TECHNICAL ASSISTANCE REPORT

BELIZE

Developing the Supervision of E-Money Issuers

January 2025

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Acronyms and Abbreviations

CBB	Central Bank of Belize
EMI	E-Money Issuer
FSC	Financial Services Commission of Belize
FIU	Financial Intelligence Unit of Belize
MNO	Mobile Network Operator
MoU	Memorandum of Understanding
NFIS	National Financial Inclusion Strategy of Belize
NPSA	National Payment System Act (the Act)
NPSR	National Payment System Regulation
OSIPP	Office of Supervisor of Insurance & Private Pensions
P2P	Peer-to-Peer
PSP	Payment Service Provider
RBS	Risk-based Supervision Approach
RSP	Remittance Service Provider

Preface

An International Monetary Fund (IMF) Monetary and Capital Markets Department (MCM) conducted a mission at the request of the Central Bank of Belize (CBB). The mission visited Belize to provide technical assistance (TA) to the Supervision Department between October 14–22, 2024, focusing on the supervision of Electronic Money Issuers (EMI). The mission reviewed the regulatory framework, as well as licensing practices only to the extent that they influence and impact effective supervision. It did not consider broader activities of payment service providers, issues related to anti-money laundering, and counter financing of terrorism (AML/CFT), the legislative framework, or payment systems more broadly.

Meetings were held with the CBB, the Financial Services Commission (FSC), the Ministry of Public Utilities, Energy, Logistics and E-Governance (MPUELE), the Economic Development Council (EDC), Belize Trade and Investment Development Service (Beltraide), the Bankers Association, Belize Bank Limited, Belize International Financial Services Association (BISFA), and DigiWallet Limited.

The mission thanks Governor Mr. Kareem Michael, Deputy Governor Ms. Marina Laetitia Murillo, and the staff of the CBB Supervision Department for their kind hospitality and open collaboration throughout the project.[1]

[1] We are particularly grateful for the efforts of Mr. Pierre Escalante, Ms. Indira Banner, Ms. Diane Gongora, and Ms. Sheila Pook for their collaboration throughout the project.

Executive Summary

The use of electronic money remains small in Belize. E-money wallets were involved in 1.23 percent of all digital transactions by volume and 0.11 percent by value as at the end of 2023. The consolidated volume and value of transactions, although growing, remains small, and less than 16 percent of the population are e-money account holders of which a small proportion are active accounts.

The CBB is tasked with regulating and supervising e-money issuers. On adoption of legislation in 2017 and implementation of regulation in 2024, the CBB is in charge of regulating and supervising e-money issuers. In the period between the passing of the legislation and the implementation of the regulation, the CBB issued licenses to individual e-money issuers and applied specific terms and conditions on the license. These are still imposed in an opaque manner.

There seems to be limited risks to users, markets, and financial stability at the moment. The market remains small, with two e-money issuers: one bank issuer, and one nonbank issuer. The CBB conducts offsite monitoring of both bank and nonbank e-money issuers but has not yet conducted onsite inspections for the nonbank e-money issuer. The CBB is already in the process of moving towards a risk-based approach to supervision for banks and credit unions, and ultimately wants to extend this to nonbank payment service providers including e-money issuers. While it has a good overview of market developments and emerging risks, there are areas that could be enhanced.

The mission focused on assisting the CBB to develop a supervisory manual for nonbank e-money issuers. As the CBB moves to risk-based supervision and conducting onsite inspections for nonbank e-money issuers, the mission aims to guide this transition by providing expertise on how to improve offsite monitoring and develop onsite inspections for e-money issuers.

Off-site monitoring can be improved by imposing more clarity and granularity on regulatory returns. Data collected is relatively high level and additional granularity can help identify emerging risks better. Improving the reconciliation process and ensuring material discrepancies are reported will improve risk management. In certain areas, like permitted investments and the use of terms and conditions, additional clarity in the form of public circulars can improve supervisory consistency. Resource can be better managed by periodically reviewing the use of agents rather than each new appointment.

On-site inspections can be guided by existing supervisory manuals accounting for different risk profiles. The banking supervisory manual can act as a guide but should account for the different risk profile of nonbank e-money issuers. Developing a standardized inspection report can help all supervisors, junior and experienced, conduct effective onsite inspections. The mission provides detailed guidance on how to improve supervision of fund safeguarding both in terms of reporting and onsite inspections.

Domestic collaboration is instrumental to managing emerging risks. Strengthening cross-sector collaboration with other financial and nonfinancial authorities can improve supervision by better delineating mandates and responsibilities. This is particularly important where multiple authorities might have some responsibility for the regulation and supervision of nonbank entities.

Recommendations

Supervisory Approach		Timeframe 1/	Priority	Paragraph
1	Move toward risk-based supervision for nonbank e-money issuers	MT	Medium	27
Supervisory Activities				
2	Improve granularity of data collection	ST	High	38
3	Formalize and communicate the periodicity of reconciliations	ST	High	40
4	Improve supervisory consistency by replacing firm specific terms and conditions with a transparent public circular	ST	High	43
5	Provide further clarity to supervisors on how to monitor risks to fund safeguarding	ST	Medium	46
6	Clarify the list of permitted liquid investments for EMIs to allow supervisors to better monitor investment risks[2]	ST	High	49
7	Require EMIs to periodically submit updated lists of agents to the CBB, rather than reviewing and approving each new appointment	MT	Low	52
8	Develop a standardized template for the inspection report	ST	High	54
9	Strengthen cross-sectoral collaboration with relevant authorities and clarify respective mandates	ST	High	60

1/ ST= short term, 6–12 months; MT= medium term, 12–24 months

[2] This note refers to supervisors, however, in the CBB supervisors are also known as examiners and compliance officers.

I. Introduction

1. The Central Bank of Belize (CBB) has a mandate to foster monetary and financial system stability. It is responsible for the regulation of banks, credit unions, and certain nonbank financial institutions including moneylenders, payment service providers (PSPs) and remittance service providers (RSPs).

2. The CBB requested technical assistance (TA) on strengthening their supervisory approach to nonbank payment service providers that issue e-money. The focus of the mission was to improve the supervisory approach of the CBB for e-money issuers, however, to the extent that existing regulation impacts the ability of supervisors to conduct their tasks, the mission team also reviewed regulation. Recommendations to regulation are made only to the extent they impact the ability of supervisors to do their jobs. The mission does not make specific recommendations to the broader regulatory regime.

A. Market Composition

3. With limited resource, the CBB conducts horizon scanning to understand trends and developments in the issuance of e-money within Belize. Through both their own work including day-to-day supervision, and TA received previously, the CBB is able to quantify market composition and describe dynamics between market players in relation to e-money. During the mission, the observations shared by the CBB were consistent with those shared by industry groups and private sector firms.

4. The use of digital payments, supported by transaction accounts, is a key pillar of the National Financial Inclusion Strategy (NFIS) for Belize. The CBB is the leading stakeholder in its delivery. Between 2014 and 2023, the percentage of adults in Belize using digital payments increased from 24 to 69 percent with the majority of these payments being made through credit and debit cards. The NFIS specifically notes the focus on supporting the growth of e-money issuers (EMIs) to grow the total value and volume of digital transactions to improve financial inclusion.

5. Currently, there are two firms in Belize that issue e-money. One is a bank issuer of e-money, and one is a nonbank e-money issuer that is a wholly owned subsidiary of a telecommunications company, both have a similar market share. There are further applications pending review, and one rejected application due to a lack of operational and technical capabilities of the applicant e-money issuer. A third service was launched by another bank in December 2021 but was discontinued in December 2023 due to a lack of uptake.

6. Both firms offer additional services. These include cash in, cash out, peer-to-peer transactions (including businesses), the ability to pay some taxes and Government collection, while one issuer provides loan onboarding (by facilitating the application process) for a commercial bank. The Government of Belize and UNICEF have also used one of the EMIs to provide government assistance programs. Both services make use of an extensive network of agents mainly to cash in and cash out.

7. E-money constitutes a small proportion of total digital transactions in Belize. E-money wallets are involved in 1.23 percent of all digital transactions by volume and 0.11 percent by value as at the end of 2023. The consolidated volume of transactions has grown from around 17,000 transactions in August 2021 to almost 27,000 transactions in July 2024. The total volume of transactions for the first seven months of 2024 (223,271) was greater than the total volume of transactions for 2023 (213,543). The consolidated value of transactions has grown from $199,505 to $2,464,734 in the same period. The total value of transactions in the first seven months of 2024 ($14,631,052) was almost as large as the total value of e-money transactions in 2023 ($16,633,592). There are currently over 63,300 e-money account holders, although some are dormant, and 3,700 merchants support the use of e-money, although some of these merchants are also agents. Anecdotally, some of the initial growth of e-money is linked to launch promotions.

8. **There are likely several inhibiting factors.** Stakeholders have identified a lack of trust, interoperability, and digital and financial literacy.[3] Users prefer cash as it provides a tangible experience, while merchants prefer cash as the cost of doing business is near zero (by comparison e-money issuers charge between 1-2 percent fees on each transaction, while credit and debit cards charge approximately 3-5 percent). Belize has a small population making it difficult for several EMIs to operate profitably in the market. E-money services are not interoperable in Belize and so users can only transfer funds within their own networks or pay merchants attached to their networks. However, each nonbank EMI can access the national payment system through commercial banks which allows money to be moved around between providers.

9. **Work is being done to improve digital and financial literacy.** The Ministry of Public Utilities, Energy, Logistics, and E-Governance is carrying out a digital literacy educational campaign matching tech-savvy users with older or less tech-savvy users to improve their comfort using digital devices to improve trust in digital payments. Furthermore, regulation on simplified due diligence has allowed the development of tiered wallets where different levels of identity verification impact transaction limits. The CBB also has core initiatives in these areas and in addition to delivering the NFIS, is working with the World Bank on improving digital financial literacy.

B. Regulatory Framework

10. **In response to the growing popularity of e-money, the CBB moved quickly to establish an environment where firms could issue e-money and serve a growing segment of interested users.** In the absence of a regulatory framework, the CBB used novel approaches to ensure market demand was met such as the issuing of terms and conditions, but some level of oversight was still conducted on firms operating within their remit. With constrained resources, the CBB has looked to support the development of a new sector while monitoring emerging risks within that sector.

11. **Legislation is in place to allow the development of e-money services.** The Payment System Oversight Framework sets out the responsibilities of the CBB as the overseer of the national payment system, as well as the regulator and supervisor of payment service providers (PSPs). It also sets out its oversight role over payment instruments including e-money. The National Payment System Act (the Act) was implemented in 2017 and updated in 2020. It provides the legislative framework for payment services

[3] One survey suggests that over 70 percent rarely or never use e-money, and cash is used for over 72 percent of transactions https://www.belizemarketresearch.com/in-belize-cash-is-king/

in Belize, as well as payment systems and instruments. It allows for the establishment of the National Payment System Council to advise the CBB on the regulation and supervision of the broader payment system as well as payment services more specifically. The Act provides a legal definition for e-money,[4] and EMIs captured under the broader definition of PSPs. The Act provides the CBB with the authority to issue regulations and to license PSPs. The Act also clarifies that banks that are direct participants to the national payment system and do not need a separate license under the Act, while credit unions will only need a separate license under the Act if they are providing remittance services.

12. There was a seven-year gap between the legislative implementation and the implementation of the underpinning regulation. At that time, the CBB's focus was to finalize the Act and to establish the national payment system to include all financial institutions, infrastructure (Automated Payment and Securities Settlement System), processes, activities, mechanisms, and rules, Additionally, there was an initial lack of demand for e-money and subsequent amendments in the regulations and dependencies with other regulation being developed to underpin the Act, contributed to the gap. However, firms were keen to offer e-money services, as well as broader payment services. To allow firms to issue e-money and conduct broader payment services in those intervening years, and in the absence of regulation, the CBB set out a series of terms and conditions for each firm issuing e-money covering a variety of elements that were not detailed in the Act. These terms and conditions are mostly consistent across firms with the same business models.

13. The CBB issued the National Payment System Regulation (NPSR) in February 2024. It provides the framework for the licensing and supervision of PSPs that issue e-money, although it also covers broader financial market infrastructures like central securities depositories and payments infrastructure. In line with the Act, bank issued e-money is subject to existing banking regulation. However, banks and credit unions are still subject to the rules under the NPSR when conducting payment services (such as e-money).

14. The NPSR provides the framework for, (i) licensing and authorization including classification of licenses, application and licensing process, duration and fees of licenses, suspensions of withdrawals of licenses, and outsourcing; (ii) conditions of a license for a PSP; (iii) on-going oversight including reporting and capital requirements; (iv) agent registration; and (v) details on electronic fund transfers including documentation, execution, unauthorized transfers, and the liabilities of the PSP and consumers.

C. Institutional Structure

15. Reflecting a small population size and financial sector, the CBB has less than 300 full time staff. It has had to be efficient in their institutional structure, and so a single staff member might be assessing applications at the gateway, as well as conducting supervision across a range of bank and nonbank firms.

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[4] E-money is defined as "monetary value represented by a claim on the issuer which is stored on a payment device such as a chip, prepaid card, mobile phone, or on a computer system; issued on receipt of funds of an amount not less in value than the monetary value issued; and accepted as a means of payment by persons other than the issuer" and emphasizes such funds are not deposits.

16. The Supervision Department is responsible for policy making, licensing, and supervision of bank and nonbank issuers of e-money. It is also responsible for all other firms conducting regulated financial activities that fall within the remit of the CBB. As of October 2024, the Supervision Department is divided into two areas: one responsible for banks and credit unions, and one responsible for non-deposit taking institutions, including PSPs and RSPs. There are 33 staff in total, with 29 staff on the bank side, and 4 on the non-bank side, responsible for 131 firms in total.

17. The Supervision Department is conducting an organizational restructure to be completed by 1 January 2025. Following the restructure, the department will have a headcount of 34 reporting to the Manager, Supervision and divided into four teams: onsite examination, off-site surveillance, payment system oversight and development, and supervisory methodology and practice.

18. Following the restructure, each team will have specific responsibilities. The on-site examination team will conduct on-site inspections for all firms under the remit of the CBB including banks and nonbanks. The off-site examination team will conduct off-site monitoring, risk assessments, licensing, and maintain the risk management documents. The payment system oversight and development team is in charge of financial market infrastructures, and the supervision methodology and practices team will develop policies and rulemaking, conduct regulatory projects (such as Basel implementation), resolution and intervention, and develop research papers.

19. The CBB is conducting a cross training exercise for supervisors. This is to prepare for the transition which covers training and development plans, transition plans, and ensuring effective communication between the new teams. This staggered retraining and specialization seems to be effective in ensuring high morale and confidence in the ability of staff to effectively discharge their responsibilities.

D. Approach to Licensing

20. On adoption of the NPSR, nonbank entities must obtain a PSP license from the CBB if they intend to offer e-money services. These services fall under the definition of “payment services” in the Act. Under the new institutional structure effective from 1 January 2025, the offsite examination team will be in charge of licensing both bank and nonbank financial institutions, including those issuing e-money. Banks do not need a separate PSP license to offer payment services. Likewise, credit unions are not required to obtain a license for providing payment services, except when offering international remittance services. However, according to the Act, a bank or a credit union that provides a payment service under the Domestic Banks and Financial Institutions Act or the Credit Union Act must obtain the authorization of the CBB for the use of an agent to provide e-money services, in line with that for nonbank EMIs. While banks and credit unions do not need to be separately licensed under the NPSR, they are still subject to its rules when conducting relevant activities, including the issuance of e-money, as these apply to all institutions.

21. Each licensed firm is also subject to certain terms and conditions. These terms and conditions are not all reflected in regulation, but the Act allows the CBB to impose them to mitigate risks that may not be considered in regulation. These terms and conditions are provided privately to each firm and licensing is contingent on accepting these terms. The terms and conditions served a useful, and novel, stopgap in the years between the implementation of the Act, and the development of the underpinning regulation. However, since the implementation of the NPSR, the private nature of the terms and conditions can impact the effectiveness of the supervision conducted by the CBB. Currently, there are two firms that issue e-money and are licensed by the CBB, one under the NPSR, and one under existing banking regulation.

22. Under the NPSR, EMIs can offer e-money services to customers through agents. The agent must first obtain prior registration from the CBB by submitting a written application, along with the necessary documents and information, following the CBB's prescribed format and guidelines. Once registered, the agent is added to a register of agents maintained by the Central Bank. According to the Act, this registry should be available to the public. Prior registration by the CBB is required for every agent an EMI intends to engage with.

II. Supervision of EMIs

A. Supervisory Approach

23. **As of October 2024, the CBB approaches supervision in a prescriptive, compliance-based approach.** The CBB has taken a risk-based approach to supervising banks and credit unions and, while the e-money industry is still in its early stages in the country, the CBB has taken a forward-looking approach and plans to adopt a fully risk-based supervision approach (RBS) for the oversight and supervision of EMIs.

Risk-Based Supervision

24. **An RBS approach helps ensure proportionality by systematically assessing risks and directing supervisory resources accordingly.**[5] Supervision should be tailored to each EMI's business model, size, complexity, and risk profile, as these factors determine its potential impact on the policy goals pursued. A lack of proportionality in supervision could result in excessive compliance costs, unchecked risks, among others.

25. **The risk-based approach will help the CBB to optimize the use of scarce resources and overcome some of the challenges they face in supervising the e-money industry.** Ultimately, RBS will help the CBB achieve its statutory policy goals including maintaining stability, despite the constraints in resources, capacity, and skills. The RBS methodology will allocate supervisory attention and time (i.e., intensity of supervisory activities and enforcement measures) according to a systematic evaluation and risk prioritization.

26. **RBS of EMIs must be commensurate with each institution's risk profile and its systemic importance to the financial system.** This approach relies on systematized identification of risks and their relative importance within and across different EMIs. By adopting RBS, EMI supervisors can adjust the level of the intensity of supervision of different EMIs, over time in a structured but flexible way.

Recommendation

27. **The mission commends the CBB's move towards RBS.** While e-money activities are currently small, a shift toward RBS can ensure supervisory resource is focused in the areas where it is most needed. The mission team has provided some guidance to help the CBB move towards RBS of nonbank e-money issuers.

28. **To fully implement RBS for issuers of e-money, the CBB needs to have in place a process that maintains an up-to-date understanding of the risk landscape.** They should also systematically and periodically identify and assess the level of risks in individual EMIs, considering both their inherent risks and controls in place to manage them. This risk assessment process plays a strong role in shaping supervisory priorities, the level and duration of supervisory scrutiny, how supervision is conducted, the

[5] Good Supervision: Lessons from the Field (imf.org)

balance among supervisory activities (e.g., between offsite supervision and onsite inspections), and the allocation of resources to ensure the required experience and skill sets are assigned to assess risks.

29. Risk assessment is an ongoing, dynamic process. It adapts to changes in risks stemming from both the EMI itself and external factors like macroeconomic conditions and industry trends. While e-money development in Belize is nascent, the CBB should establish a supervisory risk assessment process. This will become even more crucial as the sector grows and more EMIs enter the market. This will help the CBB prioritize EMIs, their activities, and associated risks to focus on for effective supervision.

30. The risk assessment methodology for EMI supervision should be clearly outlined in the CBB's existing PSP supervision manual. It should include how to identify significant activities, potential inherent risks and how these risks evolve into net risks (residual risks). The CBB's bank supervision manual already details the risk assessment methodology and process for banking supervision, and the document can serve as a valuable reference for shaping the EMI risk assessment methodology. However, the CBB should recognize that the risk profiles and permissible activities of EMIs differ significantly from those of banks.

31. Supervisors in many countries use risk matrices to summarize the risk profile of financial institutions. These risk matrices often present all risks inherent to a type of business, according to activity. It assigns weights to activities according to their relative importance to the business type. Based on actual provider risk assessments, supervisors indicate how well or how poorly a provider mitigates inherent risks through governance, risk management, and internal controls. The methodology then generates and assigns each provider, with a risk rating that allows for easy comparison across different providers. Therefore, the risk matrix allows for better supervisory planning and use of resources. The mission recommends that the CBB adopt a risk matrix for the supervision of EMIs and the e-money sector, which will assist the CBB in better managing its already limited resources both now and in the future.

32. There is no single risk-based methodology. Risk matrix models work for all supervisors of EMIs as supervisors often define risks differently, choose different inherent risk types, and assign respective relative weights into the different activities in their risk matrices. Each regulator may have a different approach to designing their own risk matrix. They also create different risk ratings and trend assessment methods. A risk matrix designed for banks or other financial institutions (e.g., insurance providers) will not be suitable for EMIs, as the risk profile of EMIs is much simpler. Banks typically have a more complex combination of activities that makes their inherent risk profiles more complex.

Figure 1. Example of Risk Matrix for EMIs[6]

Significant activity	Inherent risks								Governance, control, and management				
	Operational Risk (1)	ML/TF Risk (1)	Market Conduct Risk (1)	Risk 4 (1)	Risk 5 (1)	Risk 6 (1)	Total Inherent Risks (1)	Direction of Total Inherent Risks (3)	Internal Controls (2)	Risk Management (2)	Corporate Governance (2)	Net Risk (1)	Direction of Net Risk (3)
Fund safeguarding													
Cross-border transactions													
Bulk transactions, including payments of salaries, benefits, and pensions													
Cash-in and cash-out transactions													
Insurance products in partnership with an insurance company													
Outsourcing arrangements													
Activity 7													
Activity 8													

Key

(1) Categories for risk level	High	Medium high	Medium	Medium low	Low
(2) Categories for governance, control, and management	Strong	Acceptable	Needs improvement	Weak	
(3) Categories for direction of risk	Increasing	Constant	Decreasing		

Source: Dias, Izaguirre, Kerse, and Staschen (2023). "Digital Financial Services for Financial Inclusion: Tools for Supervisors", CGAP, Technical Guide - https://www.cgap.org/research/publication/digital-financial-services-for-financial-inclusion-tools-for-supervisors

B. Supervisory Activities

33. **While e-money issuance is a new activity in Belize, the CBB has taken considerable steps to monitor its perimeter.** The CBB aims to ensure that firms conducting regulated payment service activities are authorized and licensed in line with the NPSR. In terms of market monitoring, the CBB provides details on the steps its supervisors will take to identify and address unlicensed and unregistered financial and payment activities. Supervisors will actively monitor various sources of information, including complaints and tips submitted through the CBB's website or received via phone calls, letters, and e-mails.

[6] Dias, Izaguirre, Kerse, and Staschen (2023). "Digital Financial Services for Financial Inclusion: Tools for Supervisors", CGAP, Technical Guide - https://www.cgap.org/research/publication/digital-financial-services-for-financial-inclusion-tools-for-supervisors

They will also review inquiries and reports from financial institutions about unlicensed or unregistered activities, as well as monitor social media and local news outlets.

34. Where firms are licensed, the CBB currently conducts only off-site monitoring of nonbank EMIs. There have been no on-site inspections performed to date given the nascency of the relevant regulations. The first on-site inspection was scheduled for November 2024, however, the CBB postponed it to January 2025 to integrate the recommendations from the IMF's TA. On-site inspection is an important component of assessing risks as it provides independent verification that systems and controls exist at firms issuing e-money, and that information reported by EMIs is reliable.

35. Supervisors must consider the specificities of EMIs. As e-money activities are relatively new in Belize, it is important that supervisors consider the specific intricacies of onsite inspection for e-money compared to more traditional financial services activities, while also considering ways of strengthening offsite monitoring. This section provides recommendations to both strengthen offsite monitoring of issuers of e-money while also guiding the CBB on how to conduct onsite inspection of these firms.

Data Collection

36. The CBB requires that issuers of e-money file regulatory returns. Currently, a system is in place for regular data collection, and EMIs are required to submit a monthly report (Form EMR01). This report includes key data such as the number of e-money account holders, the total value of different types of transactions (including cash-in, cash-out, and P2P transactions) during the reporting period, the number of agents and merchants, and the total number of customer complaints, among others.

37. This regulatory reporting has allowed the CBB to gather insights and generate an overview of emerging developments and risks in the market. The information contained in these returns is sound and reflects statistics the mission has observed separately from the private sector. However, there is scope for expansion of the data gathered.

Recommendation

38. The mission recommends that the CBB improve the granularity of their data collection as part of the regulatory returns for firms issuing e-money. For example, the CBB should consider gathering additional information from EMIs on a regular basis such as:

- Data on the total number of e-money accounts
- Statistics on the total of e-money holdings at the end of the month
- Data on service interruptions, including the cause of each
- Whether the reconciliation between outstanding e-money liabilities and float account balances in banks is performed regularly and frequently, including the periodicity of the reconciliation
- Whether any discrepancies were identified during the above-mentioned reconciliation for the reporting period
- While the CBB currently collects data on the total number of customer complaints for the reporting period, it should also consider tracking how many of these complaints have been successfully resolved

- Data on the primary reasons behind customer complaints (e.g., fraud, service interruptions, issues stemming from agents and other third-party providers, inappropriate disclosure of information or marketing)
- Statistics on payment fraud, internal fraud incidents and cybersecurity breaches, including a description of each significant incident, the loss incurred or estimated for each, a description of data breaches, and number of e-money accounts affected by these breaches
- Details of assets and liabilities on the balance sheet, as well as items related to profit and loss

Reconciliation Reporting

39. It is important to understand how EMIs reconcile their float accounts with the total e-money issued to assess the effectiveness of fund safeguarding. EMIs should always maintain a sufficient balance in their float accounts. Currently, neither the Act nor the NPSR refers to reconciliation activities or includes provisions on how often EMIs need to perform these reconciliations. They also do not clarify if EMIs are required to report any discrepancies in the reconciliation to the CBB. However, terms and conditions individually issued to existing EMIs do require them to carry out regular reconciliations.

Recommendation

40. Providing clarity on reconciliation procedures is indispensable and reconciliation reporting must also be improved. The CBB should ensure that EMIs conduct reconciliation by the end of each business day and determine the steps EMIs need to take if there are discrepancies between total e-money issued and float accounts. Also, the CBB should collect regular reports from EMIs detailing whether any material discrepancies occurred and how frequently over a set period, to identify EMIs that face recurring issues in the reconciliation on a daily basis.

Supervisory Consistency

41. Prior to the implementation of the NPSR, firms could conduct e-money activities provided they met certain terms and conditions that were imposed as part of the licensing process. These terms and conditions served a useful function in growing e-money adoption as it provided the CBB with regulatory authority over firms operating in the market as regulation was developed. However, the CBB continues to impose terms and conditions to new licensees, even following the implementation of the NPSR. These terms and conditions are imposed privately to each firm, although they are consistent across firms of the same set (e.g. nonbank issuers of e-money) but can vary where there are different business models.

42. In Belize, bank and nonbank EMIs are subject to different supervision. While both types of firms are subject to the NPSR and must submit monthly regulatory reporting, bank e-money issuers are licensed under banking regulation while nonbank e-money issuers are licensed under the NPSR. Supervision of the bank e-money issuer happens as part of off-site monitoring and on-site inspections of the broader bank, and financial statements are collected as part of bank supervision as e-money activities are part of the banks' balance sheet.

Recommendation

43. The mission recommends that the CBB issue a public circular or other regulatory document that transparently reflects common terms and conditions provided as part of the licensing process. This will improve supervisory transparency and clarify the supervisory expectations for all issuers, even before the licensing application process begins. In general, the CBB should maintain a consistent approach to supervising and oversight of electronic money activities, whether conducted by banks and nonbank entities. This approach helps create a level playing field while promoting trust and stability within the e-money ecosystem.

Supervision of Fund Safeguarding

44. Verifying the balance of the float account is the fundamental method to ensure that the EMIs adhere to fund safeguarding requirements. However, to evaluate the quality of the policies, procedures, and systems behind these reported balances, supervisors should conduct supervisory activities including offsite examination procedures and onsite inspections. These procedures should ensure that customer funds are not commingled with the EMIs or third-party funds and should also help validate the accuracy of such numbers and assess the EMI's risk management and internal controls related to fund safeguarding.

45. Legislation requires the CBB to ensure there is robust regulation and supervision of fund safeguarding. The Act states that the CBB should be satisfied during the licensing process that an applicant has a mechanism to safeguard funds which have been received from consumers of a payment service by not commingling them at any time with the funds of third parties and insulating them against the claims of other creditors of the PSP, in particular in the event of insolvency. The NPSR does not have sufficient clarity in this regard and whether supervision of this exists in practice. Currently, the CBB's PSP Supervision Manual emphasizes that inspections should cover four key areas but is sparse on detail on how to conduct these inspections.[7] In order to ensure supervisory consistency, all supervisors must have a clear and consistent understanding of the requirements on firms.

Recommendation

46. Legal and operational segregation of funds is paramount. While the Act requires customer funds not to be commingled with third-party funds, it should be made clear to issuers of e-money that customer funds must also not be commingled with any of the issuer's own funds or accounts. This requirement should be explicitly stated in the NPSR. As part of the supervisory activities, supervisors should closely monitor whether EMIs are properly segregating customer funds from their own. This is a critical issue for the CBB supervisors to address in order to ensure the proper safeguarding of customer funds.

47. Improving fund safeguarding practices of EMIs will mitigate risks. Supervisors should examine the fund safeguarding practices of EMIs to ensure that the float accounts held with financial institutions would legally be protected from the claims of other creditors or ensure that e-money customers have a priority over the creditors of the EMI if the EMI becomes insolvent. One way to achieve

[7] The four areas mentioned are (i) existence and sufficiency of funds in the float account, (ii) procedures to ensure that the required balance are maintained (reconciliation), (iii) liquidity of the float, and (iv) accurate control and reporting of e-float and client balances, however there is little underpinning detail for supervisors on how this can be conducted.

this is by requiring the float account to be a special account (e.g., trust account). The mission recognizes the importance of these areas and recommends that the Supervision Manual provide more detailed guidance to supervisors on how to assess each of these areas during inspections. To support this, the mission has outlined some methods for reviewing these aspects (see Annex 1).

Investment and Liquidity of the Float

48. **E-money funds can usually be stored or invested by the EMI in four ways.** Depending on the regulations in place in different jurisdictions, EMIs can often deposit their float in commercial banks, be mandated to hold their float at central banks, be permitted to invest in certain financial instruments, or a mix of these. In Belize, the terms and conditions issued to existing issuers of e-money allows EMIs to invest in other "permitted liquid assets" in addition to maintaining float in a financial institution account, however it does not clarify what the permitted list of investments are. In the absence of such regulatory clarity, supervision will be challenging to conduct.

Recommendation

49. **The CBB should clarify in a circular or similar regulatory document a list of permitted investments in which an EMI can invest the float.** Once clarity is provided, supervisors must then ensure they can effectively monitor whether a firm is compliant against these rules. Supervisors must enquire about the investment policy/strategy (e.g., risk profile, target return, assets), any recent changes (and their reasons) to the policy, and the decision-making process. Generally, the board of directors of the EMI should approve the investment strategy and risk management functions and the risk committee, if any, should monitor the results. Supervisors may also inquire whether the investment strategy varies across float accounts and request and analyze evidence of the investments made (e.g., statements of investment accounts, statements of the float account showing transfers to investment accounts), assess their performance and level of risk, and confirm the information with investment managers.

Outsourcing to Agents and other third-parties

50. **The use of agent networks is common in many jurisdictions where e-money is prevalent, and the CBB requires these agents to be registered.** Agents are particularly useful for extending services in rural or hard to reach populations. The NPSR requires EMIs to apply to the CBB at least 30 days prior to the date it proposes to outsource any aspect of its operations or payment services, including outsourcing to an agent network manager. It mandates that EMIs obtain approval for all outsourcing arrangements, without distinguishing between material and immaterial outsourcing relationships. Under the NPSR, the agreement between an EMI and an agent cannot be exclusive, so agents are free to work with multiple providers, including other EMIs.

51. **While the CBB can currently handle this approval process this situation could become resource-intensive as the e-money sector grows and more EMIs enter the market.** This requirement may unnecessarily strain the CBB, especially as EMIs may outsource many various activities to third parties. In most jurisdictions, EMIs only need to secure a one-time approval from the financial authority to use agents as a delivery channel. Authorization of providers to use agents as a new channel is a good opportunity for supervisors to bar providers, from the start, from operating thorough poor designed agent businesses that fail to meet minimum requirements or pose undue risks to the EMI or its consumers. Most

authorities do not require pre-approval for the appointment of each agent, as this could impose excessive burdens on both the providers and the regulator given the need to analyze every agent application.

Recommendation

52. To efficiently use limited supervisory resources, supervisors should require EMIs to periodically submit updated lists of agents to the CBB. Currently, the CBB reviews and approves each new appointment. The CBB already requires EMIs to conduct due diligence on prospective agents with the EMI liable. These measures would help supervisors alleviate their concerns related to agent risk management, while allowing the efficient use of scarce supervisory resources. The CBB should also ensure that an EMI establishes robust control and oversight mechanisms for its agents and monitors their operations to ensure compliance with regulations. If an EMI intends to hire an agent already working with another provider, the CBB should require EMIs to assess the agent’s capacity to handle transactions for multiple providers as part of their due diligence process before hiring.

Inspection Reports

53. Standardized inspection reports form an important component of on-site inspection. The current PSP Supervision Manual sets out that once the on-site inspection is complete, the CBB's supervision team should arrange an exit meeting with the EMI. The purpose of this meeting is to clearly communicate the team's findings, conclusions, and recommendations to the EMI's management and to obtain their commitment to implementing the recommended corrective actions. After the exit meeting and discussions with the EMI, the team is responsible for finalizing the inspection report, which also includes main deficiencies and findings.

Recommendation

54. The mission recommends that the CBB develop a standardized template for the inspection report. The template should outline the inspection's objective, scope, techniques used, key findings, and recommendations for corrective actions, among other elements. A template will assist both junior and senior supervisors in effectively summarizing their findings while ensuring consistency across reports from different EMI onsite inspections.

55. A template will ensure that all inspection reports follow a consistent structure and format, which helps supervisors to compare findings across institutions. It will also streamline the reporting process, reducing the time spent on report preparation and allow supervisors to focus more on detailed analysis of the examined EMI. Additionally, using a pre-defined format will help supervisors quickly identify critical areas of concern. A well-structured template will also improve communication between the CBB supervisors, EMI management and other relevant stakeholders. It will ensure that the findings, recommendations, and conclusions are presented clearly and are easily understood by both EMI and the CBB management.

56. The CBB should conduct ongoing risk assessments considering results from past supervisory activities, among others. Risk assessment is a continuous and dynamic process to reflect the changes in risks stemming from both the EMI's internal operations and its external environment, such as shifts in macroeconomic conditions or specific developments in the sector. Past supervisory activities, including onsite inspections, provide valuable input for these assessments. Throughout the risk assessment process, supervisors should carefully consider findings, evaluations, recommendations, action plans, ratings, corrective actions, and sanctions identified during prior supervisory cycles and inspection reports.

57. The CBB should consider using a range of tools to address weaknesses identified during an onsite inspection of an EMI. For instance, the CBB could develop an action plan detailing the identified issues, the corrective measures to be taken, and deadlines for completion. Supervisors should then monitor the EMI's progress against these timelines. In cases of significant or repeated weaknesses, or if corrective measures from earlier supervision remain unaddressed, supervisors may need to implement formal enforcement measures. These could include imposing fines, requiring maintaining additional capital, restricting the issuance of new e-money accounts, mandating independent third-party risk assessments of specific areas, withholding approval for new products or acquisitions, limiting dividend payments, replacing or restricting executives, limiting partnerships with third-party service providers, referring the matter to law enforcement, or suspending operations. Any corrective and enforcement measures should be proportionate to the severity of each issue.

Strengthen Domestic Supervisory Collaboration

58. Belize has several regulatory and supervisory authorities with sometimes unclear delineation of mandates. Many nonbank and capital markets activities fall under the Financial Services Commission of Belize (FSC), firms conducting insurance and pensions activities fall under the mandate of the Office of Supervisor of Insurance & Private Pensions (OSIPP), while oversight of financial integrity risks is conducted by the Financial Intelligence Unit of Belize (FIU). However, the FSC has a relatively broad mandate that also includes payment processing and money transmission services. Initially, this was limited to international firms providing services in Belize, but this has been expanded under the Financial Services Commission Act (2023) to include domestic firms conducting domestic activities.

59. The CBB and FSC both have mandates over nonbank entities, while the telecom regulator is responsible for the parent company of one EMI. Currently, the FSC has licensed one payment processor (that does not operate in the domestic market) and the delineation between the CBB and FSC regarding the supervision of individual providers and payment systems oversight can be unclear. The CBB and FSC are currently working to provide clarity in mandates within existing legislation on a case-by-case basis with the FSC. This is conducted both at a Governor / Director General level, as well as at a more technical level through the Financial Stability Committee which is underpinned by a Memorandum of Understanding (MoU) between the relevant members.[8] Additionally, mobile network operators (MNO) in the country can establish a subsidiary as an EMI, which offers e-money to customers. Also, MNOs can offer services to different nonbank and bank EMIs.

Recommendation

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[8] Members include the CBB, FSC, OISPP, and the FIU https://www.centralbank.org.bz/detail-pages/news/2024/08/29/the-central-bank-of-belize-the-office-of-the-supervisor-of-insurance-and-private-pensions-and-the-financial-services-commission-sign-memorandum-of-understanding

60. **To enhance collaboration and cooperation, the CBB and the FSC need to provide guidance clearly and transparently on their respective responsibilities in relation to PSPs.** While informal discussions on a case-by-case basis seem to be managing issues currently, in the future more prescriptive guidance to the industry might be necessary. Furthermore, the CBB may need to consider signing an MoU with the Belize Public Utilities Commission, which oversees the licensing and regulation of MNOs. This would help ensure better oversight and supervision of EMI activities and provide stronger protection for e-money customers, as issues related to MNOs and their infrastructure may impact the EMI activities and their e-money customers.

III. Conclusion and Next Steps

61. **There are limited regulatory risks from e-money in Belize given the small size of the market and steps taken by the CBB.** There are two EMIs and total volumes and values of transactions are small as only 1.23 percent of all digital transactions by volume and 0.11 percent by value are conducted by these firms. A regulatory framework is in place and the CBB has a good overview of the market and is moving toward RBS to reflect growing risks.

62. **The CBB is working to strengthen supervision including by conducting onsite inspections of EMIs.** The mission has provided recommendations to assist the CBB in strengthening its supervisions by improving the granularity of data collections, improving the reconciliation process, clarifying a list of permitted investments and the use of terms and conditions, and periodic reviews of the use of agents. For onsite inspections the mission recommends the development of a standardized inspection report as well as the supervision of fund safeguarding. Strengthening cross-sectoral collaboration with financial and nonfinancial authorities is important.

63. **The CBB has been open and receptive to mission recommendations but must prioritize according to their needs.** Staff at all levels of seniority at the CBB have been engaged and collaborative throughout the mission, and receptive to the recommendations delivered. However, as the issuance of e-money remains small, authorities should prioritize areas where risk is growing quickly and in the context of other TA that they are receiving to ensure they manage risks to consumers, markets, and financial stability.

64. **Considerable work has been done by the CBB in managing new and emerging risks in this space.** The mission recognizes the progress made by the CBB in licensing and regulating EMIs and commends the authority on moving toward risk-based supervision. Authorities have indicated a desire to implement the recommendations in this report in an open and transparent manner, and the IMF stands ready to provide further assistance if required.

Annex I: Supervising Fund Safeguarding

1. These methods are not exhaustive but are provided as examples for the CBB's consideration.[9]

A. Existence and Sufficiency of Funds in the Float Account

2. CBB supervisors should compare reports on the total e-money issued with reports on the float account balance. To confirm the veracity of these reports, supervisors can analyze bank statements of the float account to perform the following checks:

- Check the float account identification data (e.g., number, branch, account holder) against the float account agreement/contract and the periodic reports sent.
- Check the balance of the float account at several cut-off dates and compare with total reported "total e-money issued" on the same dates to test consistency.
- Check whether credits and debits are concentrated around reporting dates (e.g., quarterly), which could indicate potential reconciliation issues or intentional mismatches and their concealment.

3. These procedures assume that the reported total e-money issued is accurate.

B. Effective Reconciliation Procedures

4. Understanding how the EMI reconciles the float account with total e-money issued is crucial for evaluating the effectiveness of fund safeguarding. The EMI must ensure there is always sufficient balance in the float account.

5. Prior to the onsite inspection, CBB supervisors should examine the relevant policies and procedures, which should outline the reconciliation process and assign staff responsibilities. The absence of formal policies and procedures could result in inadequate fund safeguarding. Additionally, it is essential to comprehend how e-money is created and destroyed.

6. From a supervisory standpoint, effective automated reconciliation (whether real time or in batches) is expected to minimize errors and delays. If robust data security and integrity controls are in place, they should mitigate the risk of fraud and unauthorized access to the float account. Even with automated procedures, it is beneficial to review how the system is set up, by (i) inquiring about the encoded rules triggering the transfers between the EMI bank account and the float account and (ii) identifying steps that require manual intervention to assess their risk.

7. With detailed knowledge of the entire process, supervisors can assess the risk of deficiency in the float account resulting from failures in internal control or tampering by employees at the EMI, and bank levels. In the case of automated reconciliation, supervisors may

[9] https://www.cgap.org/research/publication/guide-to-supervising-e-money-issuers

conduct system tests simulating variations in the total e-money issued, unauthorized access to and alteration of the total e-money issued, and purchases or sales by agents and agent network managers. Other potential techniques include observing a full reconciliation process (when manual) and reviewing audit trails of reconciliations (when automated). If the review in the previous section reveals mismatches, the supervisor can look at the records of the reconciliation on the mismatch dates and request an explanation.

C. Governance and Management of Float Account

8. **Float account governance and management play an important role in the reconciliation and the safety of the funds.** When preparing for an onsite inspection, CBB supervisors should ensure that EMIs have established written policies and operational procedures governing access to and operation of the float account. In most cases, only a few designated employees are authorized to access and conduct transactions in the float account.

9. **Access and escalation rules should be commensurate with the EMI's structure, size, and complexity (e.g., in large EMIs, lower-level staff may have access to the float account) and the type of reconciliation mechanism (e.g., fully automated vs manual).** Rules should be documented and should define the transactions permitted for each user profile. Supervisors can analyze the list of employees and their relevant user profiles to determine whom to interview to learn more about adherence to EMI policies and the instances in which the policies were broken.

10. **In addition to access rules and user profiles, there should be formal rules for managing the funds (e.g., transferring to/from the float account).** This relates to reconciliation, but it also includes other situations, such as responsibilities and procedures for periodically checking interest or other income flowing into the float account, and their withdrawal or distribution and dealing with errors, such as transfers resulting from glitches in IT codes. Supervisors can test EMI policies through system audits.

D. Accurate Control and Reporting of Total E-money Issued and Client Balances

11. **Maintaining accurate control of clients' account balances is one of the fundamental obligations of an EMI.**

12. **To assess this, CBB supervisors should assess whether accurate control of client balances is in place.**[10] Supervisors should also assess if there is accurate reporting of total e-money issued by comparing previously reported total e-money issued on multiple cut-off dates with reports

[10] This could be done by reviewing complaints data, the subsidiary ledger to check if one exists for each customer, the EMIs dormant account activity and management practices, the EMIs practices for settling offline transactions, the rules governing access to e-money platforms and which profiles are authorized to alter customer balances and under what circumstances, conducting system tests to scrutinize these rules, conducting transaction simulations to check whether the system accurately updates a customer account balance for each type of transaction, and inquiring about the rules governing the amounts temporarily held in settlement or suspense accounts.

generated upon the supervisor's request and in the presence of the supervisor directly from the EMI e-money platform.

13. They should also inquire about the procedures for producing periodic regulatory reports on total e-money issued, including who the responsible staff are, and whether manual procedures are used to generate the report. They should ask staff responsible for the reports about any identified weaknesses (e.g., whether the EMI system is incapable of automatically reporting the total e-money issued or any other field in the regulatory report). If concerns arise, supervisors should require staff to simulate the production of a report in front of them and discuss the steps taken when errors have been found in the reports. Supervisors should also determine if pending transactions (i.e., amounts temporarily registered in suspense or settlement accounts) are included in the total e-money issued reported to the supervisor and are considered for replenishing the float account. Supervisors can also probe rules by conducting system tests.