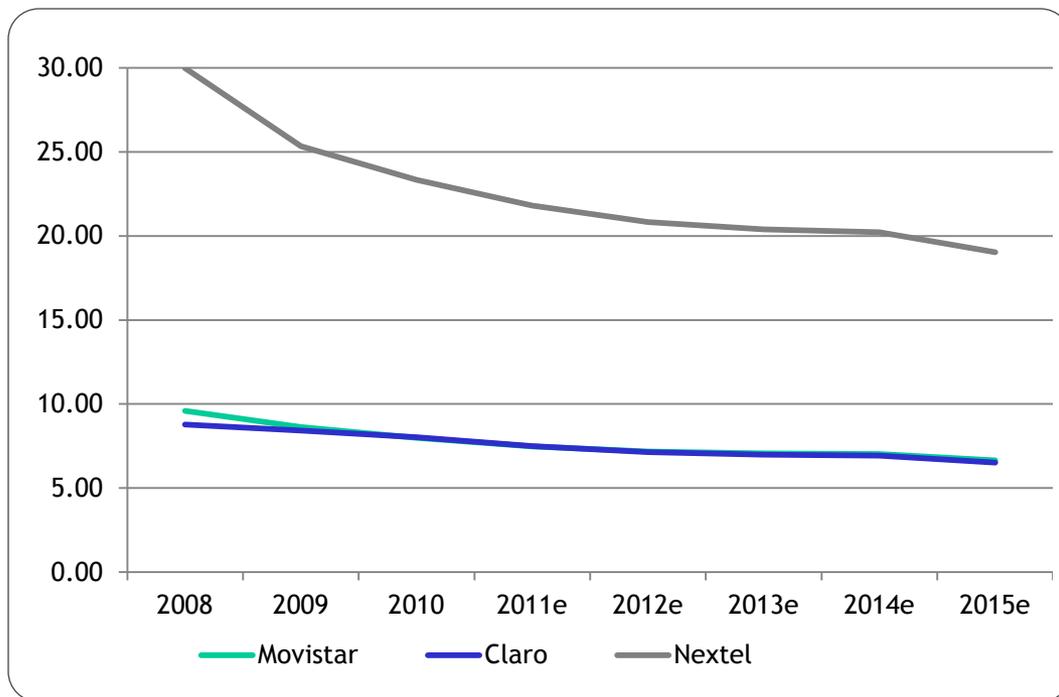
Subscribers by operator (2009 - 2015)



Source: IE Market Research

Mobile Outlook - ARPU Trend

ARPU/Operator (\$US equivalent)



Source: Peru Telecommunications Report Q1 2011

Key learnings and conclusions

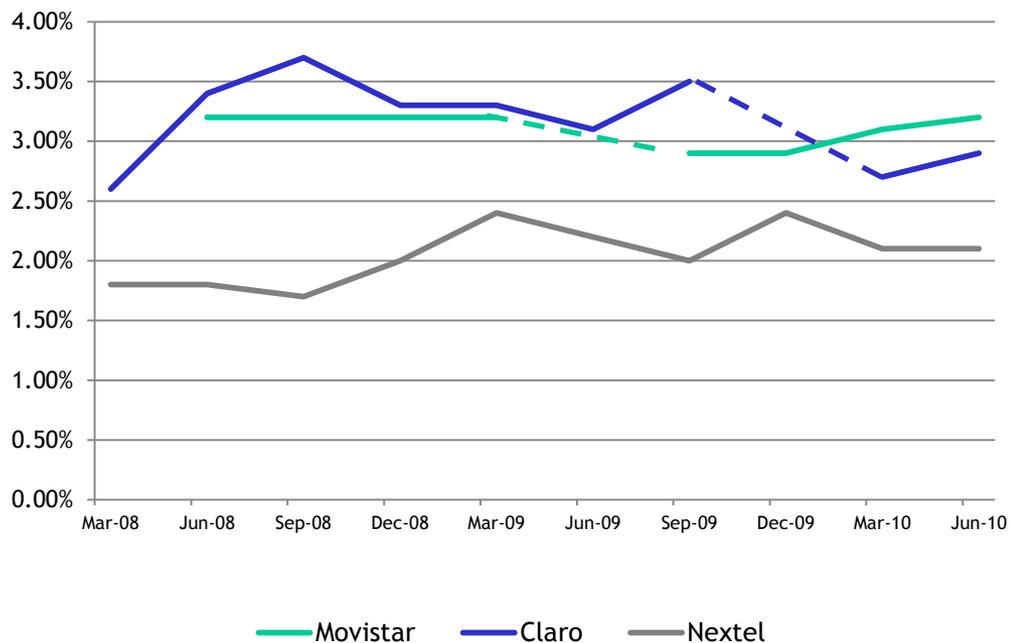
- **ARPU is predicted** to decline in the next four years **from US\$ 8.07 in 2011 to US\$ 7.09 in 2015**, one of the lowest in the region
- Movistar and Claro present similar ARPU, around US\$ 7.5 in 2011, which is considerably lower than Nextel's ARPU of above US\$ 20 during the period
- Nextel's presence in the market brings up the average slightly
- Nextel is targeting post-paid customers
- **Consequence**
 - A further push into mobile data services (especially for Movistar and Claro) can help provide new revenue stream and eventually reverse the current trend



Need for value creation and new revenue streams beyond traditional voice

Mobile Outlook - a Relatively Low Churn Rate

Quarterly Churn rate /Operator



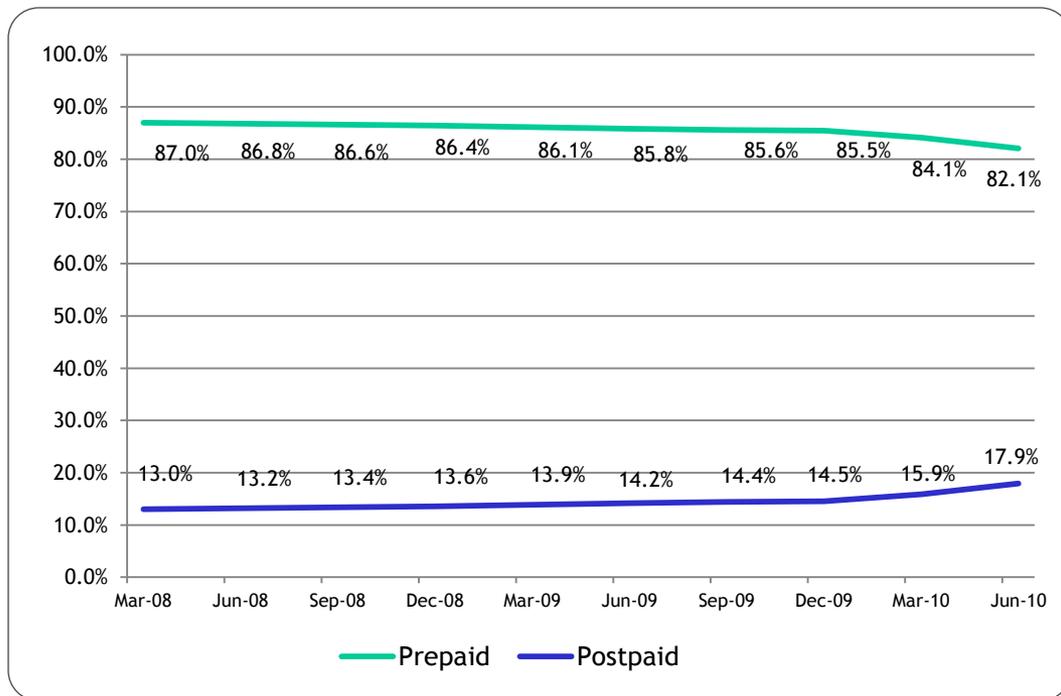
Source: Peru Telecommunications Report Q1 2011

Key learnings and conclusions

- Following the introduction of number portability at the start of 2010, there is likely to be more movement between operators in the coming years
- According to Osiptel (Telecom regulator), in the first month of implementation (January 2010), there were just under 14,000 requests to change operator, a similar number of requests was made in the first month in Brazil, a market six times larger. Around two thirds of the requests for change came from Movistar customers

Mobile Outlook - a Prepaid Market

Prepaid vs. Postpaid customers (as a %)



Source: Peru Telecommunications Report Q1 2011

Key learnings and conclusions

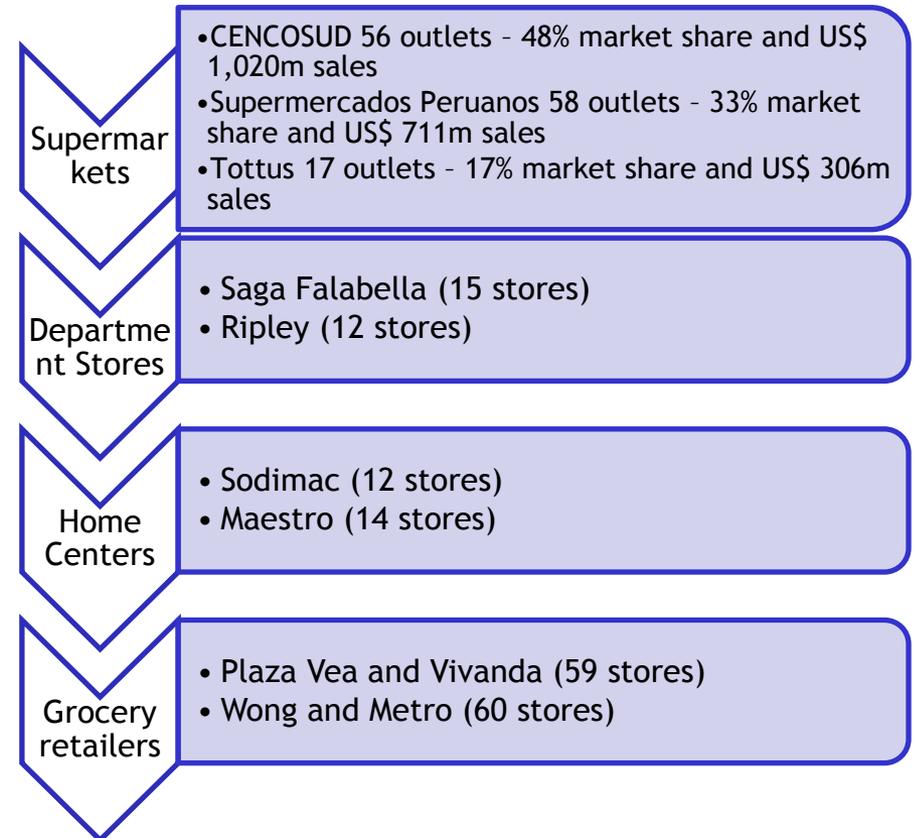
- As of 2010, Prepaid customers account for 82% of total customer base
- However, the recent introduction of data services has boosted Postpaid subscriptions
- Contract subscriptions grew by 33% year on year in March 2010, compared with pre-paid subscriptions, which grew by 17%
- 100% of Nextel's client base is Postpaid customers

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Distribution Landscape

- The global economic downturn has had a negative effect on Peruvian's retail sector and especially supermarkets and department stores.
- However, the anticipated growth of the Peruvian economy is sustaining the retail industry as more people are getting access to credit and using alternative payment methods like Credit cards, own store cards...
- Several banks and third parties have entered into agreements with retailers to use them as agents and super-agents

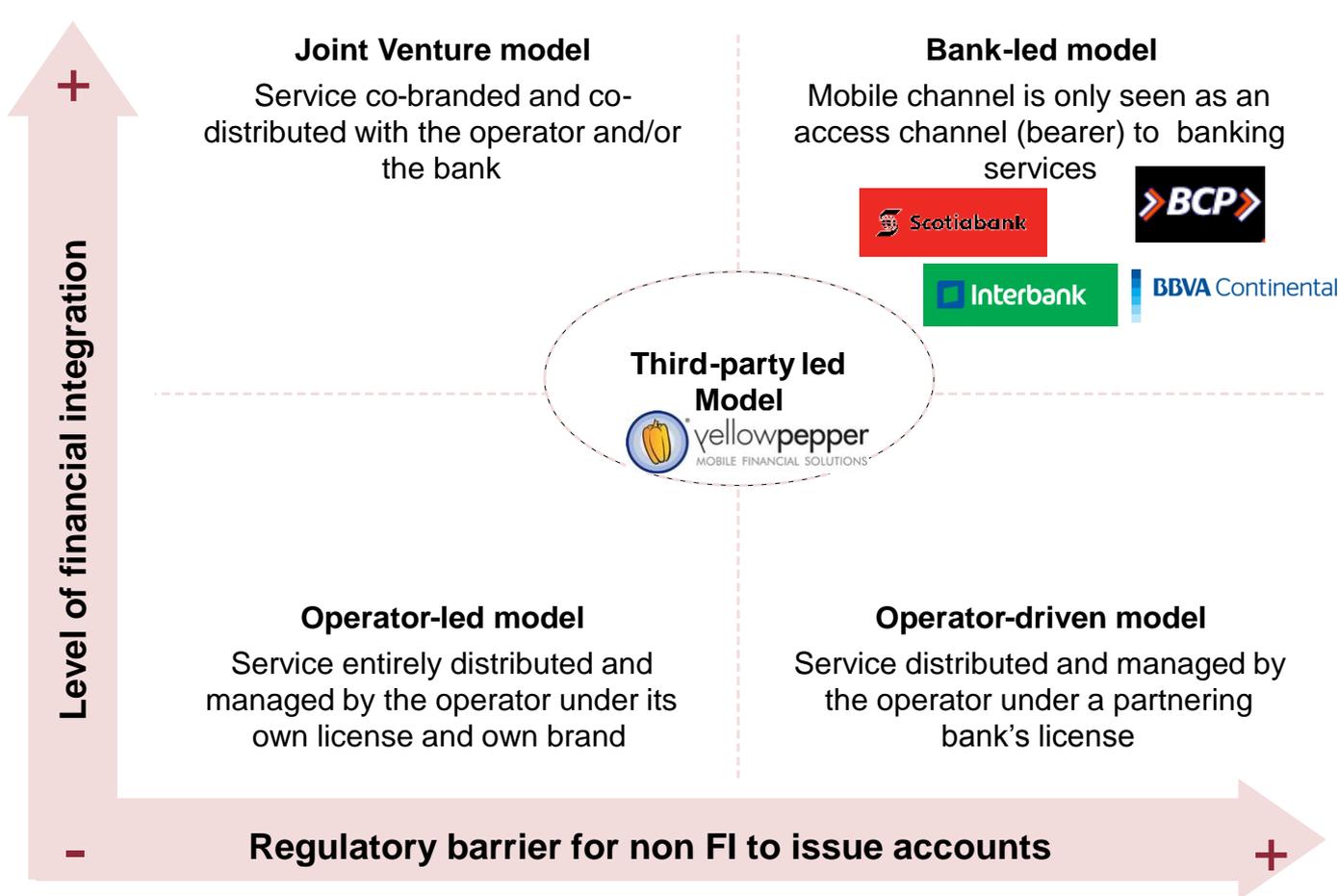
Retail network structure



Source: USDA 2009 and Peru' Retail Industry Analysis in 2010

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Mobile Banking Initiatives in Peru



Summary

- No current mobile money initiatives in Peru
- Significant amount of interest from banks, MNOs and third-party players
- In 2011, several banks should enter the market with mobile banking products
- MNOs are in a wait-and-see position until issuance of the new law