



**Update on Regulation of Branchless Banking in Argentina**  
**January 2010**

Note: This update of CGAP's 2009 "Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Argentina" incorporates research conducted by CGAP in January 2010 regarding relevant legal and policy changes through the end of 2009. It is one of 11 similar country updates produced by CGAP as a part of the work plan of the Access through Innovation Sub-Group of the G-20 Financial Inclusion Experts Group. However, CGAP alone is responsible for its content. Corrections may be forwarded to [yseltzer@cgap.org](mailto:yseltzer@cgap.org).



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### 1. Introduction

The Argentine financial sector is relatively sophisticated. However, a large segment of the population remains excluded from the formal financial sector. Although the majority of Argentines live in urban areas where bank branches are highly concentrated, low-income customers are not taking full advantage of the branch presence. This is partly due to low levels of confidence in banks, which results in a large informal, cash-based economy.

Currently there is no legal framework for banks to use agents to deliver financial services; however, the Central Bank of the Republic of Argentina (BCRA) is currently drafting bank agency regulation. A few banks that already target the low-income segment (i.e., banks that are part of a consolidated group of companies that includes retail chains) and newly licensed banks alike are eager to use retail outlets to expand their distribution network in a cost-effective way. Passing a regulatory framework that balances safety and openness regarding the use of agents, while providing BCRA with adequate supervisory powers and tools for monitoring and mitigating risks, is a crucial and timely step for increasing access to financial services in Argentina. Meanwhile, nonbanks have developed extensive agent networks to offer payment services and consumer credit to millions of Argentines. These networks could play an important role in the agency outreach of banks once the new regulation is issued.

In addition to agency regulation there is a need to set conduct-of-business and reporting requirements for credit providers that are beyond the regulatory reach of BCRA today. Setting common standards for providers of similar services would create a level-playing field. It might also be the time to start crafting e-money regulation, as there is already at least one example of a large nonbank-based prepaid card scheme (*Monedero*).

Argentina has an extensive history with state development banks focusing on rural credit, and it continues to provide targeted subsidized loans, even though this strategy has not succeeded in sustainably extending access to financial services to the poor. Although different government institutions carry out various financial access initiatives, there is no overarching countrywide initiative involving all active regulatory agencies and the industry.

The Ministry of Development runs a conditional cash transfer program—*plan familias*—that targets 1.3 million poor families in all regions of Argentina. Since the majority of

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<sup>1</sup> The 2009 "Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Argentina" was based on an analysis of existing legislation and regulations relevant to branchless banking approaches and on the CGAP research team's insights from interviews with a range of stakeholders. The original diagnostic assessment was carried out under the auspices of CGAP's Technology Program, which is co-funded by the Bill & Melinda Gates Foundation.

<sup>2</sup> In September 2009, the G-20 called for the establishment of a Financial Inclusion Experts Group with two subgroups, one of which is the ATI Sub-Group. CGAP is a member of an experts group assembled to assist the ATI Sub-Group in its work, which includes updating information previously published on the policy and regulatory framework for branchless banking in various developing countries.



recipients have no access to financial services, *plan familias* presents a unique opportunity to link welfare programs to financial inclusion goals. Making the transfers through fully transactional accounts has the potential to bring many beneficiaries into the formal financial sector while also promoting savings to recipients and their family members.

## 2. Sector Overview

Argentina has a population of approximately 37 million; over 80 percent live in urban areas. Literacy and education levels among adults are relatively high compared to other Latin American countries, although understanding of financial products and services seems to be low. According to BCRA, many Argentines may have problems using or preserving their identification documents, which affects their ability to comply with bank account opening procedures. This is caused by the unpopularity of the official paper-based identification:<sup>3</sup> it is unwieldy and large, it costs approximately US\$4, and it is difficult to renew or replace when necessary.<sup>4</sup>

Informality is pervasive throughout the society and economic sectors. This is due, among other factors, to rigid labor legislation and widely practiced tax evasion. Informality in the financial sector is intensified by a tax on financial transactions, including withdrawals from and deposits to bank accounts, and a general pronounced distrust in banks as a direct consequence of the 2001 banking crisis. The result is a cash-based economy with customers who lack incentives to use formal card- or electronic-based services from banks

According to Microscope 2008, approximately 8 million people (or 30 percent of Argentina's adult population) have a bank account.<sup>5</sup> A BCRA study found that the main barriers for families to access financial services are (i) distrust of banks, (ii) own financial instability, (iii) insufficient income, and (iv) excessive requirements by banks.<sup>6</sup> According to the same study, for small companies, the main obstacles are (i) costs, (ii) macroeconomic instability, (iii) inadequate contracts, and (iv) excessive requirements.

### 2.1 Financial Inclusion

BCRA has been taking steps towards greater financial inclusion, including the following:

- Creation of simplified savings accounts with standardized features<sup>7</sup>
- Introduction of a regulatory window for deposit-taking credit cooperatives to increase the supply of savings products in rural areas<sup>8</sup>
- Regulatory creation of a low-value credit product (up to US\$1,570) with simpler customer due diligence and provisioning requirements<sup>9</sup>

<sup>3</sup> The National Identification Document (*Documento Nacional de Identidad*), issued by the Ministry of Interior.

<sup>4</sup> There are other identification documents that Argentines use that are easier to use and cheaper, but legally, only this paper-based unfriendly document is valid as official identification.

<sup>5</sup> Economist Intelligence Unity, Microscope 2008, Commissioned by the Interamerican Development Bank and Corporacion Andina de Fomento.

<sup>6</sup> BCRA, Boletín de Estabilidad Financiera, Primer Semestre de 2008.

<sup>7</sup> Communication BCRA, A 4809. This is the universal basic account that has simpler opening requirements and standardized costs and services. The account offers a debit card and does not allow overdraft. Banks are not required to issue a paper-based statement, but ATMs must provide the balance and description of the last 10 transactions free of charge. Branch transactions are free up to a certain number per month but electronic transactions are mostly free. Banks are not obliged to have this account, but in case they do, they are required to advertise such option to every new client.

<sup>8</sup> Caja de Credito Cooperativo, Law 26,173. The regulatory intent was to encourage the transformation of credit-only MFIs into deposit-taking cooperatives.

- Regulatory creation of another simplified credit product geared toward microentrepreneurs with specific prudential regulatory treatment
- Authorization for banks to invest in or lend to microcredit institutions<sup>10</sup>
- Engagement of financial education programs

BCRA also provides incentives for geographic diversification of financial services, including: (i) lighter capital requirements for institutions based in underserved regions; (ii) permission for banks to use mobile or temporary branches; and (iii) simpler authorization process for branches in underserved areas. It is too early to assess the impact of such measures, but they prove that BCRA is committed to improving access to finance.

BCRA is also drafting regulations to permit the use of agents, an important step for expanding the banks' distribution network. The regulations have the potential to enhance competition for low-value transactions, curbing the strong preference for informality and cash. Experience from other countries shows that the use of agents generally makes poor people more comfortable with using financial services, since it involves well-known, local merchants in the client-provider relationship.

## 2.2 The Banking Sector

The financial collapse of 2001 witnessed numerous bank runs, massive currency devaluation, the loss of deposits, and limitations on withdrawals. Since 2001, the banking system has been recuperating steadily thanks to strong economic growth rates. Argentina, however, like other countries in the region, has been hit by the recent financial crisis and is experiencing political turmoil as well. Gross domestic product (GDP) experienced a growth decline of 2.2 percent in 2009, while GDP growth in 2008 was 6.8 percent.<sup>11</sup> The Argentine peso fell by 9 percent in 2008 and continued to dive throughout 2009.<sup>12</sup> The government reported a 7.2 percent consumer price rise in 2008, but official figures are widely discredited, and private analysts put the 2008 figure closer to 20 percent.<sup>13</sup> However, the past nine years of economic resurgence enabled BCRA to accumulate substantial official reserves (estimated at almost US\$47 billion as of March 2009) to help insulate the economy and the banking sector from external shocks.<sup>14</sup>

At 12.5 percent of the GDP, bank credit to the private sector is still one of the lowest in Latin America. However, it has been growing nearly 40 percent per year since 2002.<sup>15</sup> Local deposits have reached pre-2001 levels and remain the primary funding source for banks. Nonetheless, confidence in banks has not been fully reestablished.

There are 68 banks, 15 finance companies, and two regulated financial cooperatives in the country. Banks, including a number of state-owned banks, mainly focus their attention on lucrative high-income clients and have not yet shown strong interest in the low-income segment. Commercial banks comprise 3,800 branches, which are geographically concentrated in Buenos Aires. *Banco de la Nacion*, a state-owned bank that handles the government welfare payments and accounts of government employees, has the largest branch network.

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<sup>9</sup> Prestamos de Monto Reduzido, up to ARS 6,000 (approximately US\$1,570).

<sup>10</sup> Communication BCRA, A 4891/2008.

<sup>11</sup> Global Economic Prospects 2010: Forecast Summary, World Bank.

<sup>12</sup> [Oanda.com](#)

<sup>13</sup> *Argentina inflation seen high in Jan, then easing*, [FX Street.com](#), January 2009.

<sup>14</sup> 2009 Investment Climate Statement, Argentina, Bureau of Economic, Energy and Business Affairs, US Department of State, February 2009.

<sup>15</sup> See BCRA, Boletín de Estabilidad Financiera, Primer Semestre de 2008.



There is no major branchless banking initiative by banks focusing on new clients or geographic expansion. Mobile phones and Internet banking are used as extra channels to increase convenience for existing clients. Some banks are waiting for the agency regulation to be issued to expand their distribution network. *Banco Provincia de Buenos Aires*, a state-owned bank, already has 1,300 retail points managed by a third party on an experimental basis due to lack of regulation by BCRA. This agent network provides cash-based payment services only,<sup>16</sup> but it is technically prepared to provide account-based services if regulation permits this type of activity.

There is no licensed postal bank in Argentina, but the postal service provides some financial services, enabled by special legal provisions. These services are not significant in scale and include domestic cash transfers (*Giro Postal Nacional*), remittances (for a minimum cost of approximately US\$15), utility payments, and temporary prepaid accounts.<sup>17</sup>

### **2.3 The Mobile Phone Industry**

Mobile phones are ubiquitous in Argentina. There are over 50 million active lines in a country with an estimated adult population of 26 million. Approximately 80 percent of the active lines are prepaid. Top-ups can be as small as US\$1 and made through a network of more than 100,000 agents, as well as through the Internet or automated teller machines (ATMs). There are few mobile network operators (MNOs), namely Telefonica (Movistar), Claro (America Movil), and Personal (Telecom Argentina), but competition is high, especially in the high-end segment.<sup>18</sup>

Mobile phone companies do not see a clear value proposition in participating in branchless banking models despite the high prevalence of mobile phones and their extensive agent network. Industry players also reported concern that a stored-value scheme (e-money) would cannibalize the MNO's voice business, since prepaid customers would spend less on voice service and more on purchases and fund transfers. Likewise, MNOs believe that providing payment services through mobile phones may not be profitable given the high commissions paid to airtime distributors for airtime purchases in the country (8–13 percent of each transaction).

### **2.4 Payment Instruments, Services, and Systems**

Cash is the preferred means for small payments, for reasons discussed above. However, the penetration of debit and credit cards is relatively high. There are 11.5 million credit cards and 15.5 million debit cards accounts.<sup>19</sup> There are seven credit card networks, including Visa, Mastercard, and American Express. There is some interoperability among the different networks. Most credit card holders do not have bank accounts (e.g., 60 percent of Visa's clients are unbanked).<sup>20</sup>

*RedLink* and *Banelco* are the two bank-owned companies that manage nearly all ATMs in Argentina. Like bank branches, ATMs are concentrated in the major cities and are primarily used for withdrawals. Cardholders can make purchases at some 300,000 commercial establishments equipped with point-of-sale (POS) devices. Small

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<sup>16</sup> This is being done in the absence of regulation. However, it involves payments only (which may be done by nonbanks) and does not involve deposit-taking, which is the BCRA's primary concern.

<sup>17</sup> This prepaid account is used by people who need a temporary safe place to store cash. The cash is to be withdrawn in another postal outlet inside the country within 24 months. See [www.correioargentino.com.ar](http://www.correioargentino.com.ar).

<sup>18</sup> Interview with Telefonica, 26 September 2008.

<sup>19</sup> BCRA, Informacion de Entidades, Grupos de Entidades, Sistema Financiero ([www.bcr.gov.ar](http://www.bcr.gov.ar)). There is no official estimate on the total number of account holders.

<sup>20</sup> Interview with Visa Argentina, 26 September 2008.



merchants are hesitant to install POS devices due to the fees charged by acquirers (on average, US\$0.04 per transaction) plus the rent of the POS device. Also, not all POS devices are interoperable, which increases the costs for merchants given that they have to rent or buy more than one device to accept more than one brand. The lack of interoperability creates inefficiencies of scale in the retail payment system as a whole and may be an obstacle for fast development of branchless banking.

There are at least two extensive proprietary payment networks owned by two nonbank commercial entities, *Rapipago* and *Pagofacil*.<sup>21</sup> They operate through payment points that are located in small retail outlets and process a considerable amount of utility bill payments based on agreements with utility companies and other payees.

Since 2002, a transportation company in the Buenos Aires area has issued a reloadable metro card named *Monedero* to an estimated 1.2 million users. The stored value can be used for metro payments, purchases in retail outlets near the metro stations, and tolls. The program is expected to expand to merchants outside the vicinity of metro stations such as Blockbuster, McDonald's, drugstores, buses, movie theaters and others.<sup>22</sup> The accounts have a balance limit of US\$100 and may be reloaded at purchase points through credit cards (70,000 *Monedero* cards are linked to credit card accounts), the Internet, and mobile phones. For instance, it is possible to send value from a prepaid mobile phone account to somebody else's *Monedero* account. Opening a *Monedero* account is free and requires only one identification document and address information. Card balances can be redeemed only if the cardholder has converted the card into a non-transferrable one. *Monedero* processes 9 million transactions per month, 80 percent of which are payments at the metro system, 15 percent are payments at other transportation systems, and only 5 percent are used for purchases in retail outlets. There is no regulation of such service by BCRA.

BCRA manages the real-time gross settlement payment system (RTGS). Only banks with reserve accounts and some entities explicitly authorized by BCRA (e.g., exchange houses and the postal service) can directly access the system and do so at no cost. Other institutions may indirectly access RTGS through a bank for a fee which can be set without regulatory restrictions.

There are two high-value interbank clearinghouses owned by banks (Interbanking and Provincaje) whose transactions are finally settled at RTGS, and two low-value clearinghouses (ACH S.A. and Coelsa) for checks and other paper-based payment orders, direct debit, and bank transfers. They are interoperable (i.e., one clearinghouse can process a payment to a member of the other clearinghouse).

### **3. Current Legal Framework for Branchless Banking**

#### **3.1 Bank Agency Regulation**

The banking law does not define deposit-taking, but all entities carrying out habitual intermediation between demand and supply of financial funds are subject to prudential regulation and supervision by BCRA and cannot perform any other commercial

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<sup>21</sup> While two foreign banks, HSBC and Santander, have indirect control over Rapipago, Western Union is the indirect owner of PagoFacil.

<sup>22</sup> According to Gire, the company that manages Monedero, retailers are equipped with POS devices, whose cost of US\$500 is divided between Monedero and the merchant. Monedero intends to install 35,000 new POS devices in the coming years, which is more than the number of currently installed POS devices in the networks linked to bank switches. Retailers pay a fee (undisclosed value) for each transaction conducted at the POS device.



activities.<sup>23</sup> (Credit-only institutions, such as microfinance institutions (MFIs), credit card companies, and consumer finance companies are not regulated, supervised, or monitored by BCRA.) BCRA is drafting a regulation to allow banks to use agents to deliver financial services through third-party establishments.

The Banking Law and a general law on security set rigorous physical safety requirements for cash handling venues of financial institutions. The rules are tiered and get more demanding as more cash is handled at individual cash points. It is not clear whether these requirements would apply to agents. Although agents and their commercial establishments are, by definition, different from bank branches, conflicting interpretations regarding the applicability of branch safety requirements to agents could seriously threaten the development of branchless banking.

The success of future regulation in encouraging the use of agents will depend on how well that regulation balances risk-mitigation provisions with openness, as well as the regulation's timing. Rules and licensing procedures that are too complex or burdensome may threaten the growth of the agency model as much as rules that can directly affect the profitability of the business (e.g., one-size-fits all operational and transactional limits).

In addition, BCRA and some banks anticipate the possibility that agent employees will demand treatment equal to bank employees, especially with respect to wages (as has been the case in Brazil). This is a real concern given the political power of Argentine labor unions and the power of the labor law to supersede a future agency regulation.

### **3.2 Anti-Money Laundering Combating the Financing of Terrorism (AML/CFT)**

Both the Financial Information Unit (FIU) and BCRA issue AML/CFT regulations based on the AML/CFT law.<sup>24</sup> Financial institutions are subject to AML/CFT rules issued by the BCRA and FIU. To open a bank account (including the basic account) customers need to present an identification document with a photo (usually the national identification cardDNI).<sup>25</sup> In addition, they must provide their date and place of birth, tax number, address, profession, employer name, and marital status<sup>26</sup> and declare the legal origin of funds to be deposited. Proof of income may be requested, but it is not required.<sup>27</sup> Remote account opening and transactions are allowed by the BCRA AML regulation, provided that the bank applies special ex-post monitoring procedures to identify unusual transactional patterns.<sup>28</sup> However, this option is rarely used by banks for account opening, since bankers widely assume BCRA requires face-to-face account opening. In addition, the regulatory framework is silent as to whether agents may conduct customer due diligence. Some types of accounts, such as salary accounts and accounts exclusively used by the government to make welfare transfers, benefit from lighter know-your-customer requirements.

The requirements for one-time transactions, like money transfers, are somewhat lighter, but if the transaction or a set of transactions is above ARS 30,000 (approximately US\$7,849), the client must prove the origin of the funds, and if the transaction is above

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<sup>23</sup> Ley de Entidades Financieras, Ley N. 21.526, art. 1 and 28.

<sup>24</sup> Ley 25.246.

<sup>25</sup> See BCRA, "Reglamentación de la Cuenta Corriente Bancaria," Texto Ordenado al 28.12.07.

<sup>26</sup> BCRA, *Documentos de Identificación en Vigencia*, Texto Ordenado al 25/03/1999, and *Reglamentación de la Cuenta Corriente Bancaria*, Texto Ordenado al 28.12.07.

<sup>27</sup> In case of salary accounts and accounts used exclusively for welfare transfers, the information provided by the payer (e.g., the employer or the government agency) will suffice. BCRA, *Prevención de lavado de dinero y otras Actividades Ilícitas*, Texto Ordenado al 09.01.09.

<sup>28</sup> See BCRA, *Prevención del Lavado de Dinero y Otras Actividades Ilícitas*, Texto Ordenado al 09.01.09, ítem 1.3.4.1.



ARS 200,000 (approximately US\$ 52,327), the client must provide supporting documentation on the origin of the funds.

All financial institutions, mutual funds, money transferors, and some credit card companies report suspicious transactions to FIU. Nonbanks providing payment services are not subject to the AML/CFT regulations issued by BCRA or FIU<sup>29</sup> but BCRA understands that bank agent schemes would need to comply with them.<sup>30</sup>

### **3.3 Regulation of Payment Services and e-Money**

The large-value clearinghouses (Interbanking and Provincaje) are licensed and supervised by BCRA, but the low-value systems (Coelsa and ACH) are neither regulated nor supervised. BCRA lacks the explicit authority to regulate and supervise retail payment systems and providers, but could intervene in this market on the basis of the relative importance of some providers in terms of users and/or transaction volume.<sup>31</sup>

Payment services not linked to a bank account, such as reloadable prepaid cards or prepaid mobile phone-based accounts, are hindered to a certain extent by the lack of specific regulation or generic e-money regulation. Services like *Monedero* (See Section 2.4) are considered retail payment services and, therefore, are not subject to prudential rules, licensing, or registration, even if they offer electronic storage of funds.

It is currently unclear if nonbanks may offer electronic storage of redeemable funds given that only banks and cooperatives are allowed to take deposits from the public.<sup>32</sup> This lack of legal certainty discourages potential market entrants.

### **3.4 Remittances and Foreign Exchange**

Current legislation, specifically the Banking Law and the Exchange House Law,<sup>33</sup> allow only commercial banks and exchange houses to offer domestic remittances.<sup>34</sup> Therefore, money transfer businesses like Western Union or MoneyGram can operate only in partnership with a bank and/or exchange house (i.e., remittances are offered inside the branches of these licensed financial institutions only).

### **3.5 Taxation**

Argentina has a financial transaction tax that is imposed on withdrawals and credits from or to a bank account (Impuesto al Cheque).<sup>35</sup> Although there are numerous exemptions from the tax, the very existence of a financial transaction tax encourages informality in low-value financial transactions and reinforces a cash-based economy. This problem is exacerbated by the popular distrust of banks. The tax could raise operational and profitability issues to the agent business (e.g., if the tax applied to every transaction an agent conducts with its bank regarding their agency relationship).

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<sup>29</sup> Decreto 169/2001.

<sup>30</sup> Interview with BCRA, Department of Analysis of Special Operations, 09/30/08.

<sup>31</sup> Interviews with BCRA, Regulation and Payment System Departments, 09/26/08 and 10/02/08.

<sup>32</sup> Ley de las Entidades Financieras.

<sup>33</sup> Ley de Entidades Cambiarias, Law 18,924.

<sup>34</sup> Ley de las Entidades Financieras, artículo 28, e.

<sup>35</sup> Ley 25.413 de 2001 (Impuesto de los Créditos y Débitos en Cuenta Corriente Bancaria). Exemptions from the tax: deposits in savings banks, deposits and credits in salary accounts (including pensions)





The government has created a tax incentive hoping to increase card payments: a tax rebate of up to 5 percent of the value-added tax on every debit card transaction.<sup>36</sup> There is no evidence that the tax incentive has had any impact so far.

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<sup>36</sup> Decree 1387/01.