

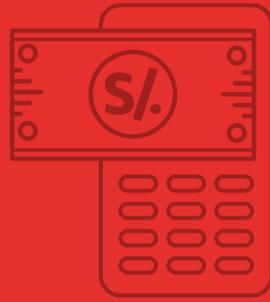
STUDY CASE

MUNICIPAL SAVINGS AND CREDIT BANKS (CMAC) AND ELECTRONIC MONEY: USE OF BIM

May 2016



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EXECUTIVE SUMMARY

The Peruvian Federation of Municipal Savings and Credit Banks (FEPCMAC), as part of its mission to support the CMAC system development in Peru, acted as facilitator for the implementation of a corporate project of electronic money to be part of initiative known internationally as “*Modelo Perú*”¹. For this corporate project FEPCMAC had a technical assistance program from The Better than Cash Alliance² Technical Assistance Fund, based on the United Nations. FEPCMAC agreed to receive this assistance because it is a member of the World Savings and Retail Banking Institute (WSBI).

“*Modelo Perú*” has created the company called “*Pagos Digitales Peruanos S.A.C.*” (Peruvian digital payments) which is the owner of the electronic money platform and has named it BIM. FEPCMAC is part owner of “*Pagos Digitales Peruanos S.A.C.*” in representation of the CMAC of Arequipa, Ica, Maynas, Piura and Tacna.

The corporate project began in March 2015, when the participating CMAC signed an agreement with FEPCMAC to formalize the implementation of a corporate process. Two of the participating CMAC started offering the product to customers last May 5th and the other participating CMAC will do the same soon.

With funds of the technical assistance, a market study was carried out, which assessed the electronic money level of acceptance as means of digital payment in the rural areas covered by the participating CMAC. It also allowed identifying attributes for business strategy on how retailers can offer the electronic money service; i.e., the training process for electronic money new agents. In addition, specialized consultancies for a commercial strategy design were carried out and corporate procedures on technical and operational issues related to the service were established.

In general terms, it is expected that, as a result of this new service, electronic money will solve many of the problems faced daily by entrepreneurs in rural areas, for example, payment to suppliers. The study identified an interest in its use. However, the study also determined that it will be a long-term effort, because there is a high level of mistrust about the costs in financial institutions.

Finally, it was identified that a hard field work must be done in order to increase spots of attention (electronic money agents) in rural areas of the country, which is already part of the CMAC strategy and business model which aims to achieve financial inclusion in rural areas. Currently “*Pagos Digitales Peruanos*” is bringing the first electronic payments within 80.000 BIM wallets.

¹ “*Modelo Perú*” (Peruvian Model in English) is an initiative of the Peruvian banking industry which aim is financial inclusion, looking forward to developing an electronic money ecosystem.

² The Better Than Cash Alliance is an Association of governments, companies, and international organizations that accelerate the transition from cash to digital payments in order to contribute to the reduction of poverty and promote inclusive growth.

MARKET RESEARCH



In order to assess the acceptance level of electronic money as means of a digital payment system in the rural areas covered by the CMAC, a specialized market study was commissioned, which included the identification of attributes that should be considered in the business strategy on how to offer to small stores the electronic money as digital payment service.

Results reveal that, despite the fact that there is difficulty to understand the electronic money concept, there is enthusiasm to prove it and that its beneficial attributes are convenience (time-saving, no need to stand in queues, or moving to an agency, etc.) and safety (will not carry cash that could

be stolen, no risk in receiving fake bills and no risk of delinquents known as “marcas” that will inform of clients’ withdrawals in financial institutions agencies, etc.). These benefits were also identified in field studies of users and market demand studies for mobile banking implemented by CMAC since 2013, using the same USSD technology of electronic money service.

Furthermore, it was determined that from the electronic money transactions, the ones that are better understood are money transfers, mainly because they follow a widely used process regarding to the recharge of cell phones.

As regards functional benefit, the most important is that any transaction can be done with any type of cell phone. At the social level, savings in transportation costs was important, since the customers do not have to travel to an agency.

However, the study determined that the user fears not having anyone to turn to in case of any problems with a non-satisfactory transaction. Therefore, the “Pagos Digitales Peruanos” customer service, as a first point of contact, would be a key factor for success.

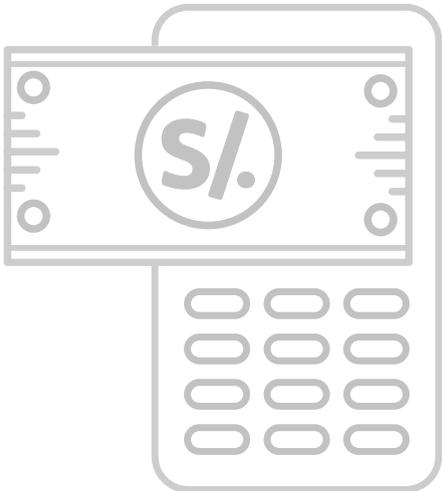
In the market research, we had the participation of small stores located in Caylloma, Islay, Camaná, Chincha, Pisco, Nasca, San Juan Bautista, Belén Sullan, Paita, Talara, Jorge Basadre y Tarata. The sample included the requirement that the small stores did not have access to the financial system, in order to learn more closely the required mechanisms for the understanding and dissemination of electronic money use.

SUPPORT OF SPECIALIZED CONSULTANTS

The technical assistance allowed the hiring of local consultants to support the technical process (internal operations manual of electronic money, functional/operational risks matrix) and the business process (external communication strategy of the service). Through coordination with FEPCMAC, a Business Case for the analysis of service profitability, cost and benefit was analyzed, which served as the basis for each CMAC to adapt it to its business strategy. In general, this was intended to support the implementation process in each CMAC.

ACCESS TO CORPORATE RATES

The electronic money corporate project has managed to gain access to the corporate rates of suppliers related to the service. This is the case of the service supplier Unibanca responsible for the communication among the five participating CMAC and the Company "Pagos Digitales Peruanos". It has also been important the corporate negotiation with the Company La Fiduciaria, responsible for the trust fund administration that will support the electronic money flow held by users of BIM wallets issued by a CMAC.



SYNERGIES IN LEARNING

As in each corporate project managed by FEPCMAC, the most valuable assets recognized are the synergies generated in the learning curve of the service (operational, accounting, compensation issues with other issuers, authorization process with the Superintendency of Banking, Insurance and AFP). Such synergies have led to a service that is expected to be disruptive in the process of financial inclusion in rural areas.



NEXT STEPS

Continuous training effort

Continuous training is required to take away the fear that electronic money service is unsafe, and because it involves new concepts, among them having a simplified electronic money account with limits (average balance of S/.2.000 and a maximum amount of S/.999 per transaction).

According to the market research, the training of customers and agents in relation to electronic money is a key factor of success. Such training focus on solving the lack of understanding of electronic money operations and in publicizing the benefits of the service, especially as a means of payment.

Establish business goals for the affiliation of BIM wallets

Setting business goals for e-wallets affiliation and encouraging CMAC staff to promote the use of electronic money will be crucial to expand the use of the service.



ANNEXES:

Main findings of the market research

Specific goals

- ▶ Assess the understanding level of electronic money in rural areas.
- ▶ Understand the reaction to the electronic money concept as a means of digital payment.
- ▶ Detect differential attributes which favor electronic money introduction to do business and how that could applied to the design of the marketing strategy.
- ▶ Describe the business characteristics, their sources of income and assumed expenses.
- ▶ Learn about the perception, the advantages and disadvantages of the electronic payment means at functional and social levels.
- ▶ Assess the readiness level to use electronic money.

Metodología

Methodology	CITY	SAMPLE	CONDITION
Qualitative			
Technique In-depth interviews	Arequipa	15	Owners of small stores, adults, in rural areas in the cities of Arequipa, Ica, Iquitos, Piura and Tacna, who do not operate with financial institutions and who have at least one cell phone. The survey considered at least 03 areas per city, to have several opinions; participants are selected by personal contact.
Sample There are 75 interviews distributed as follows:	Ica	15	
	Iquitos	15	
	Piura	15	
	Tacna	15	

Evaluation process of the electronic money concept

STEP 1

Open your **ELECTRONIC MONEYWALLET** in your CMAC, and from your cell phone.

STEP 2

Done!

- ▶ You can transfer money and recharge cell phones of any operator.
- ▶ You will be able to receive or send money immediately.
- ▶ After each operation you will receive a confirmation SMS.

STEP 3

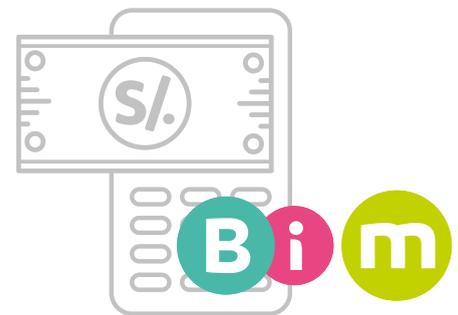
You will be able to check your **ELECTRONIC MONEY WALLET** balances and transactions, at any time.

(No need to have internet access or minutes in your cell phone, it is either pre-paid or post-paid).

STEP 4

The most important is that you will not have to go to an agency to carry out your transactions.

You will save loads on the money you allocate to transportation.



"Without moving or losing time, carry out your transactions".

Source: FEPCMAC

Main attributes identified for business strategy

Comfort Safety



There was a certain difficulty to understand the whole concept, so re-reading was required frequently.

The major part of the interviewed people received the proposal with ENTHUSIASM, finding two main benefits:

- ▶ **COMFORT:** Time saving, no need to stand in long queues or go to an agency, etc.
- ▶ **SAFETY:** No need to carry cash which can be stolen, no fake bills, no risk of “marcas” notifying about your withdrawals, etc.



Identified concerns

Where does the money for transactions come from?

Who is going to manage my money?

What happens if I have made a mistake and the transaction is confirmed?

Who would I need to contact if the transaction was not carried out?

Who would I need to contact if my cell phone is stolen and my PIN and money are taken away?

CMAC

Identified advantages

Functional advantages

- ▶ **Physical money substitute (cash).** It is understood that shopping can be done at stores, and the customer will be able to convert physical money into electronic money.
- ▶ **It extends the business opportunities for the CMAC.** Electronic payment is not only possible for services, but it can also be used to pay suppliers.
- ▶ **It works with any type of cell phone.**
- ▶ **The process of the transaction is easy.** However, that doesn't mean it will take away deeply rooted fears.
- ▶ **Time saving since there is no need to go to the agency to make operations.**

Testimonials:

"I would not have to travel to the city every time I need to make a payment",
LQUITOS business owner.

"It is more profitable because you save time and avoid going to the agency",
TACNA business owner.

Emotional advantages

- ▶ **Increased security for businesses.** They feel that by managing less physical money, the likelihood of theft to customers and suppliers providing goods will be reduced.
- ▶ **Communities with less violence.** Closely related to the reduction of theft: by using less physical money, they become less attractive for assaults.

Testimony:

"If you do not carry cash, it cannot be stolen from you",
ICA business owner.

Identified disadvantages

Functional disadvantages

- ▶ **Slow system.** Some customers have had problems with the slowness of recharging cell phones and fear that, when conducting electronic money services with the same system, the operations are just as slow.

Testimony:

"Here, we do not have a good signal. Transactions could not be made",
Iquitos business owner.

Emotional disadvantages

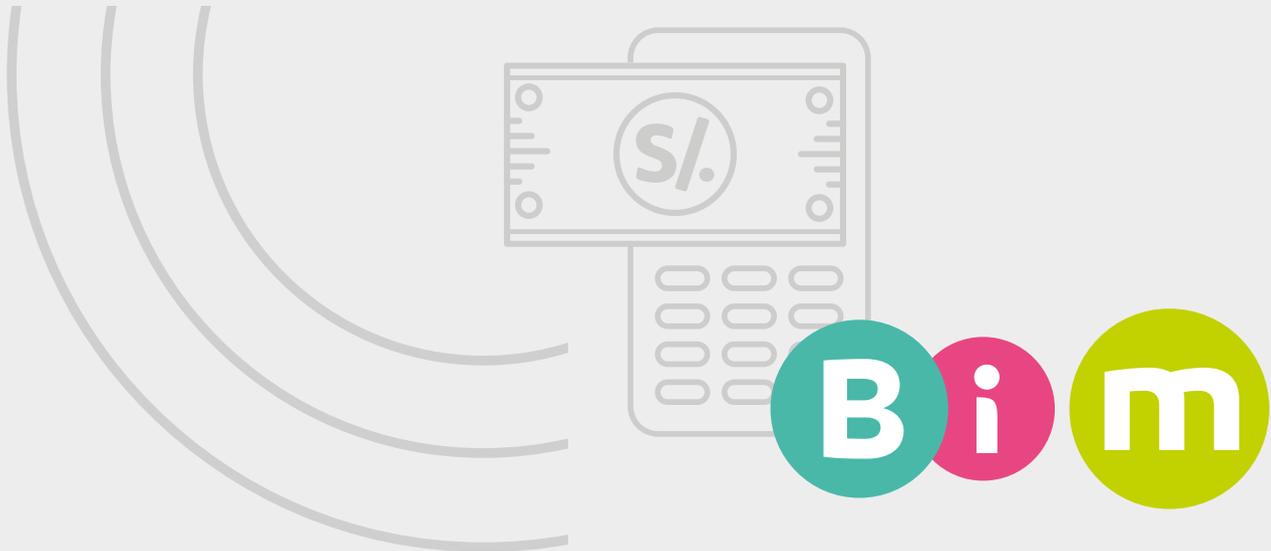
- ▶ **Do not want to rely on the cell phone.** There is fear that if one loses the phone, transaction log is lost was well.
- ▶ **Sense that not everyone wants to use the electronic money service.** This is because many people are not very technological and they have more confidence in doing their transactions in person.
- ▶ **Fear of not having anyone to reach if there are any problems.** This raises questions such as: who will be responsible in the event that I have a problem with my transactions?

Testimony:

"If you have your phone stolen, your account remains open and anybody could make a withdrawal",
Business owner of Arequipa.

"The disadvantage is that many people would not be open to use or to migrate into using BIM",
Arequipa business owner.

MAIN MESSAGES OF THE STUDY



- Among the merchants-entrepreneurs in rural areas, the term "**Electronic money**" is difficult to understand and they often relate it to internet purchases. When trained, the understanding of the service is improved, but it is still low, possibly because of the lower educational level of the population of this study. Some steps are, although having been studied, still little understood.
- The product is received with enthusiasm, especially for the time and money saving benefits resulting from not having to go to the agency to carry out transactions. In addition, there is the emotional benefit of feeling safe using less cash, and the theft rate will be lower.
- The concept of "**Electronic money**" has generated many questions and doubts; not for the service itself, but for everything that involves the preceding part (the beginning of the process-affiliation) and the subsequent use of the service for transactions, i.e. who would be responsible in the case there are problems or claims.
- The service will not decrease, in the short term, those negative perceptions on financial institutions. The fear about commissions charged by banks is deeply rooted.

Contact

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