

THE NEW FINANCIAL ARCHITECTURE OF ECUADOR: PUBLIC REGULATORY AND SOCIOPOLITICAL CONTEXTS FOR PAYMENT SYSTEMS

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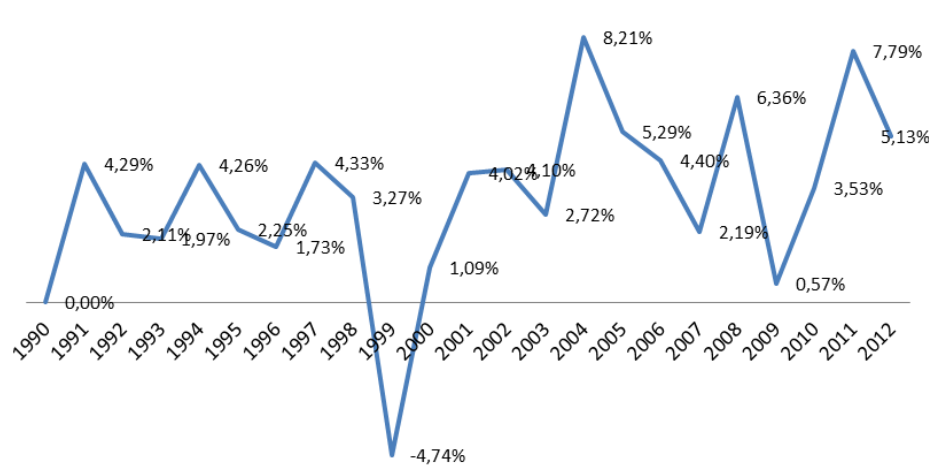
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The New Financial Architecture of Ecuador

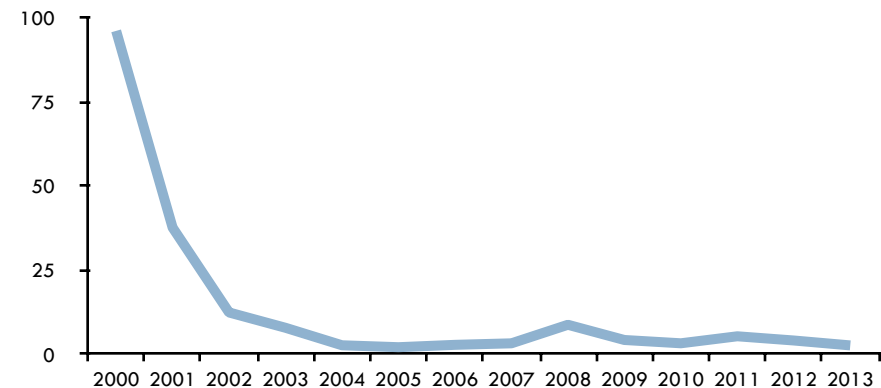
Socioeconomic and Political Context

- Before and after the Financial Crisis of Ecuador
- The Dollarization of Ecuadorian Economy

GDP Growth (1990-2012)



Inflation (2000-2013)



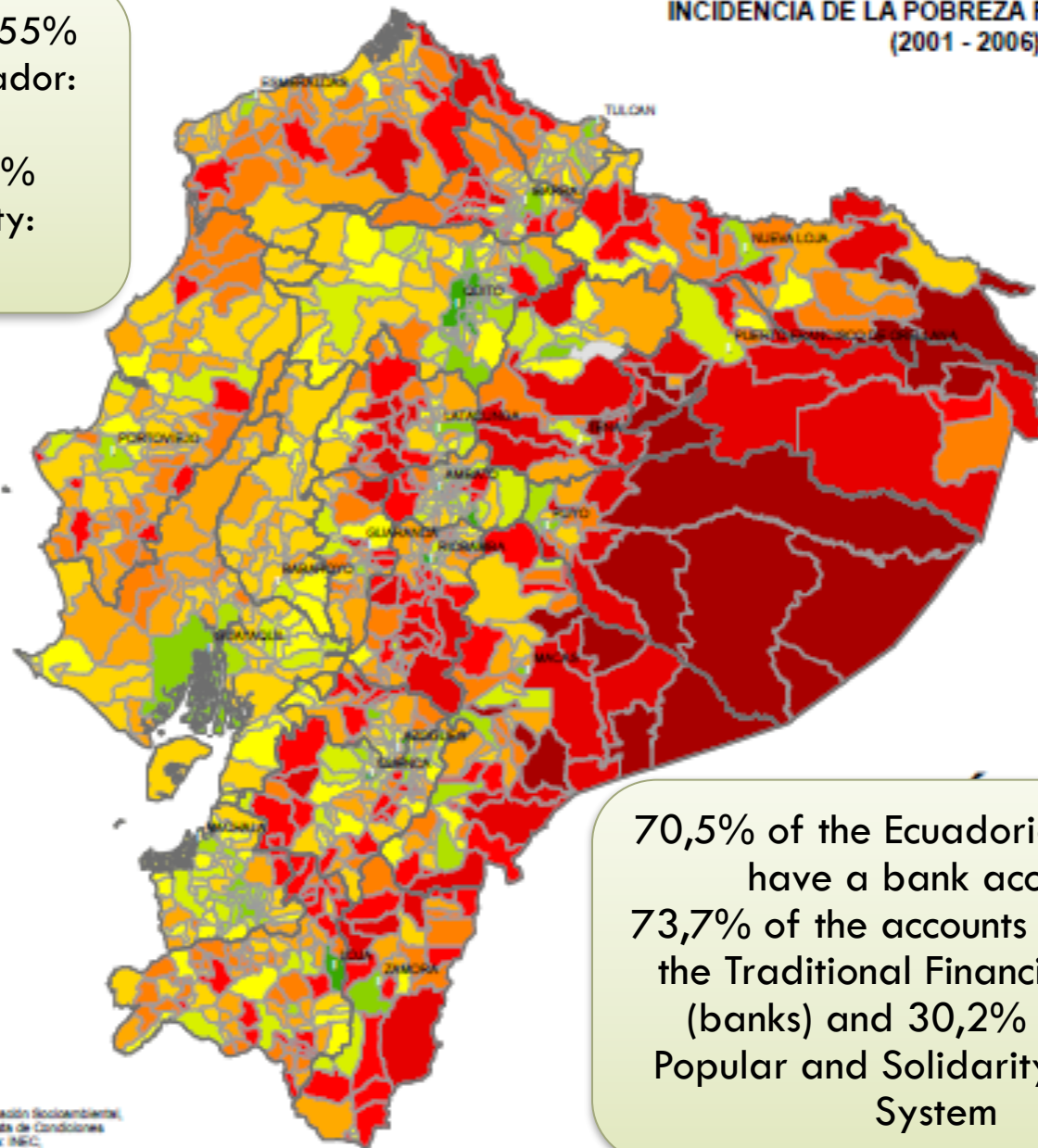
The New Financial Architecture of Ecuador

Socioeconomic and Political Context

- The Ecuadorian Constitution of 2008
- Financial inclusion and the “popular and solidarity economy”
- Public policies and legal reforms
- Current government

Poverty in Ecuador: 25.55%
 Extreme Poverty in Ecuador:
 8.61%
 Rural poverty: 42.03%
 Rural extreme poverty:
 17.39%

INCIDENCIA DE LA POBREZA POR PARROQUIAS
 (2001 - 2006)



LEYENDA

- Capital provincial
- Límite provincial
- Incidencia pobreza %
- Sin información
- 11 - 25%
- 26 - 36%
- 37 - 45%
- 46 - 52%
- 53 - 59%
- 60 - 66%
- 67 - 72%
- 73 - 78%
- 79 - 85%
- 86 - 93%
- 94 - 100%
- PROMEDIO: 45.1

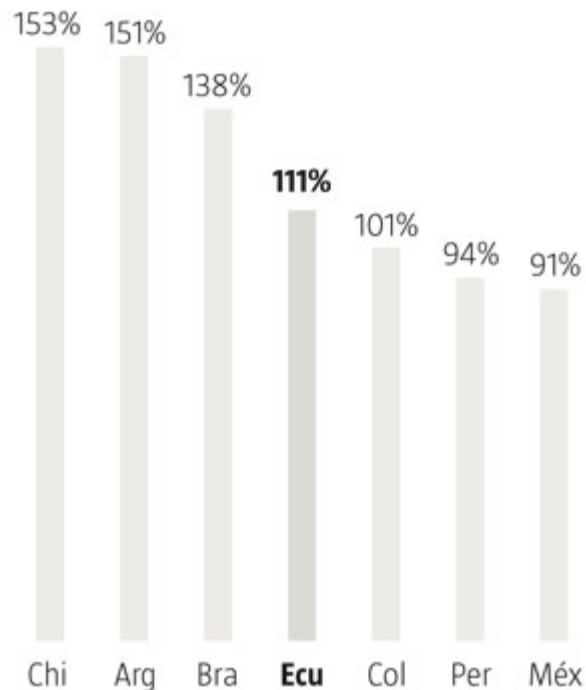
70,5% of the Ecuadorians doesn't have a bank account.
 73,7% of the accounts are part of the Traditional Financial System (banks) and 30,2% from the Popular and Solidarity Financial System

Fuentes de datos para el análisis:
 Información estadística: Universidad Andina Simón Bolívar, Unidad de Información Socioambiental;
 Proyecto RIMSIP Estimación de áreas pequeñas, con base en INEC, Encuesta de Condiciones de Vida 2006, Censos de Población y Vivienda 2001. Información cartográfica: INEC, División política administrativa 2001.

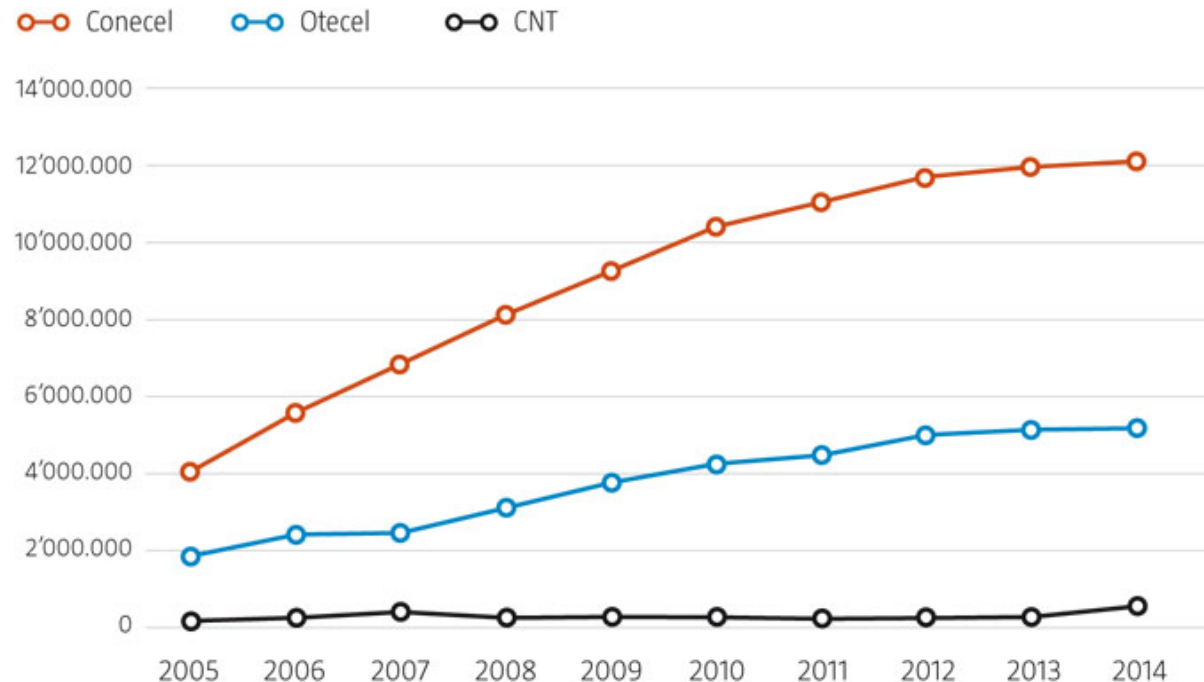
The Mobile market in Ecuador

- Mobile phone subscribers: 17.9 million (apr-2014)

Mobile phones / 100 p



Market Evolution



Public Electronic Monetary System

- The electronic money system, as defined by the Central Bank of Ecuador, is a set of operation mechanisms, procedures, and regulations that facilitate the flow, storage, and real-time transfer of monetary value between the different economic agents.
- Use of electronic means:
 - Mobile devices
 - Internet
 - Smart cards, and others.

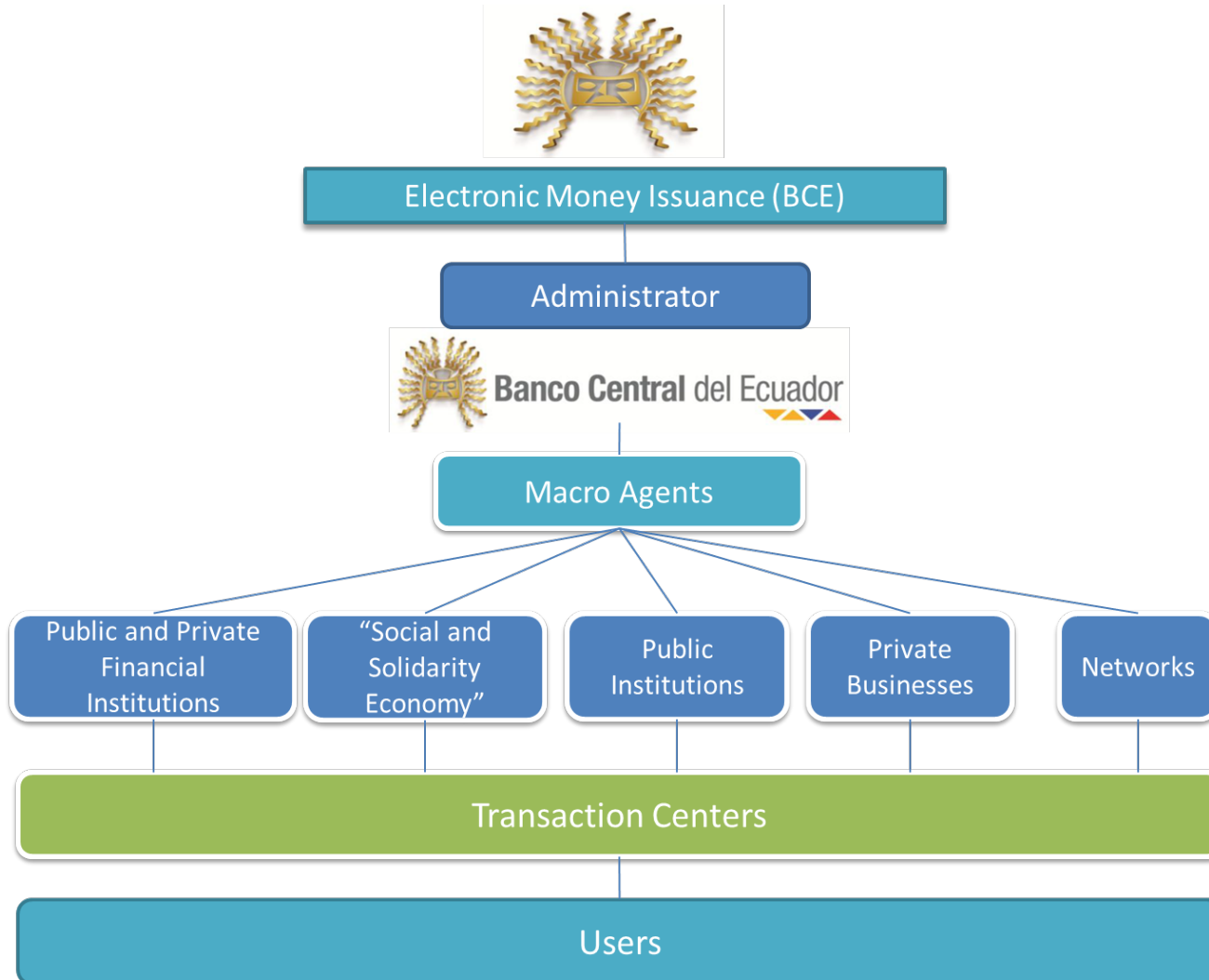


Key Actors



- Central Bank of Ecuador as the Distributor and Administrator
- Regulatory Institutions
- Technological channels
- Macro agents
- Transactional centers
- Users

System Estructure



Use Cases

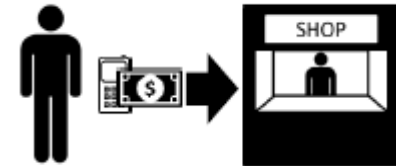
Deposits / Withdrawals



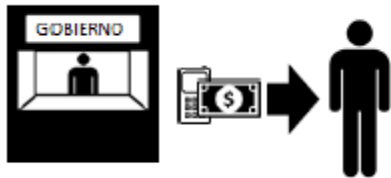
Transfers (P2P)



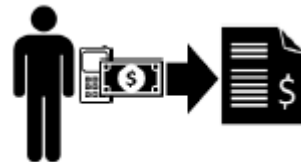
Transfers (B2P)



Transfers Government to Users



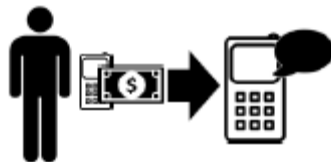
Invoice payments



Collections



Airtime purchases tied to mobile operators



Balance inquiries



System regulations

- The issuance of Electronic Money made by the Central Bank of Ecuador (BCE) to natural or legal persons shall be, directly or through authorized agents only in exchange against:
 - i) Dollars of the United States of America
 - ii) coins issued by the BCE or
 - iii) deposits in Dollars of the United States duly accredited to the BCE.
- The Electronic Money in circulation must be backed one hundred percent (100%) with liquid assets of the BCE.

Perspectives from the actors

- **Government and Central Bank:**
 - Priority public policy
 - Financial inclusion for the “popular and solidarity economy”
 - Increase the velocity of money circulation
 - Transactional costs reduction
 - Recirculation of money in rural areas
- **Mobile companies:**
 - New line of business
 - Technological adaptation
- **Macro Agents**
 - Business opportunities
 - Cost reduction for collections
- **Users**
 - Transactional speed
 - Costs reduction

Conclusions

- Central Bank's cutting edge proposal of a public electronic monetary system still need to answer the question of how can it create bigger impact than privately run systems.
- Since the project hasn't been implemented yet, it is unknown certainly how Ecuadorians will respond to the system.
- The financial crisis suffered in 1999 changed the relations between the Ecuadorians with their money and its regulating institutions. One of the greatest challenges for the Central Bank is to gain trust as the monetary policy maker.
- Money, as a social agreement, needs people's trust and approval to be part of their lives. It is still unknown if the electronic or mobile money is going to be a new social agreement in Ecuador.