IFC Mobile Money Scoping
Country Report: Guatemala

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May 21, 2012
Guatemala Summary

Overall Mobile Money Readiness 4 (High)
Current Mobile Money Solution Tigo Money and Bancamigo
Population 13.8 million (Low)
Mobile Penetration 140% (Very High)
Banked Population 32% (Low)
Remittance % of GDP 5.9% (Moderate)
Percent under poverty line 54% (High)
Economically Active population 40.4% (Moderate)
Adult Literacy 69% (Moderate)
Main banks Banrural, G&T Continental, Banco Industrial, BAM
Mobile Network Operators Tigo (43% market share), Claro (34%), Movistar (23%)
Ease of doing business 97th out of 183

Guatemala is the most populated country in Central America and present strong social disparities between the inner country and the urban areas. As of today, about one third of the population lives in extreme poverty, with less than US$ 2 / day. In addition, despite deep efforts from financial institutions, banking penetration remains low. Mobile money solutions could help strengthen the financial inclusion in a country where the vast majority of people owes a mobile phone. Tigo and Claro (with Banrural), who together owes about 75% of the mobile market, have been the first to launch mobile money solutions in Guatemala.
• Macro-economic Overview
  • Regulations
  • Financial Sector
  • Telecom Sector
  • Distribution Channel
  • Mobile Financial Services Landscape
## Macro-Economic Overview

### Key Country Statistics

- Population 13,824,463 (density 129ppl/sqm)
- A very young population:
  - Median age 20 year-old
  - 38.1% are under 14 year-old
- $74.64Bn GDP in 2011 (PPP)
- $5,000 GDP per capita (PPP)
- Population below the poverty line: 54% (2008)
- Rural population: 51% (urbanization rate of 3.4%)
- Literacy rate 69.1%
- Banking penetration 32%
- 18.528Mio mobile phones in 2011
- Annual remittance: 5.9% of 2011 annual GDP

### Insights

- Guatemala presents the largest market potential in Central America with over 8m potential target customers
- Telecom infrastructure is very developed in Guatemala and almost all the population has access to a mobile phone. On the contrary, banking penetration is very low.
- With the rapid expansion of the banking agent model in Guatemala, encouraged by the regulator, there is room for mobile money to grow rapidly
- Strong disparities between the inner country and the urban areas conjugated to a strong urbanization rate make P2P transfers a strong market opportunity

Sources: IOM world, Wikipedia, 2010 CIA WORLD FACTBOOK, GSMA
1. Banking infrastructure availability is low in Guatemala:
   - 21.85 ATMs / 1000 adults
   - 15.92 ATMs / 1000 km²
   - 414.69 POS / 1000 adults
   - 302.09 POS / 1000 km²
2. Some banks have promoted access to financial services for unbanked people (e.g. Banrural)
3. Rural areas lack extensive access to financial services

Sources: IOM world, Wikipedia, 2010 CIA WORLD FACTBOOK, GSMA
According to the World Bank, income distribution in Guatemala is one of the most unequal in the world.

- 10% of the total population receives approximately 50% of the total income.
- 20% of the total population receives approximately 2/3 of the total income.
- 32% of the total population lives with less than US$2 per day, of which 13.5% lives with less than US$1 per day.

Sources: World Bank
- Macro-economic Overview
- Regulations
  - Financial Sector
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  - Mobile Financial Services Landscape
Banco de Guatemala (Banguat)  
- Role: Responsible for maintaining price stability, lender of last resort and ability to monitor systemic risk

Superintendencia de Bancos de Guatemala (SIB)  
- Role: day-to-day supervision of commercial banks and financial institutions (finance companies…)

Unidad de Información Financiera (UIF)  
- Role: Supervise and monitor AML/KYC policies and procedures and filing suspicious transaction reports (STRs)

Superintendencia de Telecomunicaciones (SIT)  
- Role: legal authority to supervise, regulate and coordinate the Telecommunication sector on behalf of the Ministry of Communication, Infrastructure and Housing

Implications

- Weak regulatory environment:
  - Several reforms have been presented in the past years to the Congress aiming at strengthening banking regulation and increase control

- In 2011, SIB, along with the Guatemala Banking Association (ABG) started drafting a mobile money regulation for Guatemala
  1. Banks or organisms registered as Financial Institutions using MNOs to offer the services on their platform
  2. Banks and MNOs working as partners to provide the service

Source: CGAP, EIU, Amarante Analysis
Regulatory Framework & Requirements

Current Regulations

- Guatemala has institutionalized and strengthened its AML/CFT system in recent years:
  - AML is dealt with in the Guatemalan Penal Code according to the parameters and rules of the Palermo Convention against Transnational Organized Crime and the Vienna Convention. AML Act No. 67-2001, Congressional Decree No 21-2006...
  - CFT is criminalized in Guatemala on the basis of the International Convention for the Suppression of the Financing of Terrorism (adopted by Decree No 58-2005 and regulated by Government decision No 86-2006)
- Financial institutions must apply Customer Due Diligence (CDD) measures and collect adequate and meaningful information:
  - Submit a report (IVE form) for transfers in excess of US$ 2000
  - Customer identification through the neighborhood identification card (Cédula de Vecindad)

Implications

- Identification risk: Neighborhood ID card is easily falsified and as they are issued by municipalities, people can have more than one
- To promote Financial Inclusion (target population being the unbanked) and use of technology SIB to initiate:
  - Account opening and transactions for low value accounts
  - Simplified IVE form
A regulation dealing with mobile money is being discussed by the SIB.

- **Banks** must conduct an evaluation of the would-be agents' activity, characteristic of the distribution channel, reputation risk, money laundering, CFT, and the measures taken to mitigate those risks.
- The following services are authorized: P2P transfer, cash out from deposit and savings account, additional operations, and services in accordance with SIB.
- Banks take full responsibility of operations realized through the agents.

**Agents**

**E-money**

**Customer Protection**

- This regulation will help foster the development of correspondent agent networks.

- A regulation dealing with mobile money is being discussed by the SIB.

- Agents have no access to information related to the account statement of depositors.
- Macro-economic Overview
- Regulations
- Financial Sector
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- Mobile Financial Services Landscape
# Financial Infrastructure

<table>
<thead>
<tr>
<th>Banks</th>
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<tbody>
<tr>
<td>Commercial domestic Banks</td>
<td>17</td>
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<tr>
<td>Commercial foreign Banks</td>
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</table>

<table>
<thead>
<tr>
<th>Branches</th>
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<tbody>
<tr>
<td>ATMs</td>
<td>1 734</td>
</tr>
<tr>
<td>Branches</td>
<td>3 110</td>
</tr>
<tr>
<td>POS</td>
<td>32 895</td>
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</table>

<table>
<thead>
<tr>
<th>Microfinance Institutions</th>
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</thead>
<tbody>
<tr>
<td>&gt; 100,000 customers</td>
<td>1</td>
</tr>
<tr>
<td>20,000 to 100,000 customers</td>
<td>3</td>
</tr>
<tr>
<td>&lt; 20,000 customers</td>
<td>19+</td>
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</tbody>
</table>

## Facts:
- In line with the trend in Central America, banking sector in Guatemala is highly concentrated with the 3 largest banks holding 67% of assets as of 2011
- Commercial banks are the most popular sources of short-term credit
- MSMEs can have difficulty accessing financing, as commercial lending tends to be concentrated among a relatively small group of large borrowers
- There is no postal bank in Guatemala

**Clearing and Settling**

**Banking Clearing House** (Cámara de Compensación Bancaria)
- Established in 2002
- Administred by the Guatemalan Bankers Association (Asociación Bancaria de Guatemala, ABG) under the supervision of the Banguat
- Daily clearing of all cheques in the banking system via banks’ reserve accounts at the central bank
- The Real-time Gross Payment System (Sistema de Liquidacion Bruta en Tiempo Real, LBTR) is a system of gross real-time liquidation

Source: BRH, HiFive, EIU
<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Number of Branches</th>
<th>Number of Deposit Accounts</th>
<th>Number of Savings Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco de Desarrollo Rural, S.A.</td>
<td>1,058 branches</td>
<td>1,709,558</td>
<td>4,084,997</td>
</tr>
<tr>
<td>Banco G&amp;T Continental, S.A.</td>
<td>577 branches</td>
<td>742,729</td>
<td>1,380,605</td>
</tr>
<tr>
<td>Banco Industrial, S.A.</td>
<td>396 branches</td>
<td>944,087</td>
<td>1,022,846</td>
</tr>
<tr>
<td>Banco Agromercantil de Guatemala, S.A.</td>
<td>243 branches</td>
<td>134,242</td>
<td>1,020,162</td>
</tr>
<tr>
<td>Banco Azteca de Guatemala, S.A.</td>
<td>168 branches</td>
<td>200,621</td>
<td></td>
</tr>
<tr>
<td>Banco Reformador, S.A.</td>
<td>108 branches</td>
<td>116,673</td>
<td>236,757</td>
</tr>
<tr>
<td>Banco de los Trabajadores, S.A.</td>
<td>106 branches</td>
<td>24,311</td>
<td>263,356</td>
</tr>
</tbody>
</table>

Source: SIB, March 2012
## MFI Snapshot

<table>
<thead>
<tr>
<th>MFI</th>
<th>Active borrowers</th>
<th>Loan Portfolio</th>
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</thead>
<tbody>
<tr>
<td>Génesis Empresarial</td>
<td>157,465</td>
<td>$84,288,141</td>
</tr>
<tr>
<td>BanCafé MIPYME</td>
<td>20,746</td>
<td>$48,760,723</td>
</tr>
<tr>
<td>Asociación Raíz</td>
<td>18,624</td>
<td>$25,657,803</td>
</tr>
<tr>
<td>FUNDEA</td>
<td>17,977</td>
<td>$18,545,692</td>
</tr>
<tr>
<td>FINCA - GTM</td>
<td>28,320</td>
<td>$11,299,848</td>
</tr>
<tr>
<td>CRYSOL</td>
<td>13,015</td>
<td>$8,385,747</td>
</tr>
<tr>
<td>FAFIDESS</td>
<td>14,491</td>
<td>$6,569,371</td>
</tr>
</tbody>
</table>

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

• **Telecom Sector**

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• Mobile Financial Services Landscape
## Mobile Network Operators

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<tr>
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</thead>
<tbody>
<tr>
<td>Tigo Money (55% MIC)</td>
<td>43%</td>
<td>7.97M</td>
<td>Tigo Money launched in 2011 in Guatemala</td>
</tr>
<tr>
<td>América Móvil (100%)</td>
<td>34%</td>
<td>6.30M</td>
<td>Bancamigo launched in 2011 in Guatemala</td>
</tr>
<tr>
<td>Telefonica (100%)</td>
<td>23%</td>
<td>4.28M</td>
<td>No known MFS project under way</td>
</tr>
</tbody>
</table>

Sources: Wikipedia, interviews with partners, Amarante Analysis
Mobile Outlook - a Dynamic Market

Mobile Subscribers

Key Learning:

- Highly dynamic market, subscribers base exceeds the 18M mark; market penetration is largely above 100%
- Mobile market is fragmented, divided between 3 mobile operators:
  - Tigo (Comcel) is the market leader operator with more than 40% of total subscribers followed by Claro with 34% and Movistar with 23%
- Mobile subscribers growth is expected to remain flat is the years to come

Sources: SIT
ARPU has been declining over the years

- Need additional value stream to boost it
- Offering services to differentiate its offering

Key figures:
- Saturated mobile penetration rate in Guatemala, population already covered by mobile services

Need for value creation and new revenue streams beyond traditional voice

Sources: MNOs websites
Mobile Outlook - a Prepaid Market

Key figures:
- As of end June 2011, Prepaid customers account for 95% of total customer base
- Claro’s postpaid customers (as a %) has been relatively stable whereas Movistar postpaid customers has been declining

Consequence:
- Market likely to be more volatile as competition increases
- Two MNOs (market leaders) have already introduced MFS

Prepaid customers (as a %)

Key learnings and conclusions

Sources: SIT
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• Mobile Financial Services Landscape
Guatemala is the largest economy of Central America

The retail sector is dominated by three supermarket chains targeting middle and high income consumers (40% of sales through supermarkets)

Low income consumers mainly go to open-air markets and mom and pop stores ("tiendas de barrio")

Those tiendas de barrio, very small (on average 30 sqft), carry an inventory of ~US$ 500 and are located in the medium and lower class neighborhood

There are strong disparities between the interior of the country and Guatemala City but supermarkets are starting to look in the interior

Source: USDA 2010
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Current MFS Initiatives in Guatemala

Highlight:
- There are currently two mobile financial services in Guatemala, involving the two leading MNOs:
  - Tigo Money was launched early 2011
  - Bancamigo (Claro/Banrural) was launched in Dec 2011

Models:
- Joint Venture model: Service co-branded and co-distributed with the operator and/or the bank
- Bank-led model: Mobile channel is only seen as an access channel (bearer) to banking services
- 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
- Third-party led model: Service co-branded and co-distributed with the operator and/or the bank

Regulatory barrier for non FI to issue accounts

Level of financial integration

IFC International Finance Corporation World Bank Group
MFS Implementations

- **Services:**
  - P2P transfer,
  - Cash in/out
- **Service launched in Guatemala in 2011**
- **Distribution network (Pharmacy, Shell Select convenience stores are Tigo money agents)**
- **Tigo Money tariffs:**
  - Cost for transferring money is 1.5 Quetzal for each 25 Quetzal sent (can send up to 5,000 Quetzal)
MFS Implementations

- Service launched in Guatemala in 2011
- Services: P2P transfer, Remittances, G2P payments...
- Partnership Banrural y Claro
  - Customers need to have an account at Banrural to make a transaction
  - Customers can register at any Banrural or Claro agents
  - Registered users benefit from better tariffs
- Bancamigo Tariffs:
  - Free transfer between claro phones; 3 Quetzal (~0.40 USD)
  - Tier mechanism for cash-out:
    - <500 Quetzal: 5 Quetzal
    - 500-1000 Quetzal: 6 Quetzal
    - > 1000 Quetzal: 10 Quetzal