

# IFC Mobile Money Scoping Country Report: Ecuador

September 08, 2011

# Ecuador Summary

Overall Mobile Money Readiness	2 (Low)	<table border="1"> <thead> <tr> <th colspan="2">Mobile Money readiness (1-5)</th> </tr> </thead> <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>2</td> </tr> <tr> <td>Market Demand</td> <td>3</td> </tr> </tbody> </table>	Mobile Money readiness (1-5)		Regulation	1	Financial Sector	2	Telecom Sector	3	Distribution Channel	2	Market Demand	3
Mobile Money readiness (1-5)														
Regulation	1													
Financial Sector	2													
Telecom Sector	3													
Distribution Channel	2													
Market Demand	3													
Current Mobile Money Solution	None													
Population	44.7 million (Relatively High)													
Mobile Penetration	100% (Very High)													
Banked Population	35% (low)													
Remittance % of GDP	4.4% (Moderate)													
Percent under poverty line	33.1% (High)													
Economically Active population	4.6m (urban)													
Adult Literacy	91% (High)													
Main banks	Banco Pichincha (1.8m customers), Produbanco and Banco de Guayaquil													
Mobile Network Operators	Porta (70%), Movistar (29%) and Telecsa Alegro (1%)													
Ease of doing business	130 <sup>th</sup> out of 183													
IFC Opportunities	<p>There is little movement in the MFS space in Ecuador as a result of the regulation. Only one bank has an agent network, which they are using primarily for debit cards. A second company has established a shared agent network, but there is no mobile component. The “banking correspondent” network established by Banco Guayaquil and the “agent” network established by Servi Pagos are considered different from the regulator’s perspective. They are named differently and regulated differently, but they both seem to be similar. It is likely that the Central Bank will be trying to build their own platform and their own agent network.</p>													

- Macro-economic Overview
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# Macro-Economic Overview

## Key Country Statistics

- Population: 15,007,343 ( 2011, density 53.8 ppl/sqm)
- Age distribution:(2011 est.)
  - 0-14 years: 30.1%
  - 15-64 years: 63.5%
  - 65 years and over: 6.4%
- Urban/rural split: 67/33 (2% urbanization rate 2010-2015)
- GDP (PPP):US\$ 115Bn in 2010
- GDP per capita (PPP): US\$7,800
- Literacy rate: 91%
- Banking penetration: 55%
- Mobile phone penetration: 100%
- Remittance (% of GDP): 4.4% (inflows)

## Insights

- Relatively small market potential in terms of volume compared to other LAC countries like Brazil or Mexico.
- Ecuador is one of the smallest communications and technology markets in the region lagging behind in infrastructure, connectivity, and business-friendly legislation
- The administration's main economic policy focus is to increase state control in strategic sectors such as energy, banking and telecommunications, while maintaining high levels of fiscal spending to expand social welfare and infrastructure programs
- Considering the structure of the population (young population, high literacy rate...) and the strong mobile penetration vs. relatively low banking penetration, Mobile Money technology shall present strong potential
- International remittances in terms of % of GDP and volumes are among the highest in the LAC region

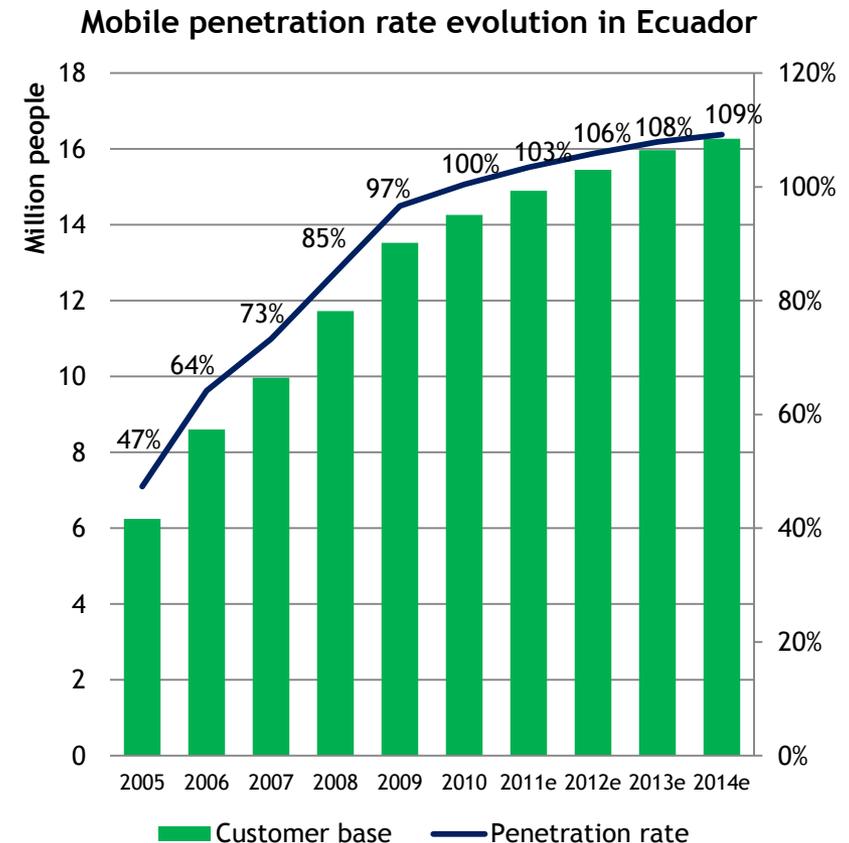
Sources: IOM world, Wikipedia , 2010 CIA WORLD FACTBOOK, GSMA

# Mobile & Banking Penetrations

Several factors limit banking growth

1. As a consequence of the 1998-99 banking crisis, the Ecuadorian banking sector remains weak and immature despite the introduction of the US dollar as the official tender in 2000
  2. Confidence in the sector remains very low, although deposits and banking penetration continue to grow
  3. This is partly due to low infrastructure, political factors and institutional instability
- ➔ Strong need for an increase the number of households using financial services, low by regional and international standards

Whereas mobile penetration has increased steadily



Sources: CONATEL, Economist Intelligence Unit

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# Regulatory Bodies

Superintendencia de Bancos y Seguros (SBS)

Banco Central del Ecuador (BCE)

Consejo Nacional de Telecomunicaciones (SENATEL - CONATEL)

## Roles & Responsibilities

- Role: responsible for financial regulation. Tasks are to strengthen the legal framework, ensure quality and security of the information and transactions and protect the rights of the consumers
- Role: First task was to stabilize and unify the currency. BCE is the central bank of Ecuador in charge of regulating the payment system, including mobile money
- Role: private entity in charge of defining the rules that govern telecommunication so as to ensure loyal competition and define the obligations operators have to comply with

## Implications

- The regulatory situation in Ecuador is confusing because there are two entities believed to be responsible for mobile money regulations - the Superintendencia de Bancos y Seguros (SBS) and the Banco Central del Ecuador (BCE)
- BCE has spent the past few years learning about mobile money and has recently released a TOR to find companies that are interested in developing and delivering an integrated platform. The platform would be run by BCE
- The way agent networks are regulated is not consistent, and appears to be defined on a case-by-case basis
- Only Banco Guayaquil currently has banking correspondents. They have 2,114 points of access. They are the only bank that has pursued this because of cost. Each banking correspondent costs about \$1,700 for equipment and other regulatory requirements

# Regulatory Framework & Requirements

## E-money

## Retail Agents

### Current Regulations

- Ecuador has not yet issued regulations related to electronic money

- Financial institutions must apply and send to the regulator for permission to operate Agents:
  - A certified copy of the act of the Board of Directors of the financial institution approving the opening of Agents
  - A feasibility study of the operation of Agents
  - A model contract that will be used with Agents
  - Demonstration of ability to operate Agents, including appropriate online technological platform, risk control plan, and internal controls plan
- The regulator can deny applications from FIs that may have deficient technology; deficiencies in their ability to control against money laundering failure to comply with liquidity risk norms; or failure to comply with operational risk norms
- Operations realized in Agents must be conducted exclusively through electronic terminals that are connected online to the technological platform of the financial institution.
- Agents and FIs must sign a contract
- Agents are prohibited from doing the following:
  - Operating when communication systems are down/temporarily not functioning
  - Ceding any control of their operations without express permission from the financial institution
  - Charging clients any fees related to their services
  - Providing financial services of their own.

### Implications

- Regulator needs to develop a new provision for regulated banks, MNOs and third-parties who want to provide e-money services.

- Through Agents, the following activities can occur:
  - Cash deposits in checking and savings accounts, and transfers between such accounts
  - Viewing of balances in checking and savings accounts
  - Withdrawals using a debit card
  - Payment of services
  - Payment of credit/loans

# Regulatory Framework & Requirements

## KYC/AML Requirements

### Current Regulations

- Several laws govern AML/CFT: Anti Money Laundering Act 18/10/2005 (Ley Para Reprimir el Lavado de Activos) complemented by Decree 1328 of 24 April 2006 which contains the Anti Money Laundering Regulations. Other relevant laws are the Criminal Code, the Criminal Procedure Code and the Financial System Institutions General Law.
- Due diligence is required, which includes the establishment of procedures to verify the identity of clients.
- Financial institutions must have KYC policies and procedures in place that establish a financial profile of each client, and enable banks to know the transactional profile of clients as well as the identity of clients, and be able to detect unusual transactions.
- A form must be developed and used by financial information to collect a range of client information, including such things as name, address, occupation, and proof of payment of taxes.
- In the case of politically exposed people (PEP), stricter procedures must be used to establish and verify identity.

### Implications

- Full KYC is required for all mobile banking customers. There is no movement at this time within the Superintendencia de Bancos y Seguros to have proportionality.

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# Financial Infrastructure

Banks	
Commercial Banks	24
Financial co-operatives	42
Branches	
ATMs	N/A
POS terminals	N/A
Credit cards	1,971,935
Debit cards	(08/2010)
Microfinance Institutions	
> 100,000 customers	N/A
20,000 to 100,000 customers	> 5

## Facts:

- 4 local banks hold around 2/3 of total deposits: Banco del Pichincha, Banco de Guayaquil, the state-owned Banco del Pacífico and Produbanco
- US\$ 1.3bn microcredit portfolio in 2009 and 667,696 active borrowers (~US\$ 1947 average loan)

Source: SBS, 2011

Clearing and Settling
<b>Sistema de Pago Interbancario (SPI)</b>
•Ownership: Banco Central del Ecuador
•DNS interbank payment system for retail payments
Bank switches and clearinghouses
<b>BANRED</b>
•ATM network working with 18banks
<b>Servipagos</b>
•Ownership Produbanco + other banks
•Participants: 7banks
•front-end services for a range of banks
PACIFICARD
•MasterCard and Visa card issuer
INTERDIN
•Visa and Diners Club card issuer
Credit Bureaus
<b>Equifax</b> recently bought Credit Report C.A. Buro de Informacion Crediticia
•Ownership: Equifax

# Bank Snapshot

Banco del Pichincha	<ul style="list-style-type: none"> <li>• 487 branches</li> <li>• 721 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 27.7% of total deposits</li> <li>• 1.8 million customers</li> </ul>	<ul style="list-style-type: none"> <li>• 2,114 agents</li> </ul>
Banco de Guayaquil	<ul style="list-style-type: none"> <li>• 3,178 branches</li> <li>• 693 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 13.8% of total deposits</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
Banco del Pacífico	<ul style="list-style-type: none"> <li>• 80 branches</li> <li>• 215 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 10.2% of total deposits</li> </ul>	<ul style="list-style-type: none"> <li>• 37 agents “ventanillas”</li> </ul>
Produbanco	<ul style="list-style-type: none"> <li>• 75 branches</li> <li>• 97 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 9.8% of total deposits</li> </ul>	<ul style="list-style-type: none"> <li>• 63 agents (servipagos)</li> </ul>
Banco Bolivariano	<ul style="list-style-type: none"> <li>• 87 branches</li> <li>• 247 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 8.3% of total deposits</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
Banco Internacional	<ul style="list-style-type: none"> <li>• 87 branches</li> <li>• &gt; 400 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 8.4% of total deposits</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
Banco Solidario	<ul style="list-style-type: none"> <li>• 30 branches</li> <li>• 46 ATMs</li> </ul>	<ul style="list-style-type: none"> <li>• 1.2% of total deposits</li> <li>• 150,000 customers</li> </ul>	<ul style="list-style-type: none"> <li>• 63 agents (servipagos)</li> </ul>

Source: banks websites, Economist Intelligence Unit

# MFI Snapshot

Credi Fé	• 93,390 active borrowers <sup>1</sup>	• US\$ 309,967,891
ProCrédit - ECU	• 43,509 active borrowers <sup>1</sup>	• US\$ 290,954,081
COAC JEP	• 19,417 active borrowers <sup>1</sup>	• US\$ 268,070,933
Banco Solidario	• 133,508 active borrowers <sup>1</sup>	• US\$ 228,808,041
COAC Jardin Azuayo	• 44,879 active borrowers <sup>1</sup>	• US\$ 186,297,028
COOPROGRESO	• 27,380 active borrowers <sup>1</sup>	• US\$ 114,970,596
COAC Mushuc Runa	• 36,327 active borrowers	• US\$ 79,686,735

Source: Mixmarket, 2011  
1. As of year end 2010.

# Mobile Payment Service Provider Snapshot

Yellow Pepper

- Number of agents and growth plans: goal is to build a large network of agents
- Banking partners: primary Banco Pichincha but working with and talking to other partners
- MNO partner: Porta
- Type of Technology: SMS

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# Mobile Network Operators

	<ul style="list-style-type: none"><li>• 100% América Móvil</li></ul>	<ul style="list-style-type: none"><li>• 10.9 M subs</li><li>• 69.2% Market share</li></ul>	<ul style="list-style-type: none"><li>• Discussions with Yellow Pepper</li></ul>
	<ul style="list-style-type: none"><li>• 100% Telefonica</li></ul>	<ul style="list-style-type: none"><li>• 4.5 M subs</li><li>• 28.7% Market share</li></ul>	
	<ul style="list-style-type: none"><li>• Telecsa, part of CNT, state-owned provider</li></ul>	<ul style="list-style-type: none"><li>• 0.3 M subs</li><li>• 2.1% Market share</li></ul>	<ul style="list-style-type: none"><li>• No known MFS project under way</li></ul>

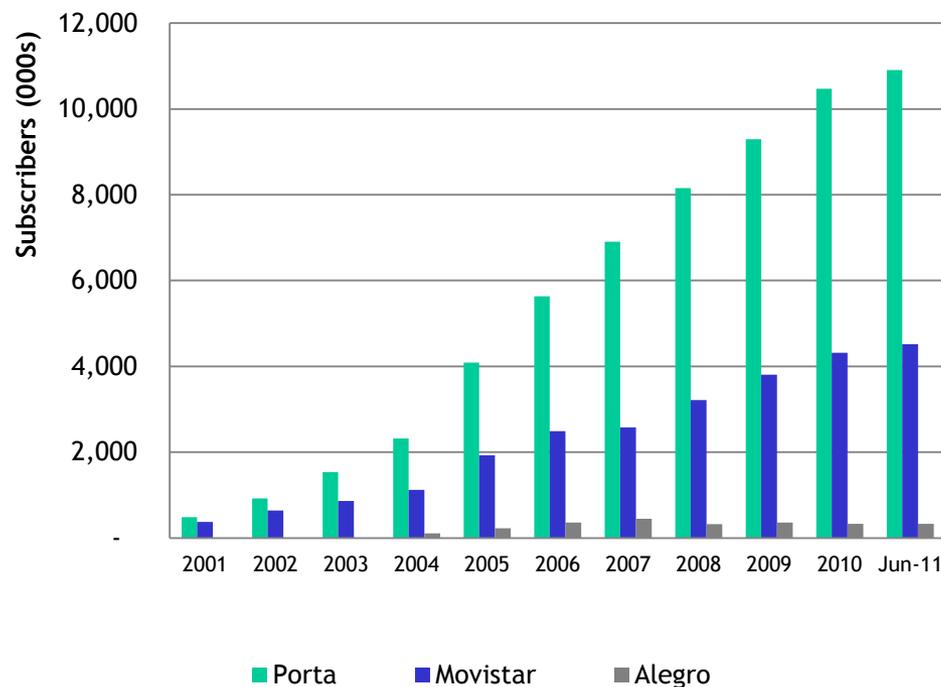
Sources: Wikipedia, interviews with partners, Amarante Analysis

# Mobile Outlook - a Dynamic Market

## Key Learnings

- Mobile phone penetration is very high, above 100% of the population has a mobile phone subscription
- Mobile market is very dynamic and is experiencing continuous growth
- There are three MNOs: Porta is the market leader with a 69% market share followed by Movistar (29%) and Alegro (a state owned operator) with only 2% market share
- In August 2009, a new Ministry of Telecommunications was established that brought under it the three organizations that had been involved in regulating the industry: the Consejo Nacional de Telecomunicaciones (Conatel, the council), the Secretary Nacional de Telecomunicaciones (Senatel, the secretariat), and the Superintendencia de Telecomunicaciones (Supertel, the superintendent).

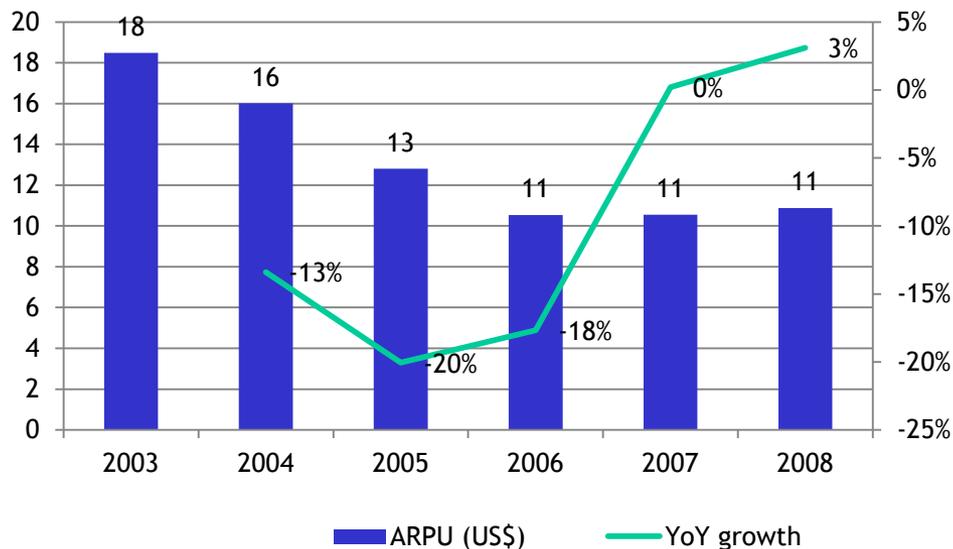
## Subscribers by operator (2001 - 2011)



Source: CONATEL

# Mobile Outlook - ARPU Trend

## ARPU/Operator (\$US equivalent)



Source: CONATEL

## Key learnings and conclusions

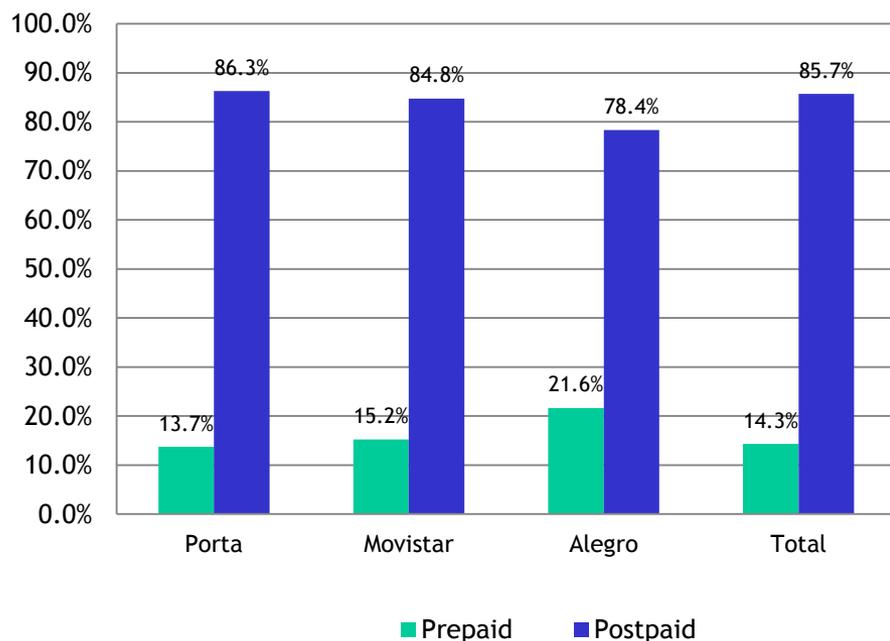
- ARPU level has been declining over the past years
- **To stabilize around US\$ 11 in 2008**, relatively high for the region
- **Consequence**
  - Strong need for VAS that can help provide new revenue stream and eventually reverse the current trend



**Need for value creation and new revenue streams beyond traditional voice**

# Mobile Outlook - a Prepaid Market with a Relatively Low Churn Rate

## Prepaid vs. Postpaid customers Jun 2011 (as a %)



Source: CONATEL

## Key learnings and conclusions

- As of June 2011, Prepaid customers account for around 86% of total customer base
- Since 2006, this figure has been on the increase probably due to MNOs developing low income segments targeted offers
- Mobile number portability was launched in late 2009; in the first three months, only 0.2% of Ecuador's subscriber base requested to be ported, primarily from Porta to Movistar.

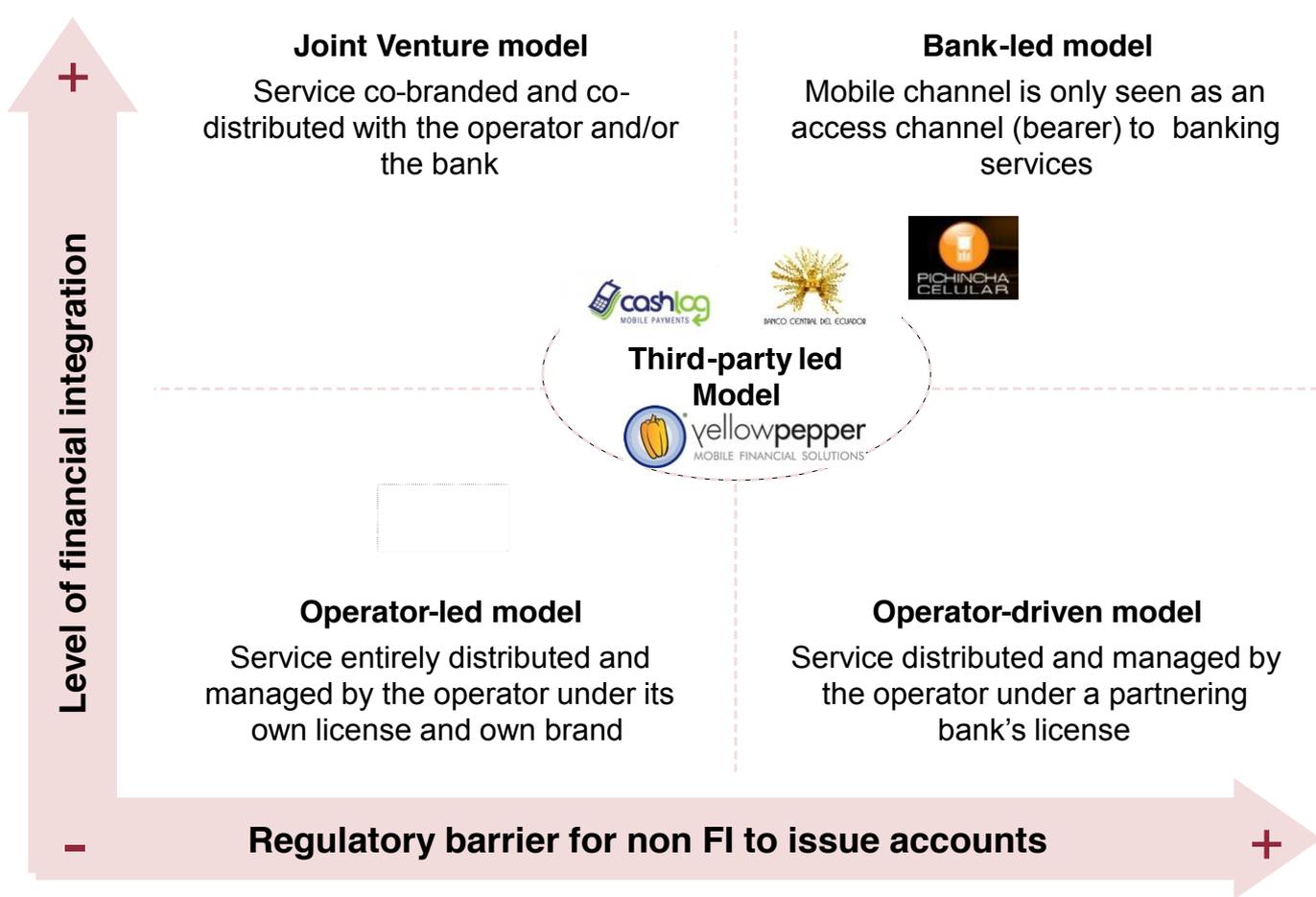
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# Distribution Landscape

- According to the Economist Intelligence Unit's Industry report, the retail market in Ecuador is one the smallest in Latin American in terms of volume
- Main large retail stores are located in Quito, Guayaquil and the main urban cities (Cuenca, Ambato and Manta...). Recent move towards expansion to rural areas
- As of September 2010, there were 371 supermarkets in Ecuador with total sales of around US\$ 1.3bn. Main retail chains are local. The largest is Supermercados La Favorita with 116 stores followed by Mi Comisariato and Hiper Market (103 stores) and Tia (119 stores)
- Traditionally, people buy goods at Mom and Pop shops (small grocery stores); particularly true in rural areas. Yellow Pepper, started a pilot, at the end of 2010, with 52 mom and pop shops in Ecuador using their mobile banking service called Mony

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# Current Mobile Money Initiatives in Ecuador



## Summary

- As a result of the regulation, there is little movement in the mobile money space
- Banco Central del Ecuador is planning to develop a shared and interoperable mobile money platform
- Cashlog (an Italian company) has recently launched in Ecuador a SMS based mobile payment service for low value transactions