IFC Mobile Money Scoping
Country Report: El Salvador

Pascal SIMON

May 29, 2012
El Salvador Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Value/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall Mobile Money Readiness</strong></td>
<td>2/3 (Low/Moderate)</td>
</tr>
<tr>
<td><strong>Current Mobile Money Solution</strong></td>
<td>Tigo Money</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>6.1 million (Very Low)</td>
</tr>
<tr>
<td><strong>Mobile Penetration</strong></td>
<td>126.53% (Very High)</td>
</tr>
<tr>
<td><strong>Banked Population</strong></td>
<td>26% (Low)</td>
</tr>
<tr>
<td><strong>Remittance % of GDP</strong></td>
<td>15.7% (High)</td>
</tr>
<tr>
<td><strong>Percent under poverty line</strong></td>
<td>36.5% (High)</td>
</tr>
<tr>
<td><strong>Economically Active population</strong></td>
<td>42.2% (Moderate)</td>
</tr>
<tr>
<td><strong>Adult Literacy</strong></td>
<td>81% (High)</td>
</tr>
<tr>
<td><strong>Main banks</strong></td>
<td>Banco Agrícola, Banco Citibank de El Salvador, Banco HSBC Salvadoreño, Banco Scotiabank El Salvador</td>
</tr>
<tr>
<td><strong>Mobile Network Operators</strong></td>
<td>Tigo (51.2% market share), Claro (32.1%), Movistar (16.7%)</td>
</tr>
<tr>
<td><strong>Ease of doing business</strong></td>
<td>112th out of 183</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td>El Salvador is one of the most densely populated <strong>country</strong> of Central America. <strong>It</strong> microfinance sector is strong and highly competitive whilst its banking sector remains focused on middle to high-income customers. <strong>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.</strong></td>
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**Mobile Money readiness**

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
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<tbody>
<tr>
<td>Regulation</td>
<td>1</td>
</tr>
<tr>
<td>Financial Sector</td>
<td>2</td>
</tr>
<tr>
<td>Telecom Sector</td>
<td>3</td>
</tr>
<tr>
<td>Distribution Channel</td>
<td>3</td>
</tr>
<tr>
<td>Market Demand</td>
<td>4</td>
</tr>
</tbody>
</table>
• **Macro-economc Overview**
  • Regulations
  • Financial Sector
  • Telecom Sector
  • Distribution Channel
  • Mobile Financial Services Landscape
Macroeconomic Overview

Key Country Statistics

- Population 6,090,646 (density 289 ppl/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
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

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
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.
### 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.**
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
• Macro-economic Overview
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• Financial Sector
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Financial Infrastructure

<table>
<thead>
<tr>
<th>Banks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private banks</td>
<td>12</td>
</tr>
<tr>
<td>State owned banks</td>
<td>2</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Branches</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ATMs</td>
<td>1135</td>
</tr>
<tr>
<td>Branches</td>
<td>378</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Microfinance Institutions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 20,000 customers</td>
<td>4</td>
</tr>
<tr>
<td>10,000 to 20,000 customers</td>
<td>2</td>
</tr>
<tr>
<td>&lt; 10,000 customers</td>
<td>12+</td>
</tr>
</tbody>
</table>

**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)

**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 bureau specialized in Microfinance

Source: CGAP, Economist Intelligence Unit
## Bank Snapshot

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share</th>
<th>Branches</th>
<th>ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco Agrícola</td>
<td>27.8%</td>
<td>68</td>
<td>285</td>
</tr>
<tr>
<td>Banco Citibank de El Salvador</td>
<td>16.3%</td>
<td>31</td>
<td>9 mini banks, 174 ATMs</td>
</tr>
<tr>
<td>Banco HSBC Salvadoreño</td>
<td>14.6%</td>
<td>71</td>
<td>189 ATMs</td>
</tr>
<tr>
<td>Banco Scotiabank El Salvador</td>
<td>14.6%</td>
<td>56</td>
<td>121 ATMs</td>
</tr>
<tr>
<td>Banco de America Central</td>
<td>9.5%</td>
<td>36</td>
<td>228 ATMs</td>
</tr>
<tr>
<td>Banco Hipotecario</td>
<td>4.2%</td>
<td>21</td>
<td>39 ATMs</td>
</tr>
<tr>
<td>Banco Promerica</td>
<td>4.2%</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Superintendencia del sistema financiero, banks websites*
## MFI Snapshot

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

Source: Mixmarket, 2012
• Macro-economic Overview
• Regulations
• Financial Sector

• Telecom Sector

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Mobile Network Operators

- **Tigo**
  - 100% MIC
  - 3.05M subs (Mar 2012)
  - 51.2% Market share
  - Tigo Money launched in 2011

- **América Móvil**
  - 95.8% Américas Móvil
  - 1.91M subs (2012 est.)
  - 32.1% Market share
  - No known MFS project underway

- **Telefónica**
  - Telefónica
  - 0.99M subs (2012 est.)
  - 16.7% Market share
  - No known MFS project underway

**Note:** Claro acquired Digicel El Salvador in 2011

Sources: Wikipedia, MNOs websites, Amarante Analysis
Mobile Outlook - a Dynamic Market

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
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

Source: Tigo

Need for value creation and new revenue streams beyond traditional voice
Mobile Outlook - a Prepaid Market

Prepaid/postpaid customers (as a %)

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.

Sources: Siget
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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

- Operator-led model
  Service entirely distributed and managed by the operator under its own license and own brand

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

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

- Operator-driven model
  Service distributed and managed by the operator under a partnering bank’s license

- Third-party led Model

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Highlights

- As of today, Tigo Money (service launched in 2011) is the only Mobile Money service available in El Salvador
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