



Global Payments: Spotlight on Belize

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The national payments perspective

By World Bank statistics, Belize is ranked 172 on the global GDP index, flanked on either side by the Central African Republic and Djibouti. Geographically it is in between Mexico (15th) and Guatemala (72nd). It is not too difficult to understand why Belize tends to ally itself more with the Caribbean islands than mainland Central America, as both culturally and from a financial system perspective they are more similar.

Much of the conditions of the Belizean banking system is focused on offshore investment and the domestic banking market is not overwhelmed with a plethora of banks. There are six commercial banks in Belize with domestic banking licenses and just as many that are licensed under Belize's International Banking Act. For a country that has no capital gains tax and no regulatory reporting requirements, it is probably no wonder that Belize has built up a reputation as an offshore paradise. But Belize is making some progressive changes in the payments space that may diversify the opinion of its financial system.

Top Belizean Banks by assets:

1. Belize Bank (\$477 million in assets)
2. Scotiabank, Belize (\$389 million in assets)
3. Atlantic Bank (\$340 million in assets)
4. First Caribbean International Bank, Barbados (\$163 million in assets).



Belize: Formerly known as British Honduras

Population: 373,338

Language: English

Currency: Belizean Dollar

GDP: 1.763 billion USD
(World Bank, 2015)

The Belizean payment clearing and settlement system – a tale of widescale reform

The Belizean Central Bank was established in 1982, fairly recently when in comparison to other markets. The Central Bank is an autonomous institution operating in accordance with the Central Bank of Belize Act. The Financial Sector Supervision Department supervises the banking sector.

Over the last decade, Belize has been undergoing significant reform to its national payments environment. In 2006, a World Bank and Center for Latin American Monetary Studies (CEMLA) assessment found the need to increase safety, efficiency and integrity through the implementation of a modern payment system infrastructure in Belize. The World Bank provided technical assistance in the development of a National Payments System Development and Implementation Plan, published in 2012. This payment system reform project is being implemented as a collaborative effort involving the Central Bank, Central Government and domestic financial institutions.

The benefits touted by the Central Bank of broad reform are significant enhancement of security, reliability, and efficiency of the financial system's payment infrastructure as well as enhanced interoperability, which is 'integral to economic activity and growth.' Similar benefits are being stated by other jurisdictions undergoing their own payment system reform. The new system will include a network approach, where financial institutions are all connected via a local network, which will enable the use of a wider range of payment options and services and increase ubiquity.

Prior to the World Bank report, the Central Bank's first effort at reform focused on the automation of cheque processing and clearing, which led to the adoption of standards for Magnetic Ink Character Recognition (MICR) by the domestic banks in 2005. The national payments system reform project encompasses a comprehensive modernisation of the laws, information technology infrastructure and operating environment of the payment system.

Key components of the system include:

- A real-time gross settlement system (RTGS) to enable large value and time sensitive payments upon receipt on an individual basis (no waiting)
- An Automated Clearing House (ACH) for electronic clearing and settlement of retail payments, such as cheques, credit transfers and direct debits
- A Central Securities Depository (CSD) to enable liquidity management, electronic auction, custody, and registry of ownership of government securities
- Compliance with international standards, in particular, the CPSS Core Principles for Systemically Important Payment Systems.



The Automated Payments and Securities Settlement System (APS3) is the backbone of the National Payment System Reform Project, interconnecting domestic Financial Institutions to allow large and small value payments. The APS3 comprises the RTGS, ACH and the CSD. However, in addition to standard payment instruments, the ACH has introduced an Instant Funds Transfer. This is available 24/7 in real time. Launched in October 2016, this new Instant Payments system is estimated to enable customers to cut back on a waiting period of up to 7 days to receive payments, it will enable faster payroll processing and increase new business opportunities for banks.

The Central Bank of Belize procured Montran to build the infrastructure to support the implementation. This system is only the second of its kind in the Caribbean behind the Dominican Republic. At the time of launch, commercial banks were ready to receive requests for instant payments in branch, and some banks had begun modifying their web interface to enable instant payment initiation. There are also benefits for businesses, previously if a business wanted to send a large value payment this would have needed to be done manually where the commercial bank would call the central bank to execute and process a large value payment, however now commercial banks can do this electronically.

Joy Grant, Governor of the Central Bank of Belize said 'instant payments is not a choice. We have to move into the future and to do that we have to make sure we have the systems in place.'

What will phase 2 bring to the party?

Phase 2 of the reform project will span 4-5 years and includes implementing a direct debit mandate management system and enhancing the interoperability of payment card mechanisms.

In February 2017, the National Payment Systems Act (NPSA) came into force; this provides the legal framework to support the National Payment System and the Central Banks role as operator and regulator of the system. The Act enables the Central Bank to:

- Formulate policies for modernisation of the NPS
- Licence Payment Service Providers and operators
- Establish rules and procedures to regulate the system
- Act as a Forum on NPS policy
- Administer the payment, clearing and settlement of payments or issuance of payment instruments
- Issue regulations and guidelines to govern the National Payment System.

As is common in many Central American nations, the central bank as the primary regulator, is key to developing payment policy and instigating change. Very little, if any, is industry or association led.



Belize's preferred payments methods

Cash is still the primary payment medium in Belize. The three main forms of electronic payment mechanisms are: POS/ATM networks; direct credit facilities to make bulk payments; and online bill payment facilities. However, cheques are the primary non-cash payment method in terms of volume and value. Until the implementation of APS3 the process was largely manual, taking three days for in-district or city cheques and seven days for out-district cheques to clear. With the new national payment system, the time can be reduced to the end of the next business day. Cheques are cleared and settled via the Belize Bankers' Clearing House. Credit Transfers are used largely for salary and supplier payments and Direct Debits for recurring payments e.g. utility bills. However, there is no interbank system for Direct Debits, it is only possible if the originator and beneficiary have accounts at the same bank!

The prominence of card transactions has been gradually increasing in Belize and this is predominantly across the Visa and Mastercard networks. Currently, each bank must establish its own clearing and settlement arrangements with the card associations.

Mobile phone usage nears 100% penetration but digital banking still has some way to go.

In terms of internet banking, this is limited due to low internet penetration. As of June, 2014 it was hovering around 32%. That being said, all five commercial banks offer online balance, transaction reporting and payment initiation but take up of these services by retail customers is low. Mobile penetration is considerably higher at 97% as of June 2014. Mobile banking is also offered by the leading commercial banks and account holders are able to access account information such as balance and transaction information via SMS as well as initiate payments.

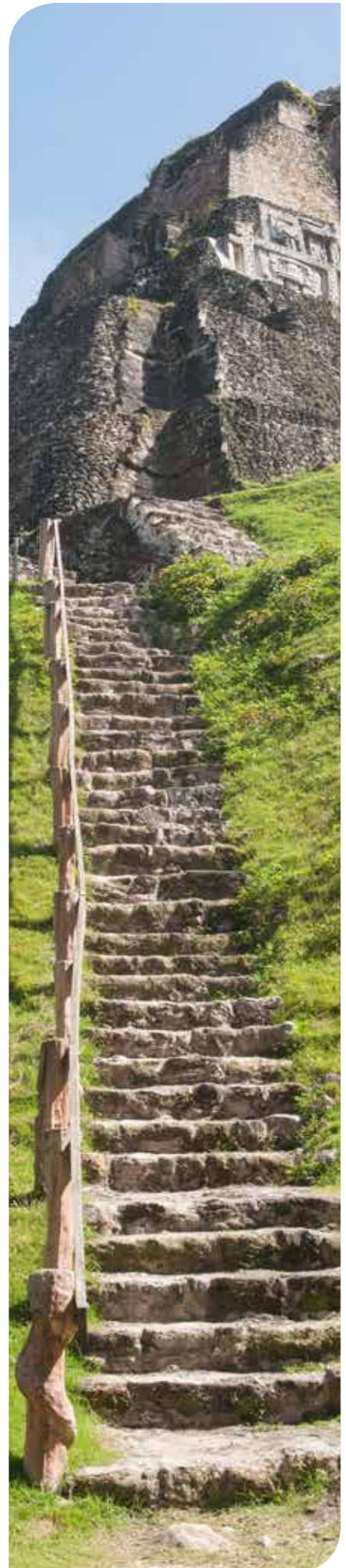
Belize's payment system is largely paper based, but online banking and the use of cards represent a gradual shift towards electronic banking.

According to **Marilyn Gardner-Usher, Deputy Governor of Operations at the Central Bank of Belize**, 'the intent is to retain paper cheques for those that are not able to take full advantage of electronic services, but the intention is to reduce the importance of cheques.'

It remains to be seen if the implementation of APS3 will have a quick and radical effect on the chosen payment methods of Belizean citizens.

Significant challenges with AML and CFT

Belize has had a long history regarding its Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regimes. Whilst Belize implemented AML legislation in 1990, with amendments in 2003, it still remains under the eye of international organisations. At the request of Belizean authorities an International Monetary Fund (IMF) mission conducted an assessment of Belize in 2003. The mission assessed observance by Belize of FATF 40 Recommendations for AML as well as 8 special recommendations on combating the financing of terrorism. In 2004, the IMF published its report and provided technical assistance and recommendations regarding Belize's AML and CFT regimes. It acknowledged that a variety of actions has been undertaken since September 11, 2001 to strengthen financial supervision and improve its AML/CFT regime including the creating of the Financial Intelligence Unit in 2002 and legislation to implement UN Conventions on Terrorist Financing. The report found that Belize is largely compliant with international principles, however set out a number of recommendations that could bolster Belize's progress in this area.



In May 2015, the Caribbean Financial Action Task Force (CFATF) acknowledged the significant progress made by Belize in improving its AML/CFT regime. However, Belize is still categorised by the US State Department as a Country/Jurisdiction of primary concern in respect of Money Laundering and Financial Crime. In 2016, Belize enacted amendments to its Money Laundering and Terrorism Act to address terrorist financing matters and to address issues of corruption Belize became a member of UNCAC in 2016.

Whilst Belizean authorities are making significant advancements to its legal framework, information sharing and law enforcement remain a barrier to improvement. Belize has initiated a national risk assessment with technical assistance from international experts to ascertain further improvements it could make. The design of the APS3 system is intended to guard against attempts at money laundering. The system is designed to flag overtly large value payments that may require further checks and analysis. However, the Governor of the Central Bank of Belize acknowledges that this is not an issue that remains 'static' and security systems have to be 'constantly reviewed' to ensure they are up to date (Channel 5 News, 2016).

Belize's relationship with the Caribbean

As mentioned earlier, Belize is closely allied with its surrounding Caribbean islands. It is a member of the Caribbean Community and Common Market (CARICOM) and CARICOM Single Market (CSME). Belize became a full member of CARICOM in 1974. With CARICOM, Belize is listed as a Less Developed Country (LDC) and has been designated one of the disadvantaged countries in the community. CSME is a regional economic initiative whose goals are to allow free movement of goods, services and factors of production as well as harmonise laws and regulations governing economic activities. It has also established bilateral payment arrangements with the central banks of Anguilla, Antigua, Barbados, Dominica, Grenada, Guyana, Montserrat, St Kitts & Nevis, St Lucia and St Vincent & The Grenadines.

What does the future hold for the Belizean payments landscape?

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Author: Lauren Jones, International Payments Ambassador, Icon Solutions.

Lauren is an experienced freelance payments expert with a particular specialisation in standardisation, regulation and industry engagement. She is currently travelling in South America providing insights for Icon and the instant payment hub InstaPay.today.

lauren.jones@iconsolutions.com

[linkedin.com/in/laurenjones](https://www.linkedin.com/in/laurenjones)



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[iconsolutions.com](https://www.iconsolutions.com)



+44 207 147 9955



info@iconsolutions.com