

Chapter 50

The Reality of Mobile Payment Systems and Social Inclusion in Latin America

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ABSTRACT

This chapter describes the role of mobile payment systems in Latin America as a means leading ultimately to social inclusion and financial inclusion. Specifically, the first section will discuss the social disparity in Latin America and the existence of financial and social exclusion. The second section will analyze Latin America's mobile payment systems, the region's current panorama of mobile money, the general trends that characterize money and the business models used for mobile money. The third section will review mobile money as a mechanism of financial inclusion and its role in reducing poverty in Latin America. This section will also analyze the barriers to financial inclusion. The fourth section will focus on the risks of mobile payment systems such as money laundering and terrorism funding. The chapter will conclude by comparing the similarities and differences of mobile payment systems that contribute to social inclusion implemented in Brazil, Colombia, Mexico, Paraguay and Argentina.

1. INTRODUCTION

This chapter describes the role of mobile payment systems in Latin America as a means leading ultimately to social inclusion. The terms “social inclusion” and “social exclusion,” often used in research, are addressed throughout this chapter in spite of the complexity of their definition. “Social exclusion” today

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most commonly designates situations of poverty, unemployment, discrimination and education level. Social inclusion, in turn, focuses on access of the excluded population to social, political and economic institutions. Hence, when referring to policies directed toward fomenting social inclusion, we denote those that allow the excluded segment of the population to make use of their freedom of expression to formulate decisions.

A predominant reality in Latin American societies is great social inequality, differences of levels of education, a great diversity of income and a highly unequal access to public services. Moreover, many countries combine a highly dispersed population (for geographical reasons), a lack of infrastructure and a wide variety of subcultures. These divergent aspects often reflect different realities within the same country resulting in a socially excluded population.

Low levels of banking are also observed in certain Latin American societies. The Global Findex report of 2014, according to Demirguc-Kunt et al. (2015), reveals that only 51% of the population possesses at least one bank account. The general tendency of Latin Americans is to manage their financial dealings in cash. Moreover, since transactions in jungle or mountain villages usually involve small quantities, there is little appeal on the part of the entities to set up costly and unprofitable bank branches.

It is interesting to note, nonetheless, that a large section of Latin America's population does not make use of banking services and does not have access to mobile phone services. In the last decade the demand of cellular telephones has, nonetheless, grown exponentially. This region's market in September 2014, according to the report by the Global System for Mobile communications Association (GSMA, 2014), was the world's fourth largest, comprising 326 million unique subscribers and 718 million connections. Furthermore, in recent years it has seen a very high rate of growth, with a total of 200 million cell phones as of September 2014. In fact, 90% to 100% of Latin America's population now possesses a mobile phone. This could therefore ultimately generate the development of profitable business facilitating financial inclusion.

The more common mobile financial services offered are mobile banking, electronic wallets and mobile payments. In June 2014, according to data from GSMA (2014), Latin America saw the deployment of 36 systems of mobile money and 19 others were scheduled for launch. For these mobile payment systems to generate financial inclusion it is essential to coordinate the work of all the different parties, a condition that is difficult to achieve. It does not make sense, for example, to implement new methods of payment if they are not adopted by the business sector. It also makes no sense to install expensive equipment if it is not going to be used. It is therefore essential that financial institutions, telephone operators and technology providers join forces and develop systems that are useful for all players.

The offer of financial products must also provide tangible benefits to users. Hence, the challenge is not only to design a product that works, but to inform and educate the consumer on its use and utility. The consumer must be sold the idea of the need of the product to improve his daily reality.

It is also relevant to work with mobile payment systems that will endure over time. In this sense it is each country's regulatory body that plays an important role. Government in these initiatives is participatory because it must generate mechanisms of confidence among the population and other players of the ecosystem to strive toward achieving the objective of financial and social inclusion. Other factors ensuring the success of mobile payment systems are technologies that form the base of mobile payment systems, such as adequate cellular signals and adequate levels of security so as to build trust between consumers and businesses.

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