

The New Financial Architecture and the Public Mobile Money System in Ecuador

By Javier Félix



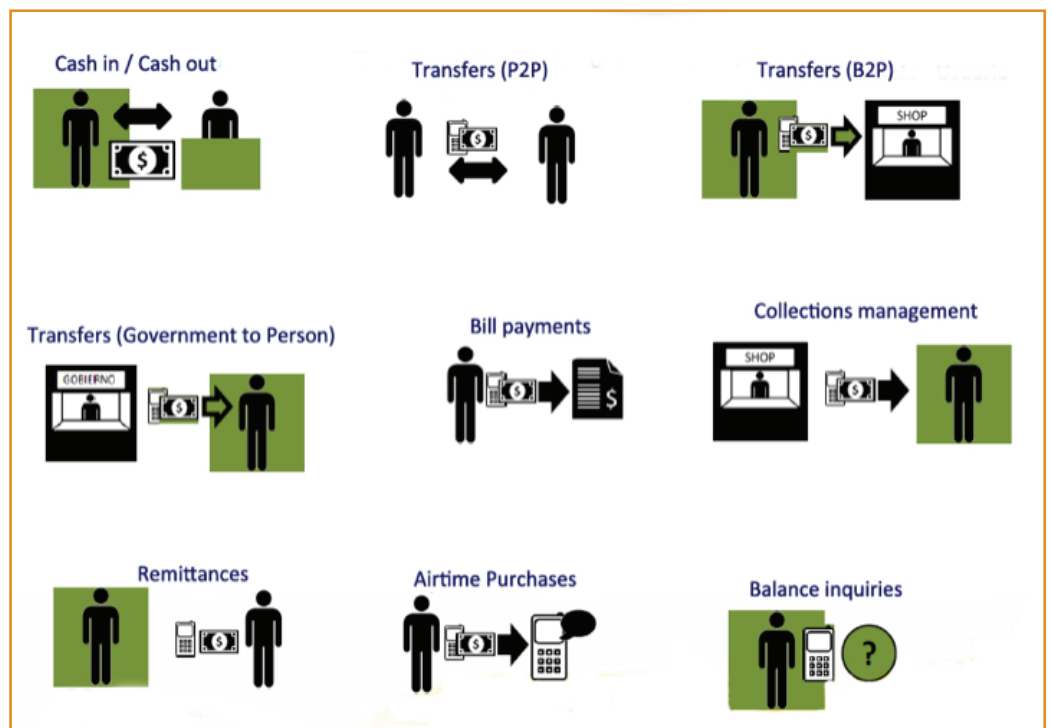
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Current Ecuadorian President Rafael Correa's broader political program called the "Citizens' Revolution," has prompted a restructuring process of its domestic financial architecture through a combination of legal reforms, new public policies, and the transformation of the national payments system. As part of this endeavor, a new mobile money (MM) system is being introduced to diversify the available forms of payment. The high percentage of Ecuador's unbanked population (70.5%) in comparison to the increased permeation of cellphone coverage in Ecuador (16.9 million cell phones for 15.4 million people) indicates the tractability of this project at the national level. The MM system will be executed and administered by the Central Bank of Ecuador (BCE), making it the first ever publicly mandated and Central Bank-administrated mobile payments scheme to be implemented in the world. MM is thus conceived as a

liability of the state, with all the qualities and functions of legal tender.

Inspired by 21st century socialism, this MM system is based on the idea that money and systems of finance and payment are public goods. The BCE's objective is to avoid the privatization of MM because other cases have indicated that mobile operators tend to become the sole providers of services, generating monopolistic and oligopolistic practices. Guided by a constitutional mandate to remake Ecuador's economy as a "popular and solidarity economy" the CBE's MM model seeks public benefit, financial inclusion of marginalized populations and poverty reduction. The project expects its main users to be savings and credit cooperatives, community organizations, family businesses, informal economic actors, and others who have been traditionally excluded from the banking system.

Figure 1. Use Cases for Mobile Money (Source: Central Bank of Ecuador, 2014)



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The MM system is located within a broader agenda at the BCE of reengineering and linking the national payments system to local institutions and organizations such as savings and credit associations, known as the “Red de Redes” (Network of Networks). MM will allow small cooperatives and community banks to make transactions within the financial system, send and receive remittance payments, and so on, while shortening settlement times and costs. This will encourage those with access to electronic money to recirculate it within sectors operating in rural areas, strengthening local development. Emerging from the broader political impetus to reassert the role of the state in governing money, the project is intentionally designed to limit the migration of money from rural to urban areas through more traditional financial infrastructures like banks.

Controversy has been generated for two reasons. First, the CBE has been criticized for prohibiting and displacing private banks and mobile operators that were already in the process of developing MM initiatives. Second, the project received heightened

media exposure because of questions about the backing of dollars transacted through mobile devices and the possibility of using MM for monetary policy. The BCE later established that all electronic money would be backed 100% by its liquid assets.

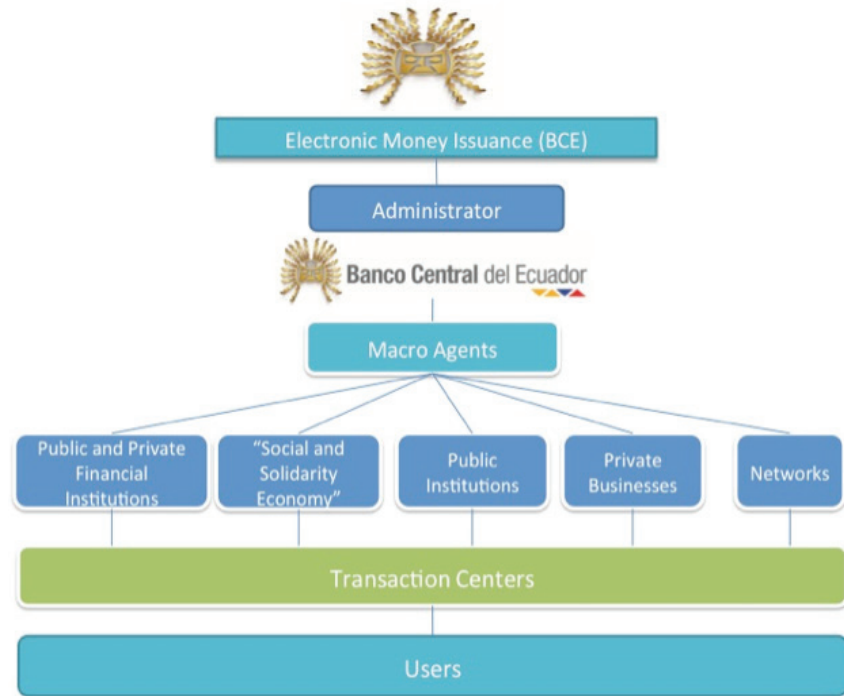


Figure 2. The Structure of the Mobile Money System (Source: Central Bank of Ecuador, 2014)

Challenges

Even though the BCE seems to have the technological capacity, the political will, and the legal power to create this electronic payment platform, there are limitations.

Regaining the Ecuadorian population’s trust in the BCE, as the implementer of monetary policy, is one of the greatest challenges for its MM endeavor. Memories of the 1999 financial crisis that led to

dollarization continue to provoke anxieties about the entire financial system. In addition to technological and operational issues, the BCE has to garner confidence in the institution as well as its new MM system. Potential for money laundering is another source of concern and the BCE has designed the system to specifically meet everyday cash needs that are relatively small, such as food and transportation. Guaranteed authentication of users and security of transactions within the MM system also requires more attention. The BCE has proposed strategies such as linking the information from the National Register of Public Data (DINARDAP) and account holders’ identification numbers to verify the identity of the user. Moreover, One-Time Password (OTP) technology will be used and transactions will be encrypted through different interfaces.

Figure 3: Mobile Money Tariffs (Source: Central Bank of Ecuador, 2014)

TYPE OF TRANSACTION	AMOUNT	TARIFF
Person to Person Payments	\$0.1 - \$0.99	\$0.015
	\$1 - \$10	\$0.02
	\$11 - \$50	\$0.04
	\$51 - \$300	\$0.06
	\$301 - \$2000	\$0.10
Transfers to and from the Financial Sector	\$1 - \$100	\$0.05
	\$101 - \$2000	\$0.15
Tax rates	\$1 - \$100	\$0.05
	\$101 - \$2000	\$0.15
Use of ATMs	Any amount	\$0.15