

Developing Financial Inclusion and AML/CFT *THE CASE OF PARAGUAY*



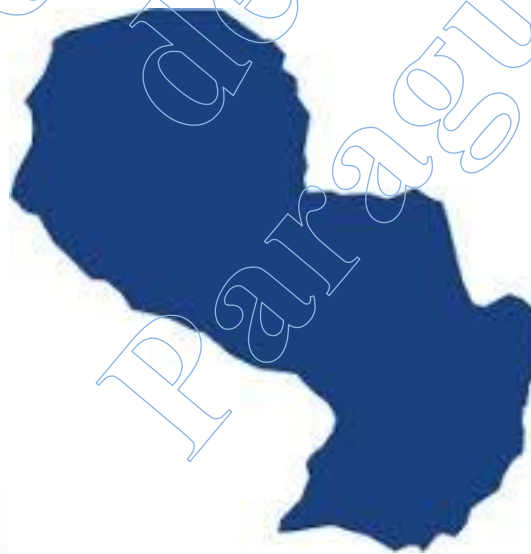
JUAN MANUEL GUSTALE CARDONI

Johannesburg, South Africa

July 2014

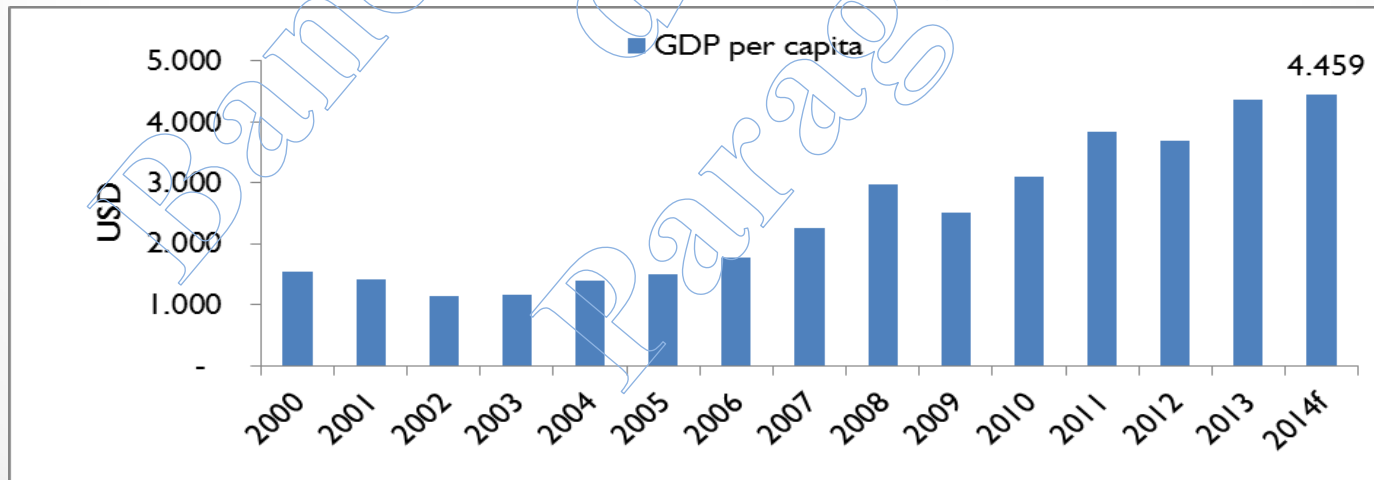
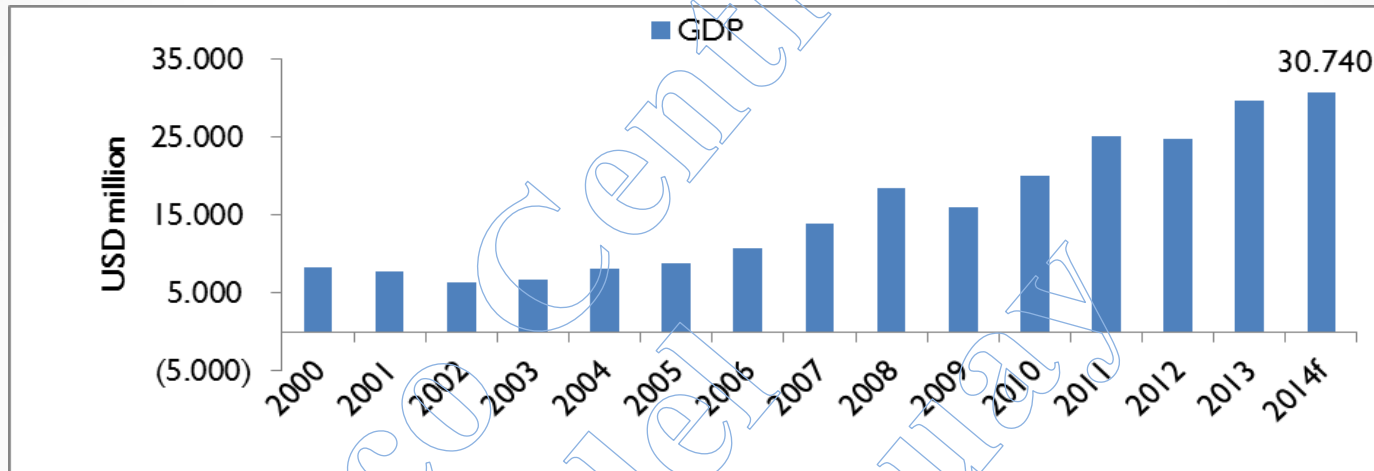
PARAGUAY: Current Economic Landscape

Paraguay has shown a remarkable growth record in the last decade. The country exhibits a stable macroeconomic scenario, with low inflation rates and sound public finances. The banking system is well capitalized and the exchange rate regime operates under a flexible and unrestricted scheme



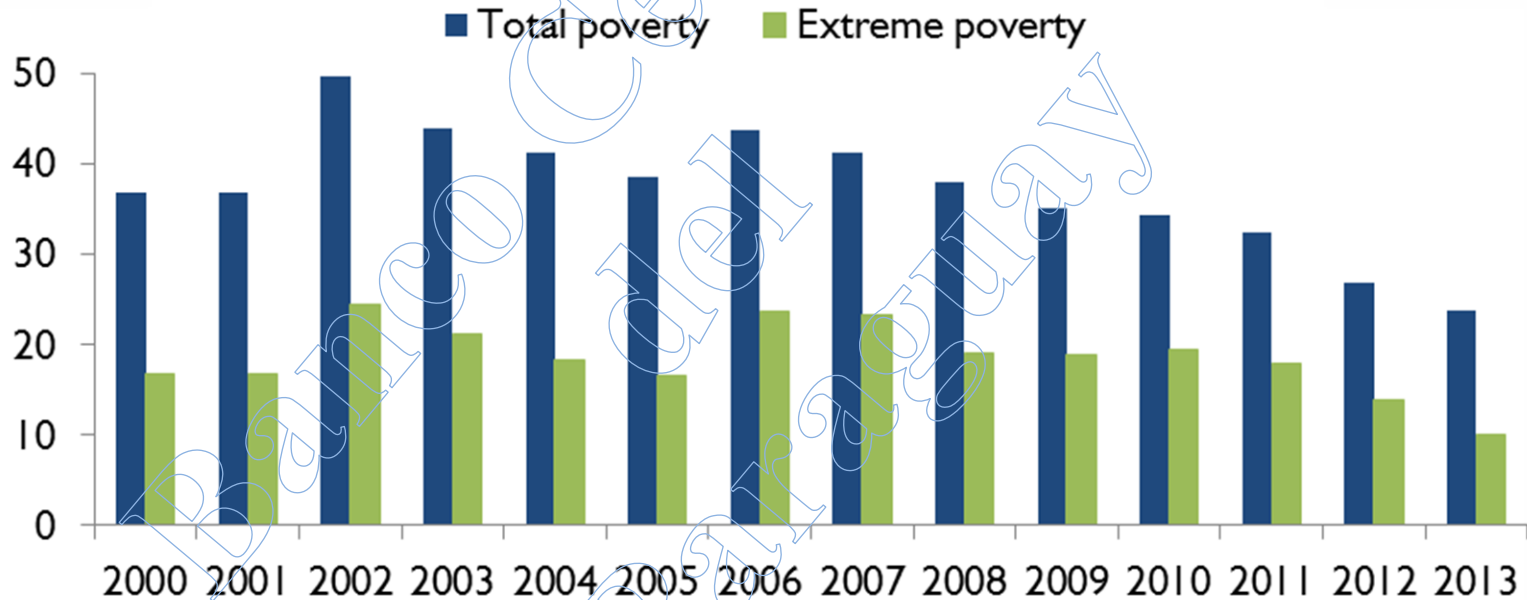
PARAGUAY: Current Economic Landscape

Economic growth figures



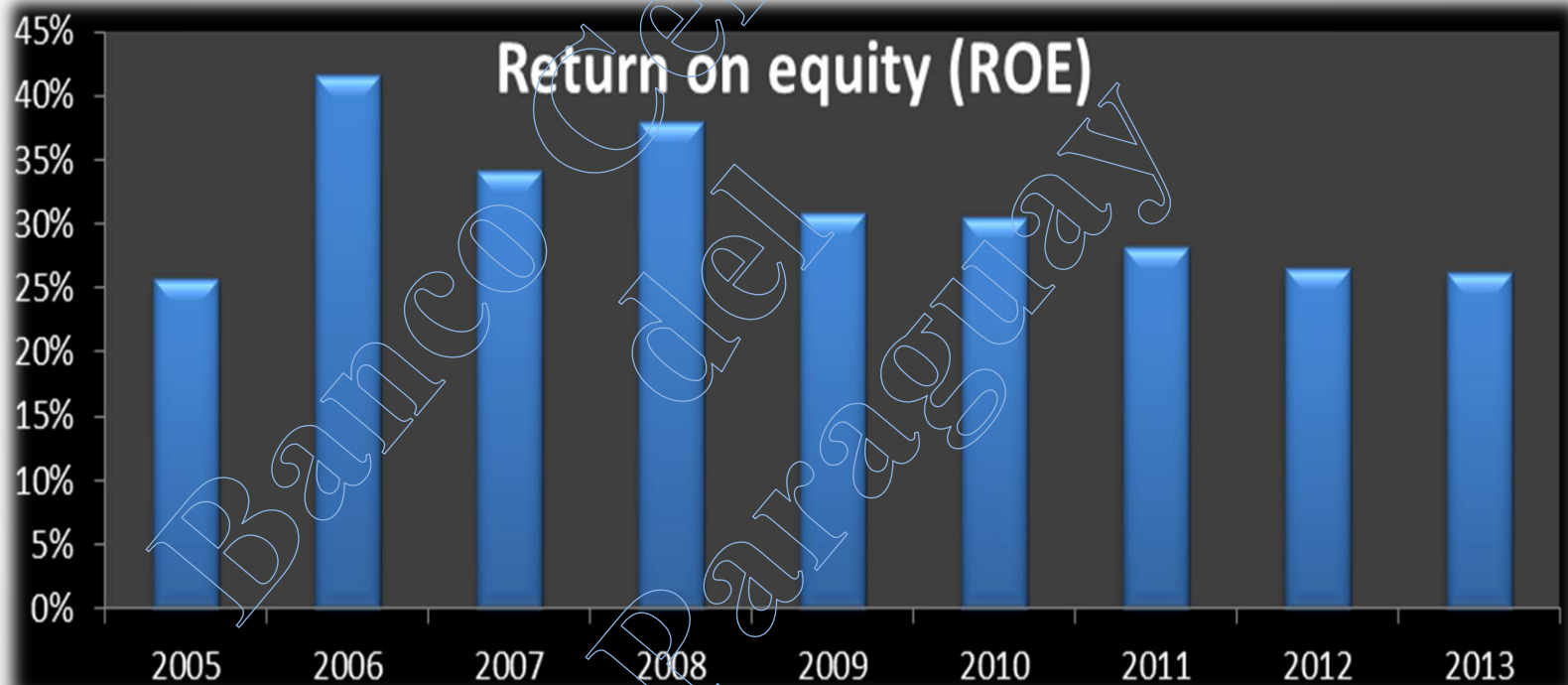
PARAGUAY: Current Economic Landscape

Positive economic outcomes have contributed to improve poverty ratios



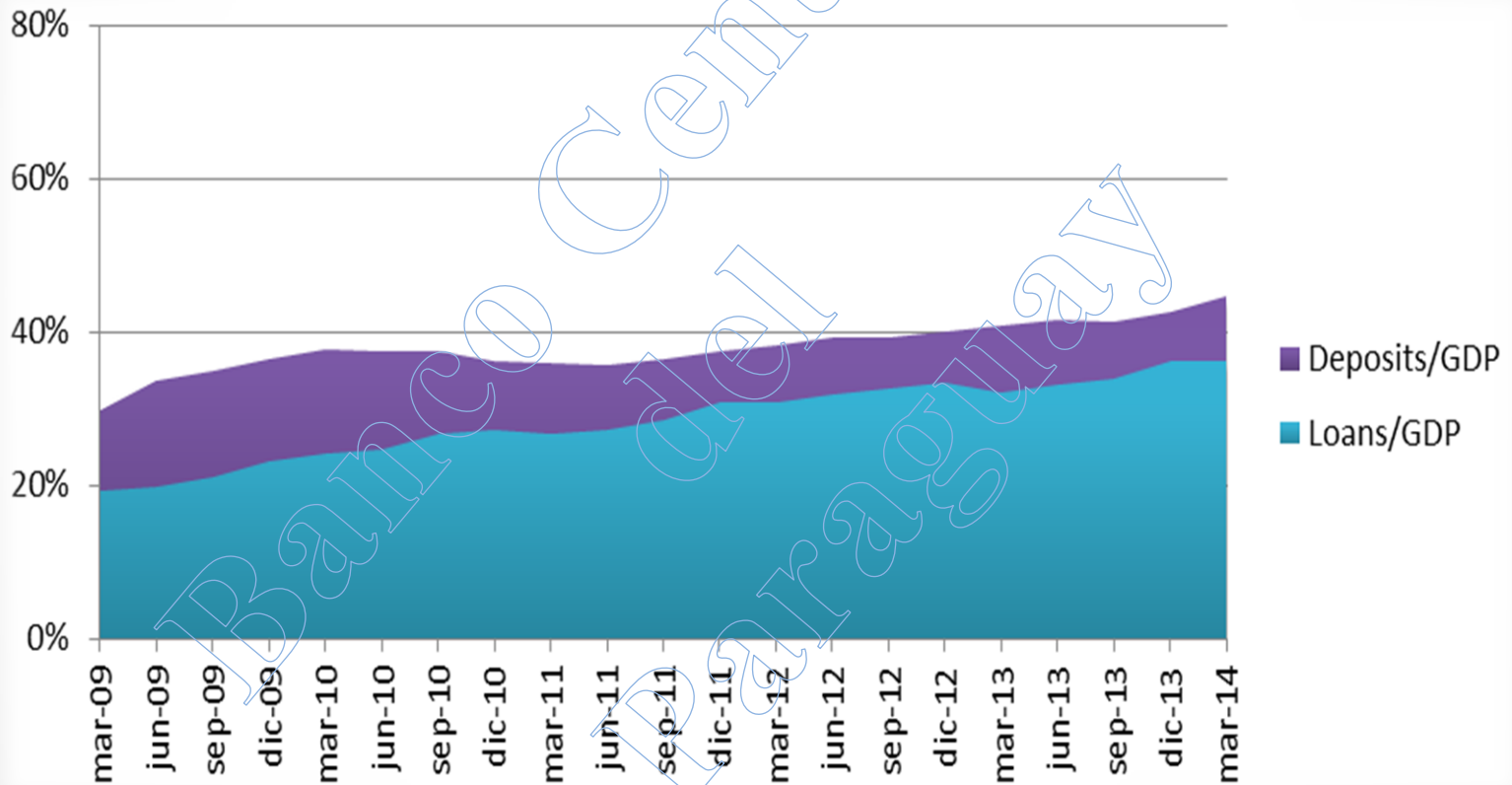
PARAGUAY: Current Economic Landscape

The banking system remains sound and profitable



PARAGUAY: Current Economic Landscape

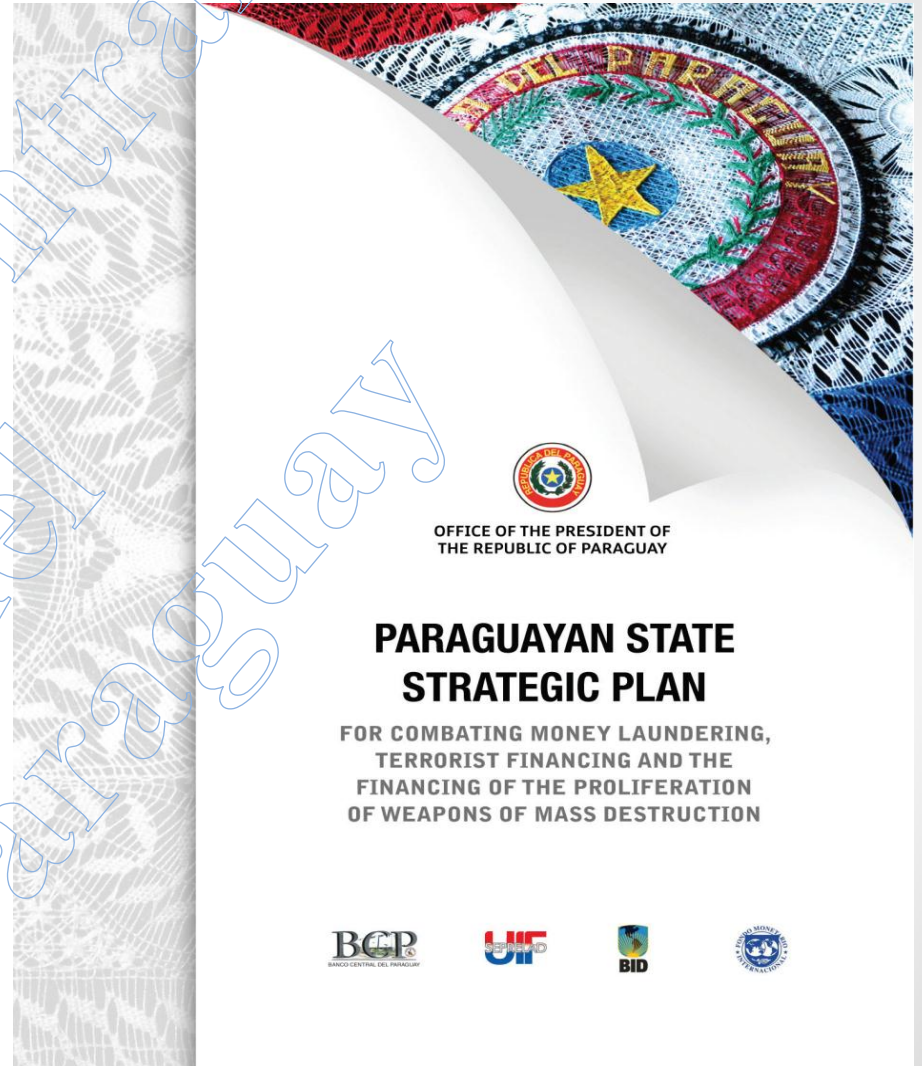
Levels of banking penetration have increased



PARAGUAY : AML/CFT AND FINANCIAL INCLUSION NATIONAL STRATEGIES

Financial inclusion and AML/CFT strategies should be understood as complementary and compatible and should not collide

Paraguayan authorities comprehend that these are simultaneous challenges and it is essential to strike a balance



Current framework in Paraguay

2013

- The Government launched the National Strategic Plan for Combating AML/CFT

2014

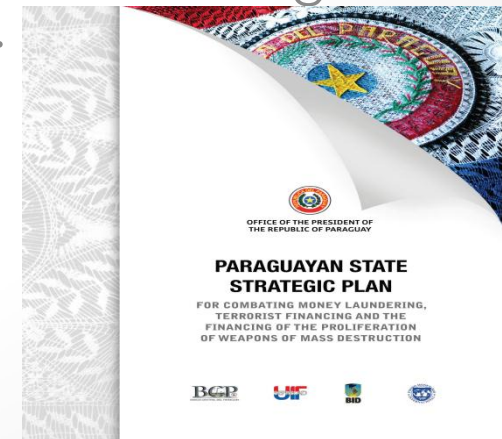
- The Government is currently elaborating a National Strategic Plan for Financial Inclusion, in collaboration with the World Bank (still to be launched...)

Strategic Plan of the Paraguayan State for combating Money Laundering and Terrorist Financing

It is currently being led by the Secretariat for the Prevention of Money Laundering and the Central Bank of Paraguay and involves the participation of more than 20 public institutions and private entities

This Plan is the result of an interagency process that involves a policy decision adopted at the highest level of government, sponsored by the President of the Republic and supported by the commitment and the cooperation of important Paraguayan institutions in both public and private sectors

Nature of the Plan → essentially technical, with guidelines according to the New 40 Recommendations.



Strategic Plan of the Paraguayan State for combating Money Laundering and Terrorist Financing

The General Objectives are...

Establishing an effective system for combating ML/FT

Protecting the integrity of the economic system

Preserving the order and public national security

The Plan contemplates other objectives of transversal nature that affect the entire national system (22 in total)

The main goal is...

To organize the Paraguayan government's efforts towards a more effective implementation of the AML/CFT and CFP system

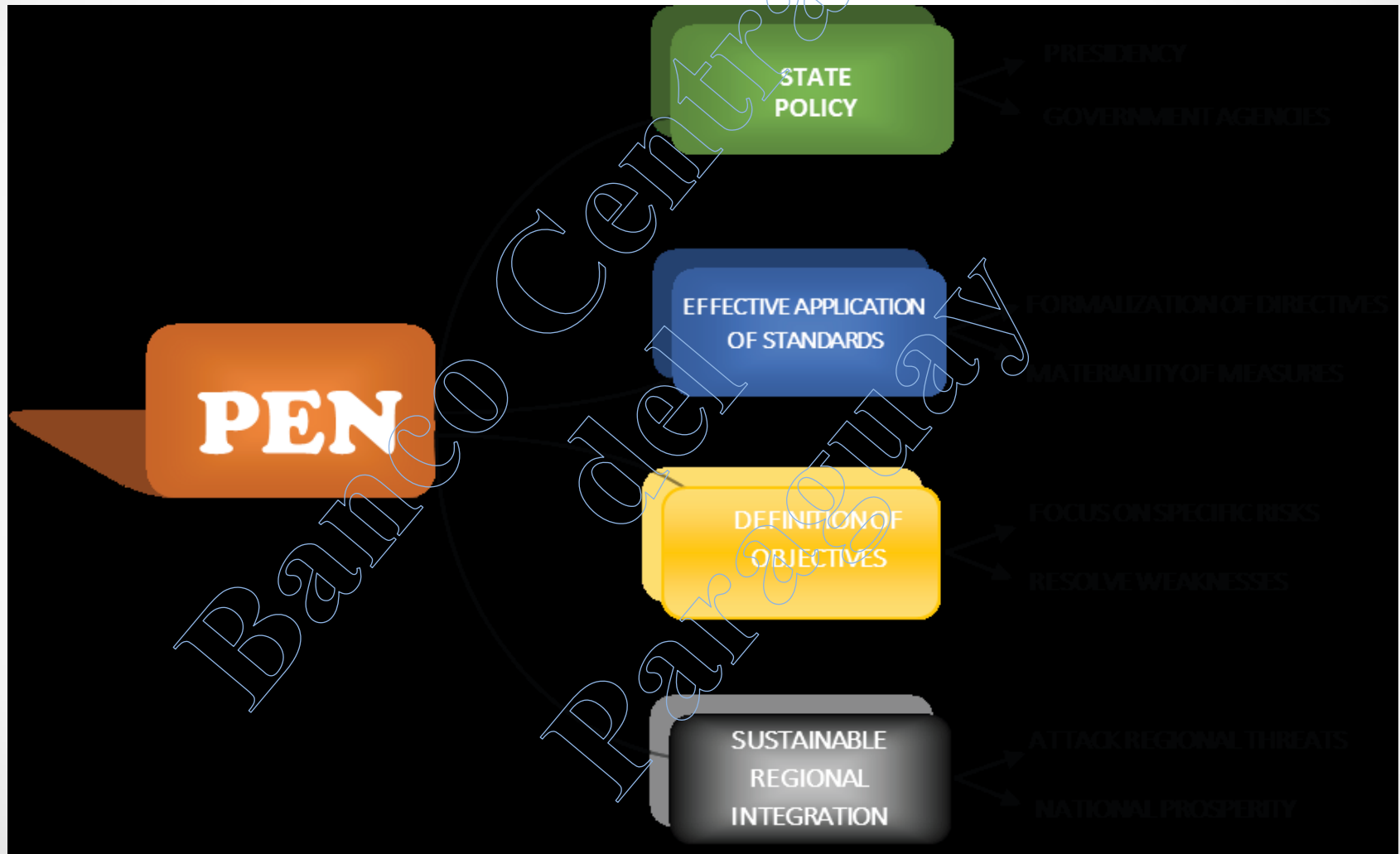
The Action Plan

Defines strategic objectives and concrete actions to accomplish them, as well as identifying responsible institutions to execute these actions

Actions must be coordinated with other State efforts against organized crime and corruption

The Action Plan must be dynamic and capable of updates, revisions and adjustments as necessary by the Coordination Group, in light of new challenges that may arise

Strategic Plan of the Paraguayan State for combating Money Laundering and Terrorist Financing



The Strategic Plan for combating Money Laundering and Terrorist Financing and its correlation with Financial Inclusion

OBJECTIVE 5

ADJUST THE ACTION PLAN TO OVERCOME THE WEAKNESSES IN THE AML/CFT SYSTEM PRODUCED BY THE INFORMALITY OF THE ECONOMY

ACTIONS:

ADJUST the action plan by introducing new measures in light of the recommendations flowing from the study on the impact of economic informality → RESPONSIBLE AGENCIES: Financial Intelligence Unit and the Central Bank of Paraguay

ADJUST the action plan in a manner consistent with State efforts to promote financial inclusion → RESPONSIBLE AGENCY: Central Bank of Paraguay

Correlation between Financial Inclusion and AML/CFT

Enhanced AML/CFT risk → where financial inclusion products are unregulated

AML/CFT measures → could pose a significant threat to financial inclusion, if the latter is not considered when designing the former

The AML/CFT should be flexible enough → so as to ensure access to financial services and thus foster financial inclusion

AML/CFT requirements could increase business costs → to be absorbed by banks and financial institutions. Therefore, financial inclusion products become less attractive and less profitable



RBA in current AML/CFT regulations in Paraguay

November 2013 → the Financial Intelligence Unit issued new regulations → according to FATF standards

RBA → mandatory for the entire financial system (including banks, financial institutions and foreign exchange companies) when implementing AML/CFT policies and procedures

Central Bank of Paraguay → in charge of supervising compliance with AML/CFT regulations emanating from the Financial Intelligence Unit

Establishment of the National Strategy for Financial Inclusion

The President of Paraguay → Decree N° 1971 (July 2014) → created the National Commission for Financial Inclusion

Some of the objectives are

- To reduce poverty ratios and promote a higher living standard
- To consolidate a robust and stable financial system
- To reduce the gap between supply and demand of financial products

The members of the Commission are

- The Ministry of Finance
- The Governor of the Central Bank
- The Technical Secretariat for Planning
- The President of the National Institute for Cooperatives

Moreover, there will be an Executive Secretary (to be appointed by the President of the Republic), a Technical Team and several Committees. Other participants will include public institutions and the private sector

Establishment of the National Strategy for Financial Inclusion

Decree N° 1971 (July 2014)

“Financial inclusion seeks to improve access to a wide range of high quality and low-cost financial services, in a convenient and opportune manner, under appropriate regulations that are capable of ensuring consumer protection schemes and promoting financial education, in order to increase the financial capacity of people and enhance the decision-making process involving financial transactions”

A Financial Inclusion National Strategy constitutes a crucial element to reduce levels of poverty

Establishment of the National Strategy for Financial Inclusion

Steps adopted ahead of the National Strategy

In March 2013, the Central Bank of Paraguay created the Department of Financial Inclusion, in order to direct efforts towards regulating and monitoring several products offered by the financial sector.

The Department comprises three main areas, including

- i) Banking usage
- ii) Consumer protection
- iii) Financial education.

Establishment of the National Strategy for Financial Inclusion

Steps adopted ahead of the National Strategy

- **Analysis of demand** → conducted through a survey, in order to gain a better understanding of the needs associated to a diverse range of financial services
- **Analysis of supply** → to collect information about financial services and products currently available
- **Revision of the regulatory framework** → to establish clear rules for financial inclusion products and to protect consumers

Establishment of the National Strategy for Financial Inclusion

Available data (supply, demand, regulation)

Establish main goals and objectives

Design and review of the strategy

Public and private sector action plans

Assessment and monitoring of developments

FINANCIAL INCLUSION PRODUCTS IN PARAGUAY

The current regulatory framework

- ✓ Regulated products
- ✓ Mobile financial services and financial inclusion in Paraguay
- ✓ Previous scenario and main concerns (massive but still unregulated market)
- ✓ Dual regime = bank-based versus non-bank-based models



FINANCIAL INCLUSION PRODUCTS IN PARAGUAY

The current regulatory framework

Regulated products

i) Non-banking correspondents (regulated by the Central Bank as of 2011)

A number of different agents enabled to collect and disburse loans, send and receive money orders, cash withdrawals, balance inquiries and issue statements, provide payment for services

ii) Basic savings account (regulated by the Central Bank as of July 2013)

- Reduced requirements to open/maintain an account
- Enable accounts to be opened remotely (via mobile phone or other technological means)
- Only for individuals
- No minimum opening/average maintenance balance
- Exclusive use in national currency



FINANCIAL INCLUSION PRODUCTS IN PARAGUAY:

The current regulatory framework

ii) Basic savings account

- ❑ Wholly or partly exonerated from fees, costs and expenses inherent to conventional deposit accounts
- ❑ The allowed monetary value of transfers into and out of the account is significantly lower than limits imposed by the national AML/TF authority
- ❑ It may be opened by a person in the bank, in a non-banking correspondent, or remotely: via mobile phone, mobile banking or other technological means

In order to regulate this product, the Central Bank took into consideration previous regulations (on non-banking correspondents) and agents involved in the operation



The current regulatory framework

iii) E-money accounts (regulated by the Central Bank as of March 2014)

The Central Bank established requirements that must be met by entities providing both non-bank transfers and electronic money using telecommunication services

Funds should be entirely guaranteed by the mobile financial company with an autonomous patrimony administered by a fiduciary (trust). There is no money creation

- The holder may only have 1 account per provider
- Accounts only allowed in local currency
- Balance may not exceed at any time 1.5 times minimum wage (\approx USD 620)
- The allowed monetary value of transfers into and out of the account is significantly lower than limits imposed by the national AML/TF authority.

Objectives: regulation of certain payments systems, protecting the users from these payment systems, setting parameters that promote financial inclusion, and implementation of controls to minimize money laundering risks

Lack of regulation = Costs to be transferred to the client → lack of incentives to enter the formal banking system → proliferation of alternative, non-formal mechanisms and expansion of informal banking sector



FINANCIAL INCLUSION PRODUCTS IN PARAGUAY

The current regulatory framework

Mobile Financial Services and Financial Inclusion in Paraguay

Both e-money accounts and electronic payments are instrumental in promoting financial inclusion by acting as a doorway for the financially excluded population to enter the formal banking sector

Paraguay: a suitable place to develop the mobile financial industry, given its demographic and economic conditions

Low levels of financial inclusion → financial services are provided by banks, other financial entities and unregulated financial institutions (cooperatives) but still with very low penetration

Economic activity highly dependent on both agriculture and livestock → these activities account for more than 25% of GDP. In this scenario, money transfers serve a double purpose (urban to rural area transfers and the other way around)



FINANCIAL INCLUSION PRODUCTS IN PARAGUAY

The current regulatory framework

Paraguayan mobile financial industry has expanded dramatically

- ✓ Mobile technology is available in remote areas (where bank branches are too expensive to be established)
- ✓ Currently, there are more mobile financial services users than financial services users (1,200,000 mobile financial users vs 980,000 users of financial services, including banks and other financial entities)
- ✓ Proliferation of strategic alliances between Paraguayan and international companies in order to increase internet access



FINANCIAL INCLUSION PRODUCTS IN PARAGUAY

The current regulatory framework

Previous scenario and main concerns (massive but still unregulated market)

As of March 2014, the financial mobile industry reached 1,200,000 users (in contrast, the financial system had 980,000)

Main concerns of an unregulated market → no consumer protection, a different segment than that of banks, need to promote financial inclusion in an orderly manner and as a national strategic objective

Central Bank of Paraguay → regulated this market, seeking to find a balance of markets structure, security, AML&TF vs widespread access and inclusion



FINANCIAL INCLUSION PRODUCTS IN PARAGUAY

The current regulatory framework

Dual regime = bank-based versus non-bank-based models

Bank-based

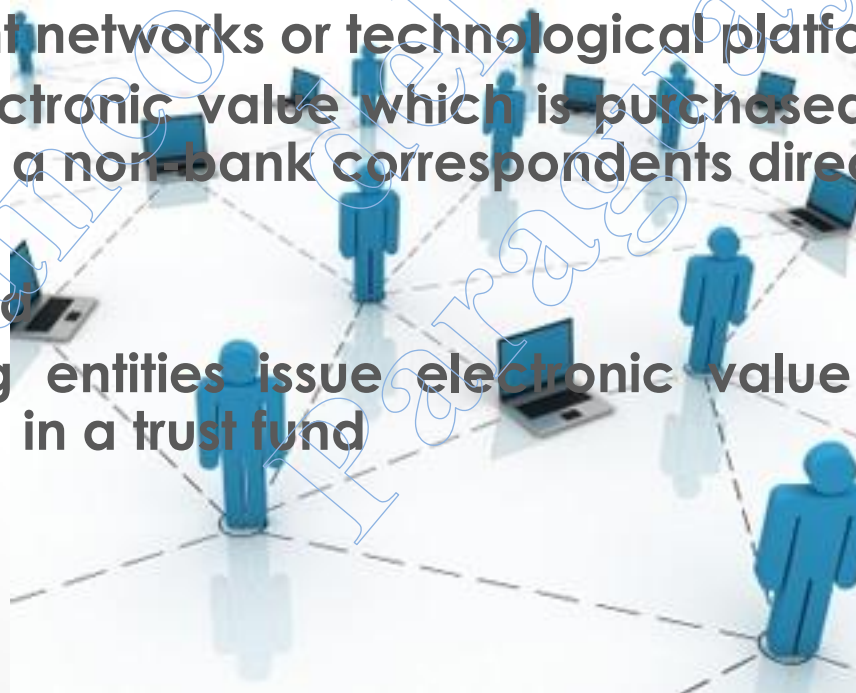
i) Banks offer individual accounts that can be opened in the bank, in non-banking correspondents or even remotely

Banks offer individual accounts accessed through non-bank-managed agent networks or technological platforms

Banks issue electronic value which is purchased from banks and redistributed by a non-bank correspondents directly to customers

Non-bank based

ii) Non-banking entities issue electronic value while holding a floating ratio 1:1 in a trust fund



THANKS!

Banco Central
del Paraguay