IFC Mobile Money Scoping
Country Report: Honduras

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May 15, 2012
Honduras Summary

Overall Mobile Money Readiness 3/4 (Moderate)
Current Mobile Money Solution Tigo Money
Population 8 million (Low)
Mobile Penetration 108% (Very High)
Banked Population 25% (Low)
Remittance % of GDP 19% (Very High)
Percent under poverty line 59% (High)
Economically Active population 61.7% (High)
Adult Literacy 80% (High)
Main banks Banco Atlántida, Banco de Occidente, Banco de los Trabajadores, Banco Continental, Banco Financiera Centroamericana – Ficensa, Banco Mercantil – Bamer, Banco Hondureño del Café
Mobile Network Operators Tigo (53% market share), Claro/Digicel (45%)
Ease of doing business 128th out of 183
Opportunities Honduras has one of the lower levels of financial inclusion in all Latin America with only one fourth of the population covered by the financial system. On the other hand, mobile penetration is very high with almost all the population having at least a mobile phone, sometimes two. The mobile sector is split between two main players, since the purchase of Digicel activities by Claro, each with around 50% market share. Both MNOs have showed interest in mobile money but Tigo has been the first to launch its service in 2010 along with Banco Atlántida. There are other initiatives involving banks, MNOs and Third Parties.

<table>
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<tr>
<th>Mobile Money readiness</th>
<th>Regulation</th>
<th>Financial Sector</th>
<th>Telecom Sector</th>
<th>Distribution Channel</th>
<th>Market Demand</th>
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<tbody>
<tr>
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<td>2</td>
<td>4</td>
<td>3</td>
<td>4</td>
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Oppportunities
• Macro-economic Overview
  • Regulations
  • Financial Sector
  • Telecom Sector
  • Distribution Channel
  • Mobile Financial Services Landscape
### Macro-Economic Overview

#### Key Country Statistics

- Population 7,989,415 (density 65.4 ppl/sqm)
- A very young population:
  - Median age 20.7 year-old
  - 38% are under 14 year-old
- $32.5Bn GDP in 2009 (PPP)
- $4,100 GDP per capita (PPP)
- Population below the poverty line: 59% (2008)
- Rural population: 52% (urbanization rate of 2.9%)
- Literacy rate 80%
- Banking penetration 25%
- 7.692Mio mobile phones in 2009
- Annual remittance: 19.3% of annual GDP

#### Insights

- Actual market size is 4m people.
- Median age and literacy rate are enabling factors
- Price sensitivity is likely to be high with more than half of the population living under the poverty line. Price will be a key element of a successful value proposition and G2P payment will be relevant.
- Relatively low banking penetration and low usage of banking services
- Rural pop >50% - domestic transfer opportunity?
- Mobile penetration exceeds by far banking penetration. That makes mobile a relevant channel to explore.
- Significant part of GDP comes from IMT, to be considered once infrastructure is developed

Sources: IOM world, Wikipedia, 2010 CIA WORLD FACTBOOK, GSMA
1. Banking infrastructure availability is low for certain segments of the population:
   - 1 bank branch every 112 Km²
   - BUT the majority of these branches are in urban centers despite an urban ratio of 48%
   - 23.38 ATMs / 1000 adults (mostly urban areas)
   - 9.38 ATMs / 1000 km²

2. Low income population is hardly addressed

3. Rather an “elitist approach” of banks (corporate, high-end, middle-class)

Sources: IOM world, Wikipedia, 2010 CIA WORLD FACTBOOK, GSMA
• Macro-economic Overview

• Regulations

• Financial Sector
• Telecom Sector
• Distribution Channel
• Mobile Financial Services Landscape
Regulatory Bodies

Roles & Responsibilities

- **Banco Central de Honduras (BCH)**
  - Role: Responsible for the oversight of national payment systems and for foreign exchange regulations

- **Comisión Nacional de Bancos y Seguros (CNBS)**
  - Role: legal authority to supervise financial institutions

- **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)

- **Conatel (Telecom Regulator)**
  - Role: legal authority to supervise, regulate and coordinate the Telecommunication sector on behalf of the government

Implications

- Uncertain Regulatory environment:
  - BCH has just started studying the requirements for MFS and the impact of new technologies on existing financial system
  - Conatel shall be limited to a consultative role and is open to new VAS

- Only Financial institutions or organisms registered as bank agents can perform financial transactions

- Tigo Money has been launched in Honduras in 2010 but uncertainty around how compliant it is with BCH requirements:
  - BCH authorization for mobile payment services
  - Operating with Banco Atlántida but uncertainty regarding the nature of their relationship / agreement

- Number portability effective starting 2011

Source: CGAP, Amarante Analysis and interviews
Regulatory Framework & Requirements

Current Regulations

- Law No. 27-98 criminalizes the laundering of narcotics-related proceeds
- Decree No. 45-2002, enacted in 2002, expands the definition of money laundering to include transfer of assets that proceed directly or indirectly from trafficking of drugs, arms, human organs or persons; auto theft; kidnapping; bank and other forms of financial fraud; and terrorism,
- Customer identification: Banks are required to know the identity of all their clients and depositors, regardless of the amount of deposits
- Customer verification: official ID with picture. Address verification discretionary. (issue identifying physical address)
- 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.
- Amendments to the AML legislation in 2008 expand the scope of entities required to file STRs to include real estate agents, used car dealerships, antique and jewelry dealers, pawn shops, remittance companies, armed car contractors, and non governmental organizations.
- The UIF received 354 STRs in 20
- Record keeping: 5 years

Implications

- **Account opening:** Customer identification /verification
- **Financial services:**
  - Repeated transactions are not defined clearly. Depending on type of transactions, 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
  - Account limits should be revised as well for agent limits
- **Data storage** for 5 years. Processes will need to be developed for data collection & storage.
- System audit and daily reconciliations.
There is no regulation on e-money transaction in Honduras. BCH needs to develop a new provision for regulated banks, MNOs and third-parties who want to provide e-money services.

BCH is open to let non-financial institutions enter the MFS market. To be discussed more in detail when lobbying with them.

“Pulperias” (mom and pop shops) represent the essential part of the distribution network; Supermarket and wholesalers concentrated in urban areas.

Some agents need to be allowed to perform cash-in and cash-out to enable quick penetration.

BCH’s regulation stipulates that agents can perform financial operations only if registered as bank agents.

Mobile Money projects should involve a control Bank account that guarantees the e-money creation and partner banks or MFIs that will cover the financial services.

Request BCH authorization to use some of these channels as agents where customers can cash-in, cash-out money and register to the services.

Might be necessary to partner with a bank or financial institution to obtain approval.
### Additional Regulatory Considerations

#### Current Regulations

<table>
<thead>
<tr>
<th>e-transactions</th>
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<tbody>
<tr>
<td>There is no regulation on e-transactions in Honduras.</td>
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<table>
<thead>
<tr>
<th>Payment Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCH Law, the FIs Law, the Law on Credit Cards, and the Commerce Code govern payment and settlement systems.</td>
</tr>
<tr>
<td>Only banks have direct access to the main payment systems because of the requirements that the users have a current account with BCH</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative gaps: major part of the population does not have proper physical address.</td>
</tr>
<tr>
<td>Need for guarantees on the security of the m-wallet.</td>
</tr>
</tbody>
</table>

#### Implications

| Authentication and integrity requirements are not going to be driven by regulation but mostly by business requirements |
| Legal concerns remain in terms of: |
| - Validity of e-transactions and SMS receipts |
| - Electronic signatures |
| - Admissibility and evidence weight of information in electronic form |

| Need to have a bank involved to provide payment services |

| Challenge for the identification of the customers, mainly low-income ones. |
| PIN code will be required to authorize each transaction |
| Possibility to lock the account anytime in case of robbery will be offered |
- Macro-economic Overview
- Regulations
- Financial Sector
- Telecom Sector
- Distribution Channel
- Mobile Financial Services Landscape
Financial Infrastructure

Facts:

- Few legal and regulatory barriers to entry in the banking sector
- Foreign banks and generally speaking banks are mostly at a regional level
- In recent years, the government has passed 5 banking reform laws aimed at strengthening the nation’s financial system

<table>
<thead>
<tr>
<th>Banks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial domestic Banks</td>
<td>7</td>
</tr>
<tr>
<td>Commercial foreign Banks</td>
<td>10</td>
</tr>
<tr>
<td>State owned Banks</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Branches</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ATMs</td>
<td>960</td>
</tr>
<tr>
<td>Savings accounts</td>
<td>3 018 618</td>
</tr>
<tr>
<td>Credit cards</td>
<td>700 000</td>
</tr>
<tr>
<td>Debit cards</td>
<td>1 400 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Microfinance Institutions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs</td>
<td>19</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>230</td>
</tr>
</tbody>
</table>

Source: BCH, Amarante Analysis
### Bank Snapshot

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Subsidiaries</th>
<th>Agencies</th>
<th>Other Offices</th>
<th>Total Offices</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banco Atlántida, S.A.</strong></td>
<td>16</td>
<td>87</td>
<td>101</td>
<td>236</td>
<td>Partnership with Tigo</td>
</tr>
<tr>
<td><strong>Banco de Occidente, S.A.</strong></td>
<td>8</td>
<td>96</td>
<td>32</td>
<td>152</td>
<td></td>
</tr>
<tr>
<td><strong>Banco de Los Trabajadores</strong></td>
<td>7</td>
<td>17</td>
<td>8</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td><strong>Banco Continental, S.A.</strong></td>
<td>1</td>
<td>31</td>
<td></td>
<td>44</td>
<td></td>
</tr>
<tr>
<td><strong>Banco Financiera Centroamericana, S.A.</strong></td>
<td>6</td>
<td>15</td>
<td>1</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td><strong>Banco Mercantil, S.A.</strong></td>
<td>1</td>
<td>46</td>
<td>8</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td><strong>Banco Hondureño del Café, S.A.</strong></td>
<td>1</td>
<td>33</td>
<td>4</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>

Source: BCH, Jan 2011
### MFI Snapshot

<table>
<thead>
<tr>
<th>MFI</th>
<th>Active borrowers</th>
<th>Loan Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>BanCovelo</td>
<td>15,760</td>
<td>$50,029,907</td>
</tr>
<tr>
<td>FUNDEVI</td>
<td>14,193</td>
<td>$34,150,184</td>
</tr>
<tr>
<td>PROCREDIT - HND</td>
<td>10,966</td>
<td>$30,490,063</td>
</tr>
<tr>
<td>ODEF Financiera</td>
<td>28,976</td>
<td>$29,155,880</td>
</tr>
<tr>
<td>FINSOL</td>
<td>8,129</td>
<td>$23,966,078</td>
</tr>
<tr>
<td>FAIVA - OPDF</td>
<td>12,625</td>
<td>$11,553,532</td>
</tr>
<tr>
<td>HDH - OPDF</td>
<td>10,375</td>
<td>$9,231,401</td>
</tr>
</tbody>
</table>

Source: Mixmarket, 2011
# Large Financial Flows

## Opportunity analysis summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bill payments</strong></td>
<td>⬤</td>
</tr>
<tr>
<td>• Bill payment system controlled by private companies (ENEE…)</td>
<td></td>
</tr>
<tr>
<td>• Many payments done in Financial institutions</td>
<td></td>
</tr>
</tbody>
</table>

| **P2P (domestic)**              | ⬤           |
| • Strong domestic migration to the main metropolitan areas, maquilas and agriculture regions |             |

| **G2P**                         | ⬤           |
| • Bono 10,000 is the social welfare program of the Honduran government |             |
| • The program targets over 600,000 people that would receive around US$ 500/year |             |

| **Payroll (informal market)**   | ⬤           |
| • Relatively large informal sector |             |
| • Opportunity with payment from banked to unbanked (domestic staff, black market…) |             |

| **B2C or B2Employees**          | ⬤           |
| • Strong potential in industries such as coffee, sugarcane with seasoned workers (from Honduras, Guatemala…) that often do not have bank accounts  |             |
| • Maquilas employ around 150,000 people |             |

| **Credit & micro-finance**      | ⬤           |
| • Only very few larger scale MFIs and cooperatives |             |
| • Microfinance is a growing market in Honduras |             |

| **Remittances (international)** | ⬤           |
| • International remittances flowing mainly from USA but also to other Central American countries due to strong |             |

*Source: Amarante analysis*
• 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</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tigo</strong></td>
<td>53%</td>
<td>4.7M</td>
<td>Tigo Money launched in 2010 in Honduras; Partnership with Banco Atlantida</td>
</tr>
<tr>
<td><strong>América Móvil</strong></td>
<td>45%</td>
<td>4.0M (including Digiciel subscribers)</td>
<td>MFS project underway, but no pilot yet</td>
</tr>
<tr>
<td><strong>Hondutel</strong></td>
<td>2%</td>
<td>0.18M</td>
<td>No known MFS project under way</td>
</tr>
</tbody>
</table>

Note: Claro acquired Digicel Honduras in 2011

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

- Highly dynamic market, subscribers base will exceed the 9M mark by the end of the year 2011
- Tigo is the leading operator in the market with around 60% of total subscribers
- Claro bought Digicel Honduras in 2011 and is now the 2nd mobile network operator in terms of market share
- Number portability will create a level playing field

Sources: Companies websites
Relatively low ARPU: around $10
- Operator are recruiting on the low segments (penetration rate already around 100%) so the ARPU will not grow.

**Consequence**
- Potential revenue growth from volume on low income segments.

**Key figures:**
- ARPU trend very stable need additional value stream to boost it
- Most of the population already covered, need for additional services

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**Mobile Outlook - ARPU Trend**

**ARPU/Operator ($US equivalent)**

![Graph showing ARPU trends for different operators]

**Key learnings and conclusions**

- Operators need for value creation and new revenue streams beyond traditional voice

**Sources:** ie Market Research

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Mobile Outlook - a Prepaid Market

Key figures:
- As of FY2010, Prepaid customers account for 93% of total customer base
- All MNOs have a negative postpaid growth (-98% for Tigo; -22% Digicel; -111% Claro and -1% Hondutel)
- Digicel with 10% Postpaid customers is an exception in the market

Consequence:
- Market likely to be more volatile as competition increases
- This will be further compounded by the introduction of number portability
- We can expect most MNOs to rapidly introduce MFS (Tigo was first)

Prepaid customers (as a %)

Key learnings and conclusions

Sources: ie Market Research
• Macro-economic Overview
• Regulations
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Distribution Landscape

- MNOs have strong footprint in Honduras
  - Tigo has over 14000 PoS all over the country

- Distribution is diversified (direct vs. indirect, large vs. small retail) and enables Tigo to control its distribution cost and maintain direct contact with the market.

*Source: Amarante Analysis, 2010*

**AIRTIME at a glance**

<table>
<thead>
<tr>
<th>Market Split</th>
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<tbody>
<tr>
<td>Wholesaler: 50%</td>
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<tr>
<td>Carrier stores: 30%</td>
</tr>
<tr>
<td>Retail/Supermarket: 15%</td>
</tr>
<tr>
<td>Multibusiness stores: 2.5%</td>
</tr>
<tr>
<td>Independent stores: 2.5%</td>
</tr>
</tbody>
</table>

**Commission structure**

- End user (agents) 7%
- Wholesaler 3-4%
- 95% of the market run by 16 companies, 5% by the banks
- Agents also do SIM card sales, family plans, back tone sales...

**Distribution channel structure**

- Direct Channel
  - Carrier Stores 150 stores
  - Super Dealer
  - Other Distributors
  - Dealers
    - Retail chains Supermarket 400 stores
    - Wholesalers 12000-14000 stores
• Macro-economic Overview
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Current MFS Initiatives in Honduras

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

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

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

Third-party led Model

Regulatory barrier for non FI to issue accounts
MFS Implementations

- Services: P2P transfer
- Pilot launch in Honduras: Nov10
- Partnership with Banco Atlantida
  - Regulatory constraints
  - Distribution network
- Tigo Money tariffs
  - Cost for transferring money is 4% (registered or non-registered users)
  - As an incentive for the service launch, P2P customers receive 2% of the amount in Airtime equivalent on the Tigo Network (saldo de regalo)