

# Spotlight on Financial Inclusion Leaders



Citi Microfinance



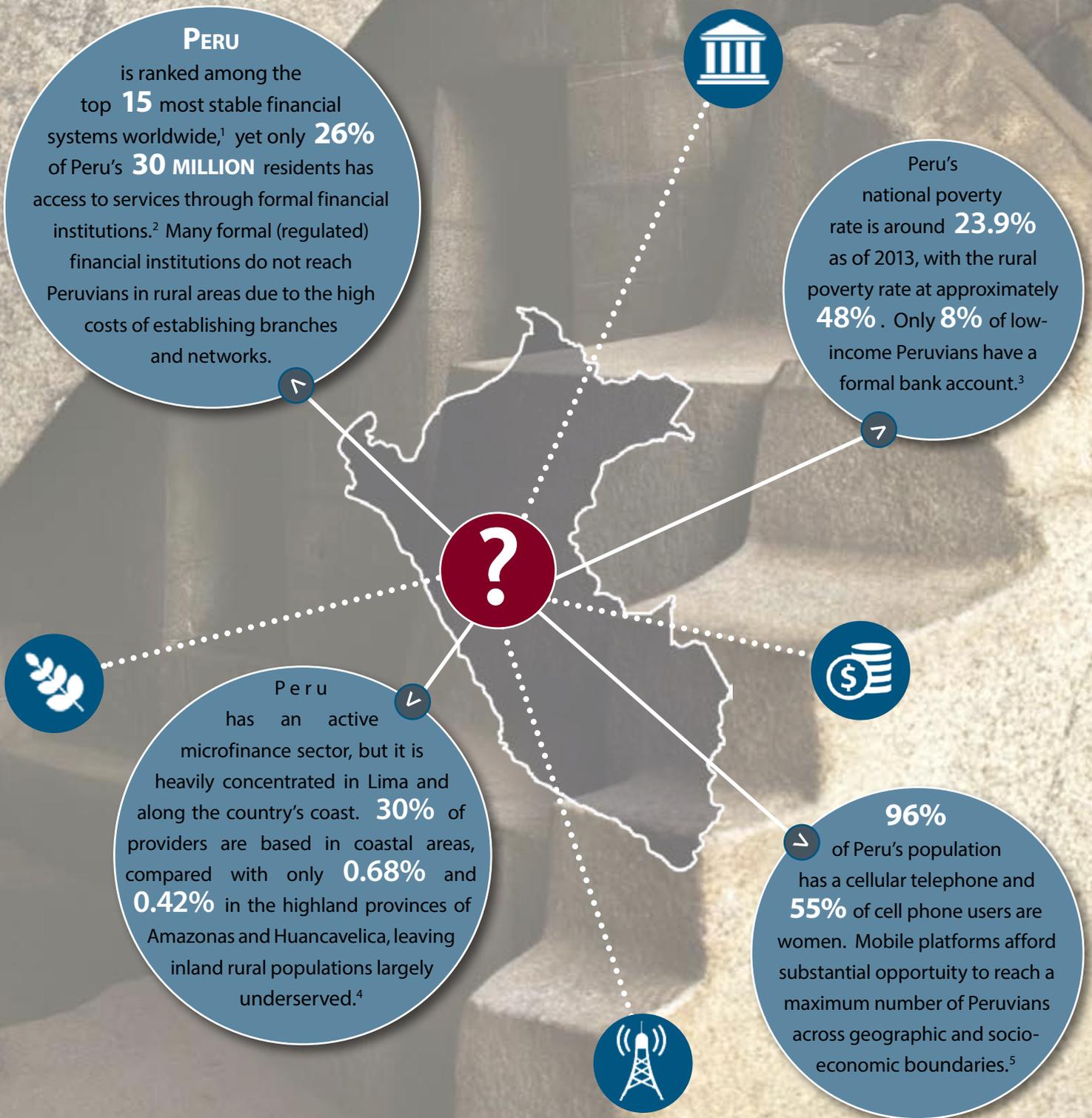
## EXPANDING E-MONEY SERVICES IN PERU

Reaching unbanked clients and advancing financial inclusion



Peru is the first country in Latin America to implement an e-money law, enabling the development and expansion of electronically-based, mobile financial services for low-income and rural populations. Peru's legislation is distinctive and innovative in permitting both traditional banks and non-bank financial institutions to serve as e-money issuers. ASOMIF Perú (the association of regulated, non-bank financial institutions in Peru) is leading the implementation process in the microfinance sector, ensuring that the needs and perspectives of its members and their clients are captured in the rollout of the legislation. It is expected that 1 million Peruvians will have an e-wallet during the first year of implementation, with an additional 4 million served after 5 years. It is clear that the expansion of e-money services has significant potential to enhance financial inclusion in Peru.

## Rationale and background: Why e-money in Peru?



1. World Economic Forum. (2012). *The Financial Development Report 2012*. Retrieved from [http://www3.weforum.org/docs/WEF\\_FinancialDevelopmentReport\\_2012.pdf](http://www3.weforum.org/docs/WEF_FinancialDevelopmentReport_2012.pdf)

2. World Bank. (2014). *Financial Inclusion Data: Peru*. [Data file]. Retrieved from <http://datatopics.worldbank.org/financialinclusion/country/peru>

3. Ibid; World Bank. (2014). *Peru*. [Data file]. Retrieved from <http://data.worldbank.org/country/peru>

4. Afi Fundación. (2011). *Servicios financieros móviles para instituciones microfinancieras en Perú*. Retrieved from [http://www.fundacionafi.org/afi/libre/PDFS/FundacionAfi/SFM\\_PERU\\_ASOMIF.pdf](http://www.fundacionafi.org/afi/libre/PDFS/FundacionAfi/SFM_PERU_ASOMIF.pdf); SBS. (June 2013). *Perú: Indicadores de Inclusión Financiera de los Sistemas Financiero, de Seguros y de Pensiones*. Retrieved from <https://intranet1.sbs.gob.pe/estadistica/financiera/2013/Junio/CIIF-0001-jn2013.PDF>

5. Inter-American Development Bank. (2014). *PE-M1085: Rural Micro-Savings Accounts Using Mobile Phones and Cards*. Retrieved from <http://www.iadb.org/en/projects/project-description-title,1303.html?id=PE-M1085>

In January of 2013, the Congress of Peru passed the Electronic Money Law (Law No. 29985). This legislation created a class of companies known as Electronic Money Issuing Companies (EEDEs) which can issue and collect electronic money, but are not required to offer a full set of financial products and services. A unique, innovative element is that in addition to banks, regulated non-bank financial institutions are also allowed to issue e-money, to create their own networks of agents, and to utilize existing networks of other competitors or banks. To ensure the integrity of e-systems, products, and services, the legislation mandates that e-money can only be issued by entities supervised by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones del Perú (SBS). In Peru, all microfinance providers are regulated by the SBS with the exception of cooperatives and NGOs, meaning that the microfinance sector could play a major role in the deployment of e-money as a financial inclusion tool.

SBS has taken a proactive role in the development and implementation of the e-money law, recognizing that consultation and coordination between diverse stakeholders is of paramount importance to the success and sustainability of the initiative. SBS has fostered coordination and regulatory dialogue between the Ministry of Economy and Finance, the telecommunications agency, the Central Reserve Bank of Peru, the Ministry of Development and Social Inclusion (MIDIS), and other key stakeholders.<sup>6</sup> Cross-group coordination is facilitated via an E-Money Committee, whose engagement is guided and facilitated by an expert consultant funded by the Bank Association. The Committee is comprised of one high-level executive representing each category among technology companies, commercial banks, telecommunications companies (telcos) and microfinance. The Executive Director of ASOMIF Perú (the national association of regulated non-bank financial institutions) is the microfinance representative to the Committee.

## "E-Money" and "E-Wallet" at a Glance

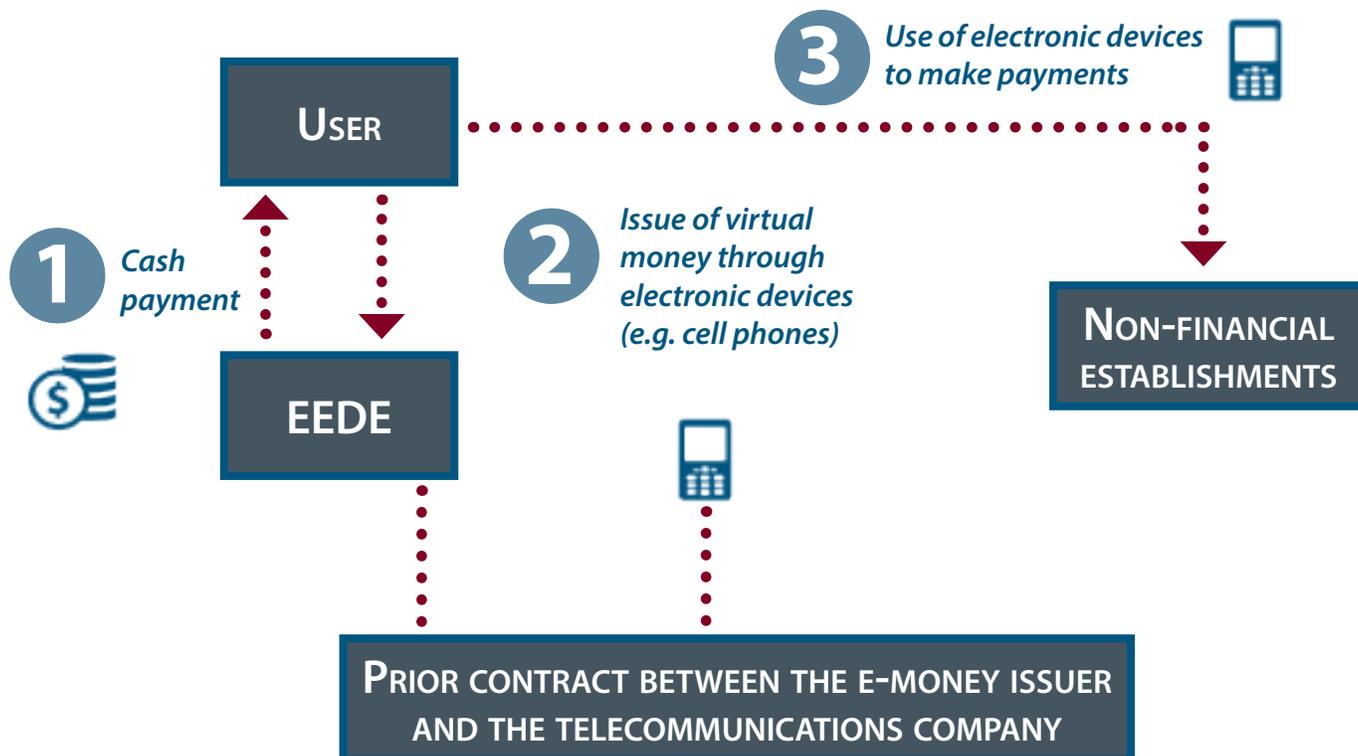


"E-money" is a monetary value stored in electronic form and loaded onto a virtual platform. Use of e-money does not require the user to establish a formal bank account. It can also be converted into hard cash at any time.



An electronic device like a mobile phone becomes an "e-wallet" when loaded with e-money, similar to buying a pre-paid phone card. Once e-money is added to the mobile e-wallet, users can transfer money to other cell phone users, buy minutes, or pay bills—simply by sending a text message.

## How e-money works<sup>7</sup>



6. Prochaska, Klaus. (05 March 2014). *Peru leads the way to new approach for digital financial services to promote financial inclusion in Latin America*. Retrieved from <http://www.afi-global.org/blog/2014/03/05/peru-leads-way-new-approach-digital-financial-services-promote-financial-inclusion>

7. BBVAResearch. (August 2013). *The potential of mobile banking in Peru as a mechanism for financial inclusion*. [Working paper]. Retrieved from [https://www.bbvarresearch.com/wp-content/uploads/migrados/WP\\_1325\\_tcm348-399485.pdf](https://www.bbvarresearch.com/wp-content/uploads/migrados/WP_1325_tcm348-399485.pdf)

## Implementing e-money: Challenges for microfinance associations

The Alliance for Financial Inclusion (AFI) conducted a study examining the capacity of the Peruvian microfinance sector to provide e-money services to clients, with support from AECID (Spain) and in partnership with ASOMIF. This assessment, which included in-depth collaboration with three ASOMIF members representative of its wider membership, revealed that the majority of Peruvian non-bank financial institutions lack the size and capacity to offer e-money services to their microfinance clients in a sustainable manner. Key challenges include<sup>8</sup>:



### Technology

- » MFIs have limited or no capacity to transact in real time. Their core banking systems are not yet capable of integration with third-party e-money platforms.
- » MFIs need to develop or purchase cell phone software capable of providing banking services.
- » MFIs lack the capacity to negotiate and establish beneficial partnerships with the telcos that serve as data carriers and network connectivity providers.
- » MFIs lack access to the national electronic payment clearing house .
- » MFIs lack funding to invest in building these capacities.



### Clients

- » Clients—and particularly low-income clients—are accustomed to transacting primarily in cash.
- » Many clients and potential clients speak local languages that don't have written traditions, which becomes a major issue given that e-money transactions are conducted largely by written text message.
- » Many unbanked poor are illiterate and/or not familiar with the cell phone technology of sending texts. Many use phones to make calls to familiar people and may read an occasional text message, but rarely send them.



### Regulatory requirements

- » The Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) systems implemented in Peru include Know Your Customer (KYC) conditions. MFIs will need to be able to comply with these conditions, and the conditions themselves will need to be examined and adapted to be applicable to e-money.
- » Not all MFIs are aware or familiar with the new e-money legislation and its implications for new product development.

Based on the findings of the capacity assessment and consideration of market realities, two possible e-money service models have emerged, either of which would be suitable to meet the needs of ASOMIF's members:

1

### BASIC E-MONEY ACCOUNTS

#### *via providers who can accept deposits*

These providers would offer e-money services on basic savings accounts opened through banking agents. This would allow customers to perform transactions such as deposits and withdrawals of small amounts at a low cost. This model would be ideal to serve customers that handle smaller amounts and are located in remote areas.

2

### E-WALLETS

#### *via providers who cannot accept deposits*

These types of providers, upon receiving an EEDE license, would offer customers the ability to transact with mobile phones. Permissible transactions would include loan repayment services, money transfers, local and international remittances, and bill payments. While not technically savings accounts, some of the functions are similar. These providers will have to meet additional regulatory requirements – such as setting up a trust fund – but they are much lower than those required to become a deposit-taking institution.<sup>9</sup>

Given that these are complex modes of service provision that remain largely unfamiliar to both providers and clients, and that they also require significant financial and capacity-building investments, ASOMIF will assist members in evaluating their optimal implementation options. Providers will be encouraged to transition gradually, and some may opt to transfer only some of their operations to e-money channels from physical branches, such as balance checking, payments, and transfers.



## Translating legislation into practice for the microfinance sector in Peru

As a member-based organization, ASOMIF is well-positioned to facilitate communication between users in the field and government agencies. ASOMIF has taken a leading role in guiding its members' understanding of and transition to the new e-money regulatory and operational requirements. ASOMIF also advocated on behalf of members during the legislative process, facilitated the selection of the technology platform, negotiated successfully for its members to pay a lower fee for using the platform, and hired a technical expert to help pilot the platform. ASOMIF will offer additional training and support to members to enhance their understanding of e-money, how it works, and its potential to improve and augment service delivery.

### ASOMIF's role in supporting member development and implementation of e-money services

Area	Activities to Date	Next Steps
Legal Framework	<p>During the initial legal development phase, regulators consulted primarily with banks and telcos. These parties were negotiating strongly to be the only types of institutions allowed to issue e-money. ASOMIF, with strong backing from the Bank Association, advocated for the inclusion of non-bank institutions. This was eventually approved and was an important step toward fuller financial inclusion.</p>	<p>ASOMIF will continue to educate members on the specific requirements of the new legislation and its implications for product development.</p>
Technology	<p>After evaluating 22 different platforms, the E-Money Committee selected a common platform that can be used by all providers. It was essential that the platform was interoperable and usable by all institutions so that all clients could "plug in".</p> <p>However, the cost of using this platform for individual ASOMIF members proved to be too high. ASOMIF negotiated with the Bank Association on behalf of its members, most of whom are small institutions but essential to achieving the government's strategic goal of greater financial inclusion. The Bank Association agreed to treat ASOMIF and its members as one institution, enabling the user fee to be prorated and divided between its 27 members. This made the financing much more feasible.</p>	<p>The E-money Committee is in the process of developing a unified business model for all providers which will guide their operation under this one common platform. This includes establishing the fees and fee structure by institutional type and other criteria, and creating financial projections, among other tasks. Throughout, ASOMIF intends to negotiate the best possible cost structure for its members.</p> <p>After the business model is finalized, ASOMIF will coordinate a pilot with 2 or 3 members to test the implementation before rolling it out to all interested members.</p> <p>ASOMIF will also support its members in upgrading their IT infrastructure to be compatible with the e-money platform.</p>
Clients	<p>The capacity assessment study carried out by AFI with support from ASOMIF included focus groups and consultations with target clients. ASOMIF supported this idea and helped with the selection of the three providers who participated in the study.</p>	<p>ASOMIF will assist its members with client education initiatives and the design of e-money user-experience. This will enhance both financial education and technical education, and also build client trust.</p>

## Lessons for microfinance associations

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### Invest in innovation and think long-term

- ✓ The e-money project is driven largely by industry-level interests rather than demand-based motivations of individual providers. There is no guarantee the project will work perfectly, and ASOMIF also recognizes that sustainability will most likely be achieved in the longer term. Nevertheless, ASOMIF has positioned itself to potentially impact great numbers of people, in leveraging technological innovations to increase the scale and depth of its members' outreach. In projects and processes like this, associations are significant stakeholders. They have an exciting opportunity to promote the development of new products that can contribute to large-scale financial inclusion agendas with their knowledge of and access to low-income clients.



### Be a sustained voice for member interests and stay committed to long-haul projects

- ✓ In the beginning, individual members urged ASOMIF to engage in the legislative process and requested frequent updates on the e-money project. However, it took over three years to arrive at the current legislation, and many members lost interest in the topic along the way; the actual implementation of e-money seemed too distant for members to maintain active engagement against their daily, immediate priorities. High staff turnover at member institutions also resulted in new staff being poorly-informed as to the motivations, history, and status of different projects, which sometimes inhibited their continued interest and engagement at a high level. Nevertheless, meaningful and sustained member involvement during a long and complex project is important. ASOMIF's management took a leading role to bring continuity of member voice into the ongoing e-money dialogues, regardless of any instabilities within individual member organizations.



## About ASOMIF Perú

ASOMIF Perú is the national association of regulated non-bank financial institutions and has been a key stakeholder in the development and implementation of e-money in the Peruvian microfinance sector. It represents the interests of its 27 members to national and international stakeholders and supports their growth and development. Collectively ASOMIF's member organizations serve over 3.5 million clients with an outstanding loan portfolio of US\$ 10.3 billion, and they hold US\$ 8.6 billion in deposits for over 4 million depositors (as of July, 2014).



"We are glad to be part of this important effort to bank more Peruvians. We all have the right to a place in the financial model. The fact that some Peruvians live in isolated areas is no reason to be financially excluded. This effort has been useful to redirect MFIs to their social mission."

**-Jorge Arias,**

*Executive Director, ASOMIF  
Perú*

## Microfinance in Peru

Peru boasts a dynamic microfinance sector in which competition has increased significantly in recent years. At present there are over 70 entities specializing in microfinance, classified as Banks, Financial Institutions, Municipal Savings and Credit Banks (CMAC), Rural Savings and Credit Cooperatives (CRAC), Small and Micro Enterprise Business Development organizations (Edpyme), Cooperatives, and NGOs. Collectively they have an outstanding loan portfolio of US\$ 11 billion to 5 million borrowers and US\$ 9 billion in deposits from 4.6 million depositors.<sup>10</sup> For the past 3 years Peru has topped the rankings in the Economist Intelligence Unit's "Microscope on Microfinance" report as providing the best microfinance working environment with a well-run regulatory body (SBS), a competitive and innovative market, and strong client protection. With the exception of Cooperatives and NGOs, all Peruvian microfinance providers are regulated and supervised by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones del Perú (SBS).

## About this Series

This article is one in a series developed by SEEP with support from Citi Microfinance titled **Spotlight on Financial Inclusion Leaders**. The series profiles selected microfinance associations, showcasing the ways in which they are supporting their members and meeting the challenges of value-added growth in financial inclusion. These associations are leaders in implementing innovative and locally-responsive approaches to financial inclusion. Their work is having a clear and measured impact on the lives of their clients, and their experiences bring valuable new knowledge to the industry at large.

10. MIX Market. (2014). *Peru Market Profile*. [Data file]. Retrieved from <http://www.mixmarket.org/mfi/country/Peru>



## About SEEP

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Founded in 1985, The SEEP Network was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades, SEEP members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and—above all—for scaling impact.

## About Citi Microfinance

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Working across Citi's businesses, product groups and geographies, Citi Microfinance serves more than 150 microfinance institutions (MFIs), networks and investors as clients and partners in nearly 50 countries, with products and services spanning the financial spectrum - from financing, access to capital markets, transaction services and hedging foreign exchange risk, to credit, savings, remittances and insurance products - to expand access to financial services for the underserved. For more, please visit <http://www.citi.com/citi/microfinance/>

**Author:** Diana Dezso, The SEEP Network

**Contributing author:** Jorge Arias, ASOMIF Perú

**With support from:** Sharon D'Onofrio, Bintou Ka-Niang, and Sarah Gagnon, The SEEP Network; and Philip Martin Brown, Citi Microfinance

### SEEP Network

1611 North Kent Street, Ste 610 | Arlington, VA 22209

P 202.534.1400 | [www.seepnetwork.org](http://www.seepnetwork.org)

