



# Global Payments: Spotlight on Guatemala

Guatemala, both economically and geographically, is wedged between the more prosperous North and the more impoverished Southern Central American countries. A large scale civil war inhibited the growth of the financial services sector until its end in 1996. Banking reform and foreign investment has assisted in bringing the industry out from the shadows but progress is slow and innovation is limited.

## Top Guatemalan Banks by assets in 2014 (USD millions):

1. Banco Industrial (8,776)
2. Banco de Desarrollo Rural (6,330)
3. Banco G&T Continental (5,979)
4. Banco Agromercantil de Guatemala (2,880)
5. Banco de los Trabajadores (1,856)

## Retail Electronic Payments by Volume and Value (2013):

	Thousands of transactions	Traffic (USD Millions)
Cheques	22,900	69,641
LBTR	97.4	137,992
ACH Credit Transfers	838.0	5,222
ACH Direct Debits	96.4	1,601



**Population:** 16.34 million

**Language:** Spanish

**Currency:** Guatemalan Quetzal (GTQ)

**GDP:** 63.79 billion USD (World Bank, 2015)

## The national payments perspective

According to World Bank statistics, Guatemala is ranked 72nd on the global GDP index and is the largest economy and most populated country in Central America (Mexico is usually cited as being North America). Despite this, Guatemala also has one of the highest inequality rates. Approximately 10% of the population receives 50% of total income, with 32% living on less than \$2 a day, of which 13.5% live on less than \$1 a day. Over half of the population is indigenous, making for a challenging environment for payment services to flourish, and rural areas lack extensive access to financial services.

In 2012, the banked population only reached 32%. Only two decades out of a widespread civil war, with peace accords being signed as recently as 1996, this has opened up the country to foreign investment and liberalised the financial services industry. Financial supervision has increased leading in part to consolidation in the banking market, with the number of banks reducing from 35 in 2000 to 18 in 2009. However, this is common in most of Central America, with the six largest banks holding 88% of the assets. Reforms of the payments industry have been slow but progress is in the making. With high mobile phone penetration, the country could hold the necessary means to increase financial inclusion.

## The Guatemalan payment clearing and settlement system – from manual to electronic

The Guatemalan Central Bank, Banco de Guatemala, was established in 1945 as an autonomous entity responsible for all the functions expected of a central bank, and for establishing the monetary conditions that would promote the development of the national economy, both locally and internationally. The Bank of Guatemala aims to promote liquidity, solvency and good performance of the banking and financial institutions involved in the system in accordance with the 2002 Organic Law. The Superintendency of Banks supervises the banking sector within Guatemala.

Prior to 2006, the payments system of Guatemala was not integrated. It was also composed of multiple subsystems that acted alone with independent regulation and mainly manual and semiautomatic processes. Funds transfers were only possible if customers held accounts at the same bank. Consequently, value was settled in different ways and in different periods, generating risk and instability in the system. The Monetary Board of the Central Bank approved the Modernisation of the Guatemalan Payments System as part of its Matrix of the Strengthening Program of the National Financial System in 2004.

### This modernisation program included:

- The contracting of a private administrator for the administration of the cheque clearing process
- Banking Clearing House regulation
- Acquisition through private bids of an RTGS system
- Contracting of a private communication network for operations settlement

With the Bank of International Settlements' "Core Principals for Systemically Important Payment Systems" as a basis, the Guatemalan payments market set out on a period of reform, which led to the launch of its RTGS system – Liquidación Bruta en Tiempo Real (LBTR) in 2006. The RTGS system is operated by the Central Bank and allows participants to settle large value and time-critical payments in real-time in GTQ and USD denominated funds. It also allows participants to settle balances from other payments systems e.g. the cheque clearing house. The system utilises two communications networks, one from Bancared, a local organisation, and the other from SWIFT, and is operated by Montran. All organisations that hold accounts at the Central Bank can participate in the RTGS system. Other organisations can request participation in the system, subject to meeting the requirements of the Central Bank. There are currently 26 participants in LBTR including the Central Bank. The number of payments settled in the new RTGS system increased from 31,470 in 2006 to 97,376 in 2013. The system operates from 07.00–18.30 Monday to Friday.



Prior to the launch of the RTGS system, a funds transfer system between accounts at the Central Bank operated through the Interbank Transfer Mechanism, where payments were sent through codified fax; or they were sent via paper instructions.

In 2008, the Guatemalan Banker Association announced the launch of the new ACH (Automated Clearing House) system. GuateACH or Cámara de Compensación Automatizada (CCA) is managed by Imágenes Computarizadas de Guatemala (ICG). Low value, non-urgent payments are batched and processed via GuateACH. GuateACH also processes direct debits. Funds are available on a T+0 or T+1 basis. The system allows clients to transfer money from one bank to another, which was previously impossible. The service only allows customers to initiate payment online and therefore they must have online banking access. File structures and messages were developed in accordance with the rules of the National Automated Clearing House Association (NACHA) in the US. The system has 19 participants including the Central Bank.

As part of the modernisation program, the day-to-day operations of the cheque clearing system now lies with the Guatemalan Bankers Association, with the Central Bank still maintaining an oversight role. The Guatemalan Bankers Association have contracted ICG to handle the electronic clearing of the cheques. The cheque clearing system settles its net balances over the RTGS system. The Central Bank is actively involved in reducing the reliance on such a system by creating price incentives and moral persuasion to discourage participants from issuing large value cheques. Cheques are available to beneficiaries on a T+1 or T+2 basis. Cheques are exchanged between 07.30–08.00 and 14.30–15.00 Monday to Friday. The system has 19 participants including the Central Bank. The Central Bank renders services of international electronic transfers via SWIFT.

There are four main ATM networks in Guatemala. Cajeros 5B (owned by 7 local banks), Cajeros BI (owned by Banco Industrial), Credomatic BAC and Red Pronto. These ATM networks are interoperable.

## Guatemala's preferred payment methods

Cash is the primary payment medium in Guatemala for individuals and low value retail payments. Cheques are the primary non-cash payment method in terms of volume and are particularly used for commercial payments. They are highly used in the Guatemalan economy for all types of operations and can be denominated in the Guatemalan Quetzal or US Dollar. An important aspect of the modernisation program was the standardisation of the cheque in the national banking system. Norms were established for Magnetic Ink Character Recognition (MICR) easing the processing and clearance of cheques.

Credit cards were introduced in Guatemala in the 1980s. Most of the credit cards in use are affiliated to foreign card companies. Until 1993, banking institutions were not authorised to issue and operate credit cards and there was no legislation in place. In 1993, this changed and banks were permitted to issue their own credit cards, which allowed banks to enlarge their products and services offering.

Until recently in Guatemala, direct debits and funds transfers between individuals were only permitted if both the sender and receiver held an account at the same bank.

Electronic banking is available in Guatemala and offered by leading banks. However, there is no standardisation and each bank has their own proprietary platforms and systems. Banks have heavily invested in their electronic banking offerings for their corporate clients in recent years. Internet banking is available but not heavily used due to low internet penetration (estimated at around 20% at the end of 2014). Mobile banking is also available, with services including balance reporting, payment initiation and funds transfers. With an estimated 106% mobile penetration in Guatemala, there is much more usage of these services.





Remittances are an important source of income in Guatemala. In 2015, remittances entering Guatemala reached an all-time high of 6460.6 million USD. Much of this is received from the United States. Western Union, Moneygram and similar outlets are commonly used for recipients to receive funds from abroad.

## Examples of payment innovation in Guatemala

**Pagadito:** This platform facilitates e-commerce solutions across Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Dominican Republic, Puerto Rico and the United States. It allows merchants to make and receive payments online and transfer and withdraw funds in these countries. It also provides e-billing and invoicing solutions. Developers can use their API portfolio and sandbox to implement their services.

**Paymo by Boku:** Paymo allows users in 60+ countries (including Guatemala) to make purchases online using just their mobile phone number. The carrier then bills the customer to their mobile phone.

**Bitrefill:** Allows for mobile phone top up via Bitcoin. Major phone networks such as Claro, Movistar and Tigo can all be topped up this way.

Pioneering partnerships have been used in the past in Guatemala's Chiquimula province, an area badly affected by child malnutrition, earthquakes and drought. Families received humanitarian cash transfers from Oxfam via a Tigo mobile money service. Tigo agents in this remote region delivered money via mobile networks rather than formal banks, which are sparse in these rural areas.

Families issued with a SIM card and personal PIN receive this money over the counter, as soon as Oxfam has sent them authorisation via SMS message. Hundreds of thousands of dollars was distributed this way.

## Payments innovation to prevent gang crime

Public buses in Guatemala are an exceptionally common means of extortion by gangs operating in the country. Gangs collected an estimated 1.5 million USD from bus companies in 2010. Buses generally run on a cash payment system, making extortion relatively easy. Guatemala City has implemented Bus Rapid Transit (BRT). It operates a digital payments system, with electronic fareboxes at the station, or enables the customer to use a prepaid card. Whilst this may have reduced crime, BRT buses are limited across the capital.



## Contactless comes to Guatemala

A new contactless payment system was implemented in Guatemala in 2017 by BAC Credomatic, one of the ATM networks in Guatemala.

Whilst contactless payments have become relatively commonplace in other countries, this is the first time it has been implemented in Guatemala. The contactless cards maintain the microchip and magnetic stripe to guarantee their use in establishments that do not have the system.

BAC Credomatic customers can order their contactless solution with American Express, MasterCard and Visa cards as well as wearables or wristbands that act in the same way as a plastic card.

## What does the future hold for Guatemala's payments landscape?

Guatemala presents the largest market potential in Central America as the telecommunications industry is exceptionally developed and wide-reaching. Additionally, the country has a young population, with a median age of 20. However, conflicting issues such as high illiteracy amongst users of services and large portions of society being unbanked, make the true potential on a nationwide scale difficult to reach.

Innovation in payments services is low and there is a real need to increase innovation and payment services throughout the country. Mobile money solutions have had limited success. However, partnerships between telecommunications organisations and charities have proved that those living in rural and remote areas can receive necessary services. It is likely that partnerships between telecommunications and other industries such as retail and consumer goods can lead to future innovation and greater expanse in financial services.

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