

March  
2017

Financial Inclusion in  
**Paraguay**

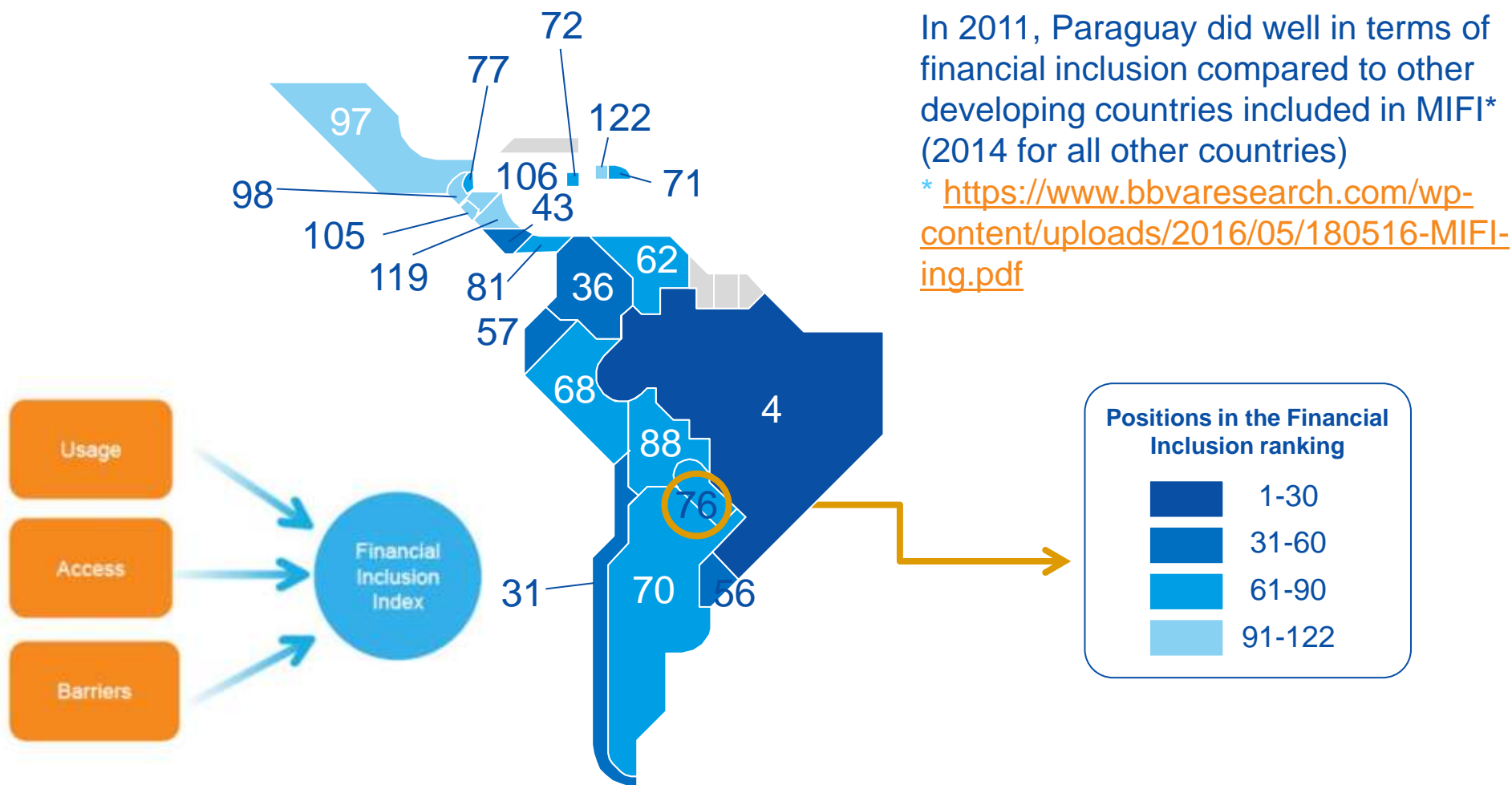


# An overall view

## The MIFI index

- An inclusive financial system maximizes usage and access, while minimizing the barriers for financial inclusion (as a proxy of quality).
- The Multidimensional Index for Financial Inclusion (MIFI) computes the degree of inclusiveness of a financial system across economies and over time.
- MIFI assesses usage, access and quality across 18 indicators and 137 countries (140 for 2011). Weights assigned to the dimensions are determined endogenously by two-stage Principal Component Analysis.

# Financial Inclusion in Latin America

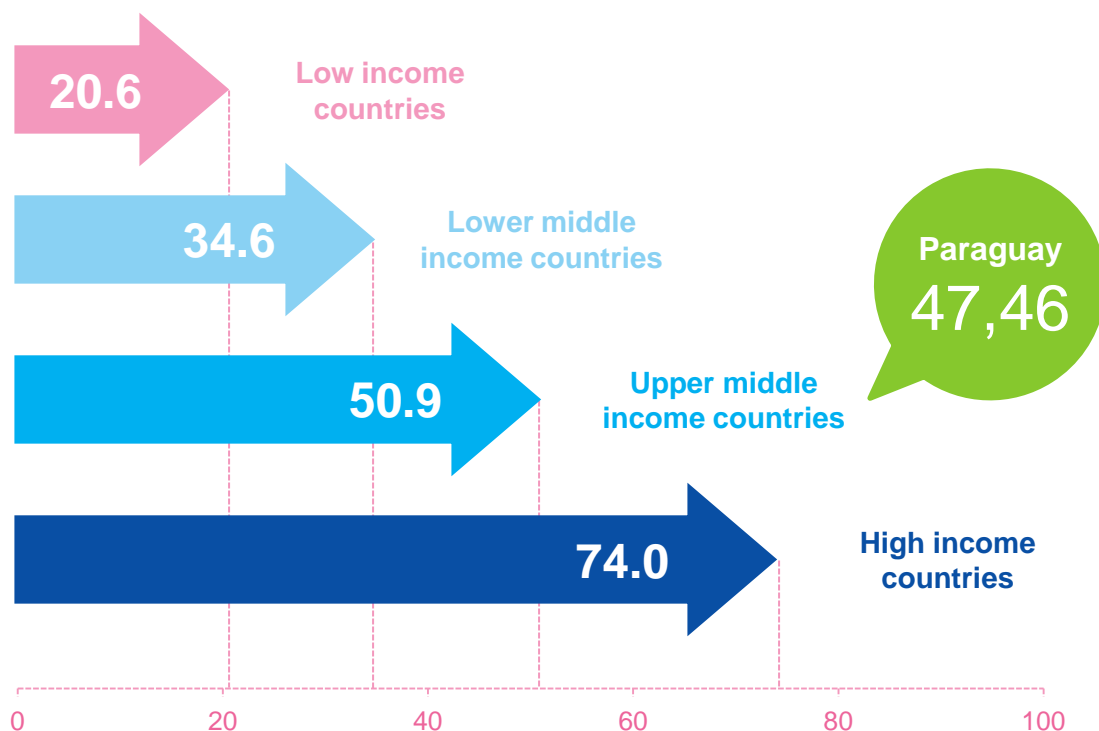


## Financial Inclusion by Dimension

Dimensions/137	Paraguay		Argentina		Peru		Chile	
	Ranking/137	Δ 2011-2014	Ranking/137	Δ 2011-2014	Ranking/137	Δ 2011-2014	Ranking/137	Δ 2011-2014
FI	76	-	67	5	68	11	31	23
Use	71	-	88	4	78	1	26	30
Access	92	-	63	7	5	17	11	6
Barriers	71	-	70	12	129	0	85	11

- Usage of formal financial services in Paraguay is higher than countries such as Argentina and Peru
- There is room for improvement in terms of access. The banking correspondents could be an option to increase access to the formal financial system
- The perceived barriers that prevent individuals from participating in the formal financial system, in relative terms, is similar to Argentina and significantly better than Peru or Chile

# Financial inclusion and income level



- The level of Financial inclusion in Paraguay is slightly below the average of its country group, relative to income level
- There is a gap in financial inclusion levels between Paraguay and other upper middle income countries



# Paraguay step by step

# Financial Inclusion: key Indicators

- More adults should participate in the formal financial system. Opening a bank account may be a good starting point

- Access points through Machines (ATMs) grow faster than those of personal assistance

- Lack of trust is the most important reason among excluded adults from the formal financial system

Dimension	2011			2014			Variation		
Usage	Israel	Paraguay	Cambodia	Israel	Paraguay	Cambodia	Israel	Paraguay	Cambodia
Account	0.91	0.21	0.04	0.90	-	0.22	-1%	-	450%
Credit card	0.80	0.09	0.00	0.77	-	0.03	-4%	-	-
Debit card	0.08	0.12	0.03	0.33	-	0.05	313%	-	67%
Active account	0.90	-	0.03	0.87	-	0.06	-3%	-	100%
Informal savers	0.20	0.10	0.30	0.09	-	0.63	-55%	-	110%
Formal savers	0.25	0.10	0.01	0.53	-	0.04	112%	-	300%
Informal borrowers	0.14	-	0.36	0.07	-	0.27	-50%	-	-25%
Formal borrowers	0.17	0.13	0.19	0.41	-	0.28	141%	-	47%
Access	Israel	Paraguay	Cambodia	Israel	Paraguay	Cambodia	Israel	Paraguay	Cambodia
ATMs	111.10	18.38	5.87	126.11	24.09	10.71	14%	23%	82%
Commercial bank branches and banking correspondents	20.10	9.26	4.16	19.11	10.77	15.00	-5%	14%	261%
Barriers	Israel	Paraguay	Cambodia	Israel	Paraguay	Cambodia	Israel	Paraguay	Cambodia
Distance	0.01	0.09	0.15	0.01	-	0.46	0%	-	207%
Expensive	0.02	0.08	0.10	0.02	-	0.48	0%	-	380%
Documents	0.02	0.05	0.10	0.03	-	0.51	50%	-	410%
Trust	0.02	0.13	0.15	0.02	-	0.31	0%	-	107%
No needed	-	-	-	0.06	-	0.48	-	-	-



## Informal credit

- Family and friends play a more relevant role than formal financial institutions when it comes to credit needs
- Informal lenders and credit from stores have little importance in terms of informal borrowing

Informal credit	2011		
	Israel	Paraguay	Cambodia
Loan family or friends	0.20	0.14	0.39
Loan informal lender	0.02	0.03	0.13
Loan store	0.18	0.04	0.12

Numbers represent either proportion of adults or percentages of change  
Source: Global Findex (World Bank)

A close-up photograph of a stack of papers. A wooden gavel with a silver rivet is positioned vertically on the left. To the right, a wooden block with the word 'RULES' is lying on its side. The background is a blurred stack of papers. The bottom portion of the image is overlaid with a blue semi-transparent banner containing the title text.

# Regulation for Financial Inclusion

# Importance of regulation in order to advance in financial inclusion

## Regulation can create...



**...NECESSARY  
CONDITIONS** for financial  
inclusion

- Competition policies
- Supervisory quality
- Reliable legal framework
- Consumer protection



**...INCENTIVES** to financial  
inclusion

- Simplified accounts
- Electronic money
- Correspondents
- Microcredit
- Financial literacy
- Simplified KYC



**...BARRIERS** to financial  
inclusion

- Transaction taxes
- Usury rates
- Too restrictive KYC requirements

# How to go forward into regulation for digital financial inclusion?

## Three fundamental principles:

- Similar regulation for similar functions
- Regulation based on risk
- Balance between ex-ante and ex-post intervention

## Go forward into 3 key regulatory areas

- Competition policy
- *Level playing field*
- Know Your Customer policies (KYC)

# National Strategy for Financial Inclusion (ENIF) 2014-2018

## Institutional framework

- **National Committee for Financial Inclusion:** Central Bank of Paraguay, Ministry of Finance, National Institute of Cooperativism (INCOOP) and Technical Secretariat of Planning.

## 4 Objectives

1. **Reduce financial vulnerabilities** at the base of the pyramid
2. Promote the **extension** of financial services
3. Help economic growth through the **access of SMEs and large companies to financial products**
4. Promote **financial inclusion, stability and integrity** of the financial sector, and the consumer **education/protection**.

## Action lines


- Increase ownership and use of savings accounts, credit to SMEs and insurance coverage
- Decrease cash/check use as means of payment
- Promote financial education
- Improve consumer protection mechanisms and claims from regulated and non-regulated suppliers
- Extend financial services to vulnerable groups through mobile channels

The ENIF is still in the implementation stage, although there is some delay in the implementation of measures targeted for the short term

# Other regulatory initiatives

	Basic Savings Accounts (BCA)	Electronic Payment means	Correspondents	Microcredit
Regulatory framework	Resolution 25, Record 51, 2013, BCP	Resolution N°6, 2014, BCP	Resolution N° 1, 2011, BCP	Resolution 1, Record 60, 2007, BCP
Positive aspects	<p>Minimum identification requirements</p> <p>Opening in correspondents and remotely</p> <p>Used for payment of conditional cash transfers</p>	<p>New Non-Bank Entities: Electronic Payment Entities (EMPEs)</p> <p>Allowed agent use</p> <p>Simplified identification requirements</p>	<p>Financial institutions hold responsibility</p> <p>Correspondents Administrator</p> <p>Permitted transactions: payments, collections, transfers, deposits, withdrawals and opening of basic accounts</p>	<p>The BCP has defined microcredit and regulated the control of credit risk</p> <p>Distinction between microcredit for productive purposes and consumer credit</p>
Aspects to be improved	<p>Feasibility of business models</p> <p>Verification of customer identity</p> <p>Only available to individuals (not small businesses)</p>	<p>Consumer Protection</p> <p>No capital requirements are imposed</p>		<p>Prudential regulation (provisions), credit risk assessment</p> <p>There is no tailored supervisory methodology</p>

# Paraguay in the region: some regulatory milestones

	Commitment from regulator*	Integral Financial Inclusion Framework	Date	Other regulatory initiatives
Argentina		No integral institutional or regulatory framework	-	Universal Free Account, Microcredit
Brazil		Action Plan to strengthen the institutional environment	2012	Correspondents, basic accounts, microfinance, mobile payments
Chile		No integral rule/strategy, but there is a National Commission for FI	-	Pre-paid cards, Correspondents
Colombia		National Strategy and Financial Inclusion Law (SEDPEs)	2014	Electronic savings accounts, basic accounts, e-money
Mexico		National FI Policy	2016	4 Levels of accounts, correspondents, Banca de nicho
Paraguay		National Financial Inclusion Strategy	2014	Electronic money, basic accounts
Peru		National Financial Inclusion Strategy	2015	Electronic money Law, basic accounts, correspondents
Uruguay		Law on Financial Inclusion	2014	Electronic means of payment, correspondents, basic accounts

(\*) Qualitative assessment based on existence of a regulatory/institutional framework dedicated to Financial Inclusion and other regulatory actions  
 Source: BBVA Research

# Paraguay in the region: Basic accounts

	Argentina	Brazil	Chile	Colombia	Mexico	Paraguay	Peru	Uruguay
Regulatory framework	Regulatory framework in place / Allowed by the regulation	Regulatory framework in place / Allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	Regulatory framework in place / Allowed by the regulation	Regulatory framework in place / Allowed by the regulation	Regulatory framework in place / Allowed by the regulation	Regulatory framework in place / Allowed by the regulation	Regulatory framework in place / Allowed by the regulation
Natural and legal persons	No regulatory framework in place / Not allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	Regulatory framework in place / Allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	Regulatory framework in place / Allowed by the regulation
Digital on-boarding	Regulatory framework in place / Allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	No regulatory framework in place / Not allowed by the regulation	Regulatory framework in place / Allowed by the regulation	Only for accounts level 1&2	Regulatory framework in place / Allowed by the regulation	Regulatory framework in place / Allowed by the regulation	No regulatory framework in place / Not allowed by the regulation
Limits to number of accounts owned	System: 1	System: 1	No regulatory framework in place / Not allowed by the regulation	Entity:1	None	Entity: 1 System: 2	Entity: 1 System:4	System 1
Transactional limits (USD)	<ul style="list-style-type: none"> <li>Balance: 12500</li> <li>Monthly deposit: 2000</li> </ul>	<ul style="list-style-type: none"> <li>Balance: 880</li> <li>Monthly deposit: 880</li> </ul>	No regulatory framework in place / Not allowed by the regulation	<ul style="list-style-type: none"> <li>Balance: 2000</li> <li>Monthly deposit: 750</li> </ul>	<ul style="list-style-type: none"> <li>Level 1: 340</li> <li>Level 2: 1020</li> <li>Level 3: 3400</li> </ul>	<ul style="list-style-type: none"> <li>Monthly deposit: 2430</li> </ul>	<ul style="list-style-type: none"> <li>Balance: 630</li> <li>Monthly deposit: 1250</li> </ul>	<ul style="list-style-type: none"> <li>Monthly deposit: 830</li> <li>Monthly deposit: 2850</li> </ul>

 Regulatory framework in place / Allowed by the regulation

 No regulatory framework in place / Not allowed by the regulation

Source: BBVA Research according to national regulation



# Paraguay in the region: Electronic money

	Colombia	Peru	Brazil	Paraguay	Uruguay
Authorized operators	Entity Specialized in Electronic Payments and Deposits (SEDPE)	Electronic money Issuing Companies (EEDC)	Payment institutions ( <i>Instituição de pagamento</i> )	Entity of Electronic Means of Payment (EMPE)	Electronic money Issuing Institutions (IEDE)
Use of agents					
Existence of simplified KYC requirements					
Prudential capital requirement for issuers (% over e-money balances)	2%	2%	2%		
Interest payable on electronic deposits					
Funds are directly covered by the Deposit Guarantee Scheme					

 Allowed or mandated by the regulation

 Not allowed or mandated by the regulation

For additional information, please refer to the appendix  
 Source: BBVA Research according to national regulation

# Consumer protection: necessary for sustainable Financial Inclusion

New digital products designed to promote financial inclusion also create risks for customers. In the case of electronic money:

## RISKS

**LIQUIDITY:** *Clients may not be able to access their funds upon demand if the electronic money provider does not have sufficient funds.*

**INSOLVENCY OF THE ELECTRONIC MONEY INSTITUTION:** *funds may be used to meet the providers' obligations and customers may lose their funds*

**INSOLVENCY OF THE BANK(S) WITH WHICH THE FUNDS ARE PLACED:** *If the bank where e-money funds are deposited becomes insolvent, customers may lose their funds*

## REGULATORY RESPONSES

Restrictions on use of the funds: **do not grant credit**  
E-money providers must hold funds **equal to 100% of the electronic money float in safe, liquid investments** (Government bonds)

*Ring-fencing* customer funds: **Trusts or fiduciary contracts**

**Deposit insurance** coverage  
**Capital requirements**  
**Diversification:** requirements on the number and strength of the banks where the funds are deposited

\*Regulatory responses observed in developed and developing economies in different regions

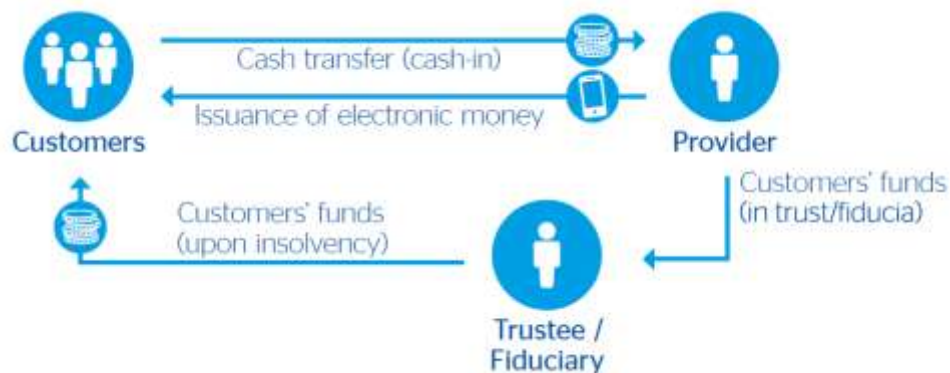
# Protection of funds in electronic money: the case of Paraguay

1. Liquidity risk: 100% of funds deposited on bank deposits

2. Risk of ISSUER insolvency

Issuers must form independent accounts to store client funds, managed by trustees

*How does it work?*



3. Risk of BANK insolvency

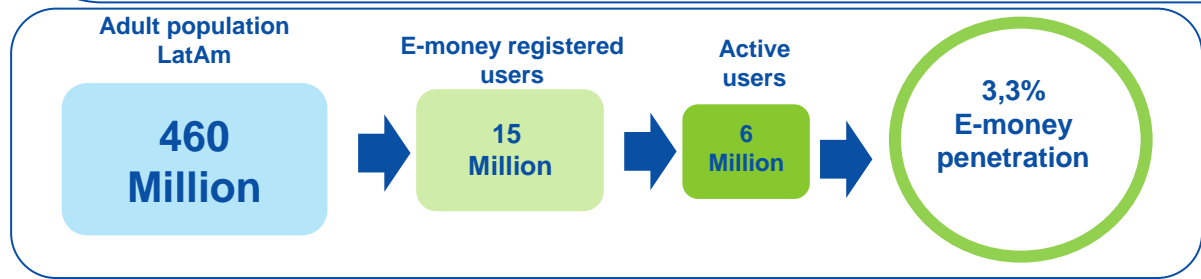
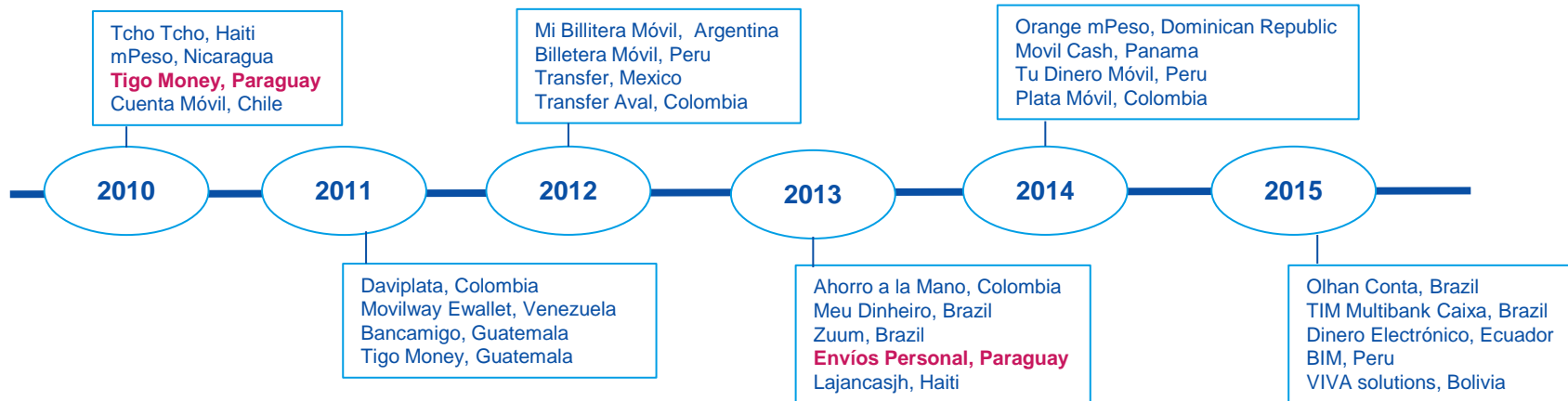
Capital requirements

- Initial: Not required *(International experience: between 75.500 and 14 millions USD)*
- Ongoing: Not required *(International experience: 2-3% of outstanding liabilities)*

Electronic money funds are not guaranteed. *Aligned with the region: in LAC, just in Colombia it is covered by deposit insurance*

# The challenge: technology and regulation aligned to achieve scalability

## Launch of E-money products in Latin America 2010-2015



- Only 3 out of 37 e-money products have overpassed 2 mm of users, so far
- The transactions variety is limited. 70% of the operations are to reload airtime and P2P
- Challenge: SCALABILITY

## Despite the progress, some challenges remain...

1. **Level playing field:** it is necessary to align the regulation of cooperatives with that of banks and financial institutions (for example, in basic accounts, microcredit, KYC rules). There is also room for improvement in the regulation of electronic money
2. **Consumer protection in electronic money:** it is necessary to define capital requirements for EMPEs and to improve the mechanisms to protect user's funds
3. **KYC:** it is necessary to include alternative mechanisms for product acceptance, including the simplified procedure, and allow financial institutions to access a national database to verify customer identity
4. **Credit information systems:** collection of information on payment records and from non-regulated credit providers should be expanded, including positive information and ensuring their exchange between credit providers

**Thank you!**

<https://www.bbva.com/research/wp-content/uploads/2016/05/180516-MIFI-ing.pdf>



# Appendix

# Aspects Considered

## Use

- **Accounts:** adjusted number of holders of accounts/cards with a formal financial institution or post office out of the total population: **corrected for dormant accounts/cards**
- **Savings:** Persons who save in the formal financial system, adjusted for level of formal/informal savings in the economy. We use the ratio:

$$Ahorro_i = \frac{ahorro\ formal_i}{ahorro\ informal_i}$$

- **Credit:** Persons with a loan in the formal financial system, adjusted for level of formal/informal credit in the economy. We use the ratio:

$$Crédito_i = \frac{préstamos\ formales_i}{préstamos\ informales_i}$$

## Access

- **Access points:**
  - Personal service access points: Number of **bank branches** and **correspondents** (per 100,000 adults)
  - Access via machines: **ATMs** (per 100,000 adults)

## Barriers

(Reasons for Involuntary Exclusion)

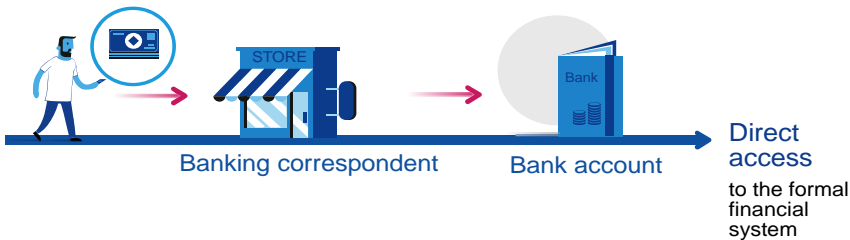
- **Confidence:** number of individuals not holding a bank account because they do not trust the formal financial system, out of the total population
- **Affordability:** number of individuals not holding a bank account because they find it very expensive, out of the total population
- **Distance:** number of individuals not holding a bank account because they find the access points too far away, out of the total population
- **Documentation:** number of individuals not holding a bank account because they believe they do not have the necessary documents to be able to open one, out of the total population



# Classification of banking correspondents

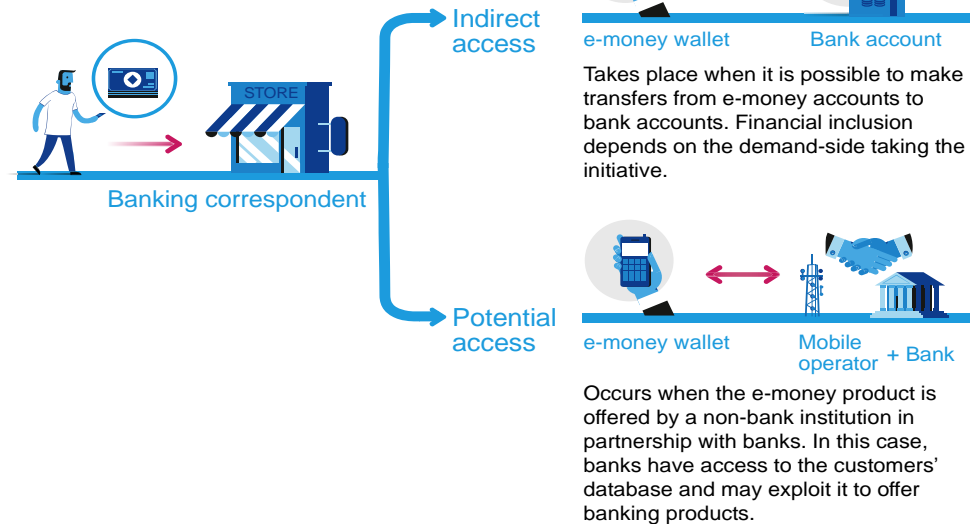
## Pure

banking correspondents enter into direct agreements with banks to offer financial services on their behalf.

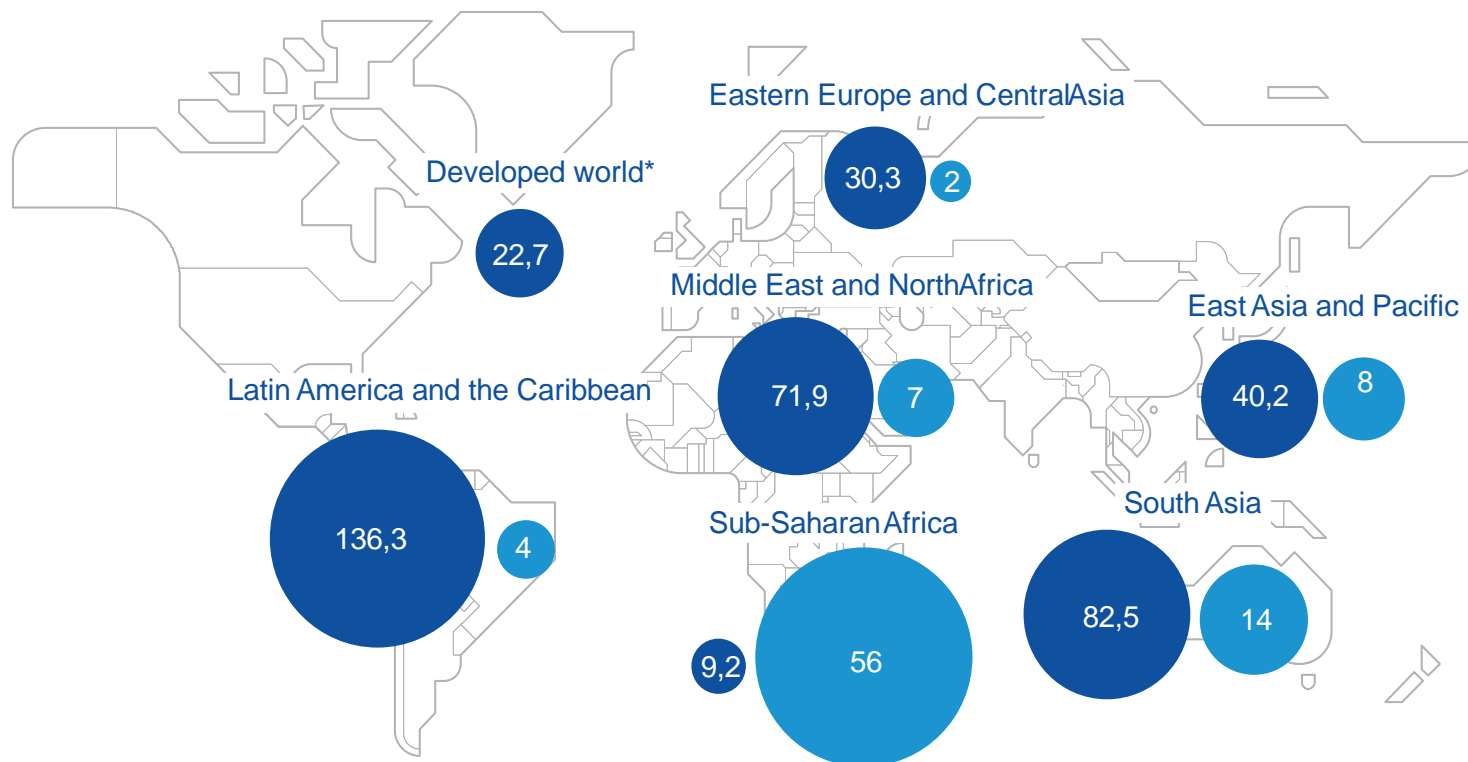


## Hybrid

banking correspondents offer financial services on behalf of non-bank electronic money issuers which, at the same time, have agreements with banks guaranteeing indirect or potential access to the formal financial system.



# Banking correspondents 2014



● Pure banking correspondents per 100,000 adults

● Number of e-money providers that may potentially use hybrid banking correspondents

\*Developed world comprises Australia, Canada, United States, New Zealand and Western European countries

# Regulatory initiatives: Basic Accounts

- **Regulatory framework:** existence of a dedicated regulatory framework for basic accounts in place in the country



*Regulatory framework in place*



*No regulatory framework in place*

- **Persons and companies:** regulatory frameworks for basic accounts usually restrict the opening of these accounts for natural persons, but some countries have gone one step further by allowing the opening by small firms.



*Natural and legal persons*



*Only natural persons*

- **Digital onboarding:** regulatory framework allows for the opening of basic accounts through electronic means



*Allowed by the regulation*



*Not allowed by the regulation*

- **Limits to number of accounts owned.** Regulatory frameworks for basic accounts usually define a maximum number of accounts an individual may own, and this can be set either at the entity level (i.e: an individual may only own one basic account in each entity) or at the system level (i.e: an individual may only own one basic account in the entire financial system)

*System: 1 – An individual may only own one basic account in the entire financial system*

*Entity: 1 – An individual may only own one basic account in each entity*

- **Transactional limits.** To match the lower requirements in terms of KYC and customer identification, regulatory frameworks usually set limits to the maximum volume of monthly transactions (*Monthly deposit*) or to the balance held in the account (*Balance*), consistent with the income levels of poor population