

BANKING+TELECOM

The Regulator as Hero

Mexico's unheralded decision to define rules for mobile banking is a major milestone on the road to including millions of unbanked and underserved Latin Americans into the financial system and the formal economy.

Anabel Pérez, Miami

By the year 2000, experts from business and academia had written volumes about how technology would serve as a bridge to a new and prosperous Latin America, harnessing the economic potential of our populations and springing our markets forward in the new century. Little did we know that the final span of that bridge would be fashioned not by programmers, but rather by buttoned-down regulators, who nearly a decade later would be responsible for fusing together its two most important pillars: communications and financial services.



Today, we are at a key juncture in determining what our region will look like over the next half century and some of the most pivotal work will be done by central bankers and banking *superintendentes*. Not likely, you say? Miscasting the bureaucrat as hero? Let's look at the facts.

Within the last 10 years, mobile phone penetration exceeded 70% in most Latin American countries. During this same period, the region's electronic payments infrastructure grew annually at double-digit rates, creating ever-present networks of point-of-sale (POS) terminals and ATMs. Add to these trends the Mexican Central Bank's announcement that it will develop rules for mobile banking and Latin America is finally on the verge of including the majority of its population into the formal financial system.

Key questions remain. Among them are how we define the word "inclusion," what we mean by "mobile banking," and who will be allowed to play a role in providing the necessary products and services to make mobile banking for the masses a reality.

The last point is critical and it is why this moment is so important. Building the communications and payments networks might be the work of companies, but the permissions and specifications for weaving them together are the job of regulators. Getting it right represents an historic opportunity for authorities to fulfill a key charter by extending basic financial services to the majority of people while reducing real costs for everyone.

SERVING THE UNBANKED

Roughly 70% of Latin America's households are unbanked, according to an August 2009 study by the Inter-American Development Bank (IDB). They include everyone from salaried managers to day laborers. Together they are responsible for almost 40% of GDP. Formalizing all that cash and serving that many people affordably is a large, low-margin business requiring multiple value chain players with specialized roles.

As a recent report by the IDB Multilateral Investment Fund points out, extending financial services to the unbanked, particularly through mobile channels, poses some key regulatory challenges related to

compliance with standards for correspondent banking (CNB), anti-money laundering and combating financing of terrorism (AML/CFT), and regulation of electronic money and who can emit it.

Transparency is the basic cost of entry and the standards *should* be high. Fortunately, the last decade has seen a flurry of such regulation and so there is plenty of documentation about how to address these problems correctly. However, a series of lesser-known choices will be of vital importance.

Perhaps the most pivotal question is who will be allowed to play in this massive new market and to what extent. These decisions will affect banks and non-bank players such as mobile operators, retailers and prepaid program managers, who specialize in partnering in and managing such enterprises.

Regulators can choose to include bank and non-bank actors, providing the market with the greatest number of options in terms of business models. In the best scenario, companies would be able to use branchless banking, correspondent banking, mobile banking and stored value accounts and other approaches, as long as they meet basic requirements.

In contrast, limiting the number of qualified actors risks prolonging the formalization process and missing the opportunity to usher in a new era of financial inclusion and growth. The wider and more dependable the funnel is, the greater the chances are for sustainable businesses and affordable services.

400 MILLION MOBILES – WHO WILL ANSWER?

Latin America opened 2010 with more than 400 million mobile phone lines. With about 90% of those phones on prepaid plans, it's no wonder that there are great expectations for the role that mobile operators will play in bringing financial services to the masses.

So, what about the millions of unbanked, prepaid mobile consumers? How do we connect them to the financial world? There are many options and time will tell which is the right one, however one thing is clear: Any meaningful social and commercial success is dependent upon scale. Scale requires broad electronic acceptance and also an affordable technical model to control costs.

Linking our markets' mobile and payments networks offers us the best on-ramp for financial inclusion. In essence, it brings the financial networks that reach the broadest part of the economy to people's mobiles.

There are other options to be sure. Most of the best-known mobile banking and mobile payments programs were either designed for higher income banked customers or for people in very poor and underdeveloped areas – excellent programs with little in common with the typical Latin American urban mobile customer. This user is surrounded by modern infrastructure; he just can't afford to access it.

Among the more promising models is a network-centric solution requiring little in the way of specialized hardware. A user's mobile account is linked to a branded prepaid card account on the back end, allowing him or her to make payments and P2P transfers via SMS or pay with the physical card, which he also uses to reload with cash via a participating retail network.

Because the card is branded, it is widely accepted just like a debit or credit card. Because it is stored value, the user pre-funds it and, therefore, does not need a bank account. Nor is the operator required to be a bank agent. One such program in Venezuela called *Plata* has been operating successfully for six years, serving more than 200,000 unbanked customers.

In the coming months and years, important decisions will be made about how we connect what we've built and who gets to use it. The barriers to financial inclusion have never been lower and the means to achieve financial inclusion have never been within easier reach. The metaphorical bridge will likely be completed without fanfare. No sparks or ribbon cutting; just the stroke of a pen and the growing roar of traffic as millions of people merge into the formal economy.

The Author: Anabel Pérez (anabel@novopayment.com) is co-founder and CEO of NovoPayment, Inc., a leading prepaid card service provider in Latin America. Headquartered in Miami, the company operates in Mexico, Venezuela, Peru and Colombia.