



DIGITAL FINANCIAL SERVICES
(DFS) WORKING GROUP



TRANSFER365 INSTANT PAYMENT SYSTEM IN EL SALVADOR



EXECUTIVE SUMMARY

This case study, aligned with the Alliance for Financial Inclusion (AFI) model of encouraging peer learning and knowledge exchange, documents the experience of the Banco Central de Reserva de El Salvador (BCR) with the conceptualization, development, and implementation of its Instant Payment System (IPS) called Transfer365.

The insights offered in this case study present a comprehensive overview of BCR's strategy in developing and implementing Transfer365, including an analysis of its impact on the socioeconomic landscape, and the contributions to the net positive impact on digital and financial inclusion in El Salvador. Furthermore, it discusses the challenges faced and solutions applied that could be valuable for other countries exploring similar initiatives.

Transfer365 is a real-time retail payment system that has significantly transformed the country's financial landscape, driven by the need to enhance the efficiency and accessibility of financial services in El Salvador. Designed to provide 24/7 availability for electronic transfers, enabling users to make payments and transfers in real-time, this initiative was part of a broader effort to promote financial inclusion and improve the overall payment infrastructure in the country.

Among the many unique propositions of Transfer365, supporting and acting as a platform to achieve interoperability between different financial institutions is one of its key features. This functionality allows users to seamlessly transfer funds across various banks and financial entities, thus fostering a more inclusive financial environment, even for cross-border transactions. The system also supports the integration of other digital financial services, further broadening the scope of financial inclusion.

The impact of Transfer365 has been substantial. The system has facilitated a significant increase in the volume and value of electronic transactions, highlighting its role in promoting a cashless economy, and has also improved the speed and convenience of financial transactions, making it easier for individuals and businesses to manage their finances.

7.9
million

From its inception in 2021 to the second quarter of 2024, El Salvador's financial service saw a surge from 47,000 transactions to 7.9 million, reflecting a 16,374% increase in operations and a 1,420% growth in transaction value.

Moreover, Transfer365 has played a critical role in expanding access to financial services for underserved populations. By providing a reliable and accessible platform for electronic transactions, the system has enabled more people to participate in the formal financial system. This has been particularly beneficial for individuals in remote areas who previously had limited access to banking services.

This case study provides first-hand information on the implementation and operations of Transfer365, including the challenges faced, such as technical issues related to system integration and the need for extensive stakeholder engagement to ensure the system's success. The document notes that addressing these challenges required significant coordination and collaboration among a range of stakeholders, including government agencies, financial institutions, and technology providers.

In conclusion, the case study highlights a significant advancement in financial inclusion and digital financial services. Launched in 2021, Transfer365 disrupted the interbank transaction market by offering immediate, free, and accessible digital services, previously dominated by private institutions with high fees. The introduction of Transfer365 CA-RD further enhanced the system, facilitating cross-border transactions across Central America and the Dominican Republic. This system's governance, risk management, and reconciliation mechanisms underscore a commitment to security and efficiency.

The future outlook for Transfer365 is promising, with plans to advance financial inclusion, enhance collaboration and integration, expand regulatory frameworks, and empower the unbanked.

CHAPTER 1: BACKGROUND AND CONTEXT

1.1 FINANCIAL INCLUSION AND DIGITAL FINANCIAL SERVICES IN EL SALVADOR

HISTORICAL CONTEXT

While many interventions have been undertaken to empower women and reduce gender inequality, financial inclusion has proven to be one of the most powerful tools that can be used to drive inclusive economic growth and social development. This is because women tend to invest a significant portion of their income and resources in food security, health care, education, and the overall well-being of their families, leading to positive ripple effects.¹

The pivotal moment came with the introduction of the “Comprehensive Model” for digital financial services in 2017, which facilitated the implementation and provision of e-money by financial institutions and new market entrants.² This model capitalized on the strengths of various institutions, heralding a new era of financial inclusivity.

Despite these advancements, El Salvador has faced significant challenges in achieving widespread financial inclusion. Less than 30 percent of the population currently holds accounts in formal financial institutions, and only 29 percent of Salvadorans have used e-money wallets. According to the results of the National Survey of Access and Use of Financial Products and Services carried out by the BCR in El Salvador in 2022,³ this gap is particularly pronounced among women, individuals with lower incomes, rural residents, and Micro and Small Enterprises (MSMEs). For rural populations, in particular, using mobile phones for financial activities like receiving salaries, sending remittances, and paying for services can save time and money. This approach provides access to financial services without relying on physical bank branches.

To address these challenges, El Salvador launched its National Financial Inclusion Policy (NFIP) in 2021,⁴ marking an important step towards building a roadmap to facilitate access to and usage of financial products, especially for these priority segments.

It is worth noting the evolution of the legislative landscape in El Salvador over the years, with the enactment of the Law to Facilitate Financial Inclusion,⁵ which focused on integrating traditionally excluded individuals into the banking system through innovative channels like mobile money and simplified savings accounts, dismantling barriers to e-money, and opening the market to new players.⁶ This law was a result of extensive collaboration and dialogue among industry stakeholders, reflecting a collective commitment to expanding financial access.

Additionally, El Salvador’s National FinTech Strategy in 2023 intends to develop a balanced, innovative, open, and regulated digital financial ecosystem,⁷ while ongoing analysis of virtual assets provides insights into the country’s progress and remaining challenges.⁸ The country has been at the forefront of embracing new innovations, including Bitcoin adoption as legal tender and the Chivo wallet app, which enhances accessibility and facilitates peer-to-peer transactions.⁹

All of these developments mark a significant shift towards embracing digital solutions to enhance financial accessibility.

According to the national financial inclusion survey conducted by the BCR in 2022, a significant portion of Salvadorans utilize numerous financial channels, with 27.7 percent using ATMs, 23.0 percent using financial agents, and 50.1 percent visiting bank branches.¹⁰

1 AFI. 2017. E-Money in El Salvador: A Comprehensive Model. Available at: <https://www.afi-global.org/publications/e-money-in-el-salvador-a-comprehensive-model/>

2 Ibid.

3 BCR Site. n.d. Results of the National Survey of Access and Use of Financial Products and Services). Available at: <https://inclusionfinanciera.gob.sv/resultados-encuestas-2022/>

4 AFI. 2021. El Salvador unveils landmark National Financial Inclusion Policy. Available at: <https://www.afi-global.org/newsroom/news/el-salvador-unveils-landmark-national-financial-inclusion-policy/>

5 Banco Central de Reserva de El Salvador. 2022. Decreto N° 72 Ley Para Facilitar la Inclusión Financiera. Available at: <https://www.bcr.gob.sv/documental/Inicio/descarga/252f966a6e78ad592ed849f514332721.pdf>

6 The law introduces E-money suppliers (SPDEs), regulated entities authorized to provide electronic money and manage mobile-payment systems.

7 International Trade Administration. 2024. El Salvador FinTech Strategy. Available at: <https://www.trade.gov/market-intelligence/el-salvador-fintech-strategy>

8 Global Financial Integrity. 2023. The Virtual Assets Ecosystem in El Salvador: Strengthening Financial Integrity and Transparency. Available at: <https://gfinegrity.org/report/the-virtual-assets-ecosystem-in-el-salvador-strengthening-financial-integrity-and-transparency/>

9 Yale Insights. 2024. El Salvador Adopted Bitcoin as an Official Currency; Salvadorans Mostly Shrugged. Available at: <https://insights.som.yale.edu/insights/el-salvador-adopted-bitcoin-as-an-official-currency-salvadorans-mostly-shrugged>

10 BCR Site. n.d. Results of the National Survey of Access and Use of Financial Products and Services. Available at: <https://inclusionfinanciera.gob.sv/resultados-encuestas-2022/>

Additionally, while 67.7 percent of Salvadorans own smartphones, with usage varying by age and income, 12.7 percent use mobile banking and 7.4 percent use internet banking. Only 13.6 percent have used electronic money, while 1.6 percent have acquired some form of digital financial product or service, specifically, deposit accounts and loans.

These findings underscore the need to promote greater adoption of digital financial services to promote more equitable financial inclusion in El Salvador.

In this context, Transfer365 plays a crucial role in promoting financial inclusion. Transfer365 is a system launched by BCR facilitates immediate fund transfers and payments at any time, from anywhere, by interconnecting all banks, cooperative banks, federations, the Ministry of Finance, and other authorized participants. As the e-money market in El Salvador continues to grow, interoperability becomes essential for expanding digital financial services. Transfer365 simplifies transactions and widens the range of services accessible to consumers, contributing to a more inclusive financial landscape. The Global Financial Inclusion Database 2021 underscores El Salvador's progress towards financial inclusion, especially amid heightened demand for digital services driven by the COVID-19 pandemic.

EVOLUTION - TRANSFER365'S ROLE IN ADDRESSING CHALLENGES TO FINANCIAL INCLUSION

Financial inclusion is crucial for sustainable development but faces barriers, especially in digital payments. Key obstacles include inadequate infrastructure, limited banking access, integration challenges, low financial literacy, discomfort with new technologies, and hidden cash transaction costs. Additionally, a one-size-fits-all approach often overlooks diverse user needs.

According to the World Bank, approximately two-thirds of El Salvador's adult population lacks access to basic financial services,¹¹ underscoring the urgent need to promote financial inclusion and expand access to financial services in the country.

The introduction of innovative platforms like Transfer365 has been pivotal in overcoming these obstacles by providing an efficient, secure, and inclusive platform that addresses the needs of a diverse population. Designed and owned by the Central Reserve

Bank of El Salvador, Transfer365 is a national payment system that facilitates commission-free fund transfers, credit card payments, and loans through an Automated Clearing House (ACH).

This system has been instrumental in advancing financial inclusion by providing accessible financial services to the population, particularly in rural areas where traditional banking services are scarce. The system is in line with the NFIP, which identifies "Digitalization and Financial Innovation" as a strategic area that aims to foster a digital ecosystem, encourage financial innovations, and develop supportive regulatory, normative, and supervisory frameworks.

24/7

The implementation of Transfer365 has also strategically boosted the country's economic growth by enabling the immediate settlement of transactions 24/7, thereby making financial operations more efficient and user-friendly.

The system's ability to process transactions quickly and without charges has been especially beneficial for the unbanked population, allowing for an increasingly inclusive economy where more individuals can participate in the financial system, save time and money on transactions, and gain access to a broader range of financial services.

Moreover, the adoption of Transfer365 has doubled the number of mobile money accounts in the country, making it the most used platform for banking transactions in El Salvador. The system's success is evident in its average of 56 transfers per minute, highlighting its widespread acceptance and utility. The savings in commissions, estimated at USD95 million through June 2024, underscore the financial benefits that Transfer365 has brought to Salvadorans based on information obtained from the service database.

Transfer365's impact extends beyond financial transactions; it has also been a catalyst for digital literacy and trust in digital financial services. By providing a secure and reliable platform, it has helped to alleviate concerns about the intangibility of e-money and the security of digital platforms. The system's design, which includes effective grievance redressal mechanisms and interoperability across providers, has been crucial in building consumer confidence.

¹¹ World Bank. 2022. Digital transformation in El Salvador, reigniting growth and inclusion. Available at: <https://www.worldbank.org/en/programs/de4lac/publication/digital-transformation-to-reignite-growth-and-equitability-in-el-salvador>

1.2 OBJECTIVE OF THE CASE STUDY

As part of its ongoing efforts to highlight successful financial inclusion policies, the Alliance for Financial Inclusion (AFI) invited BCR to document its experience, learnings, challenges, policy interventions, and actions towards implementing the Transfer365 digital payments initiative, particularly from the perspective of advancing financial inclusion (FI), as well as digital payments and digital financial services.

As the world continues to navigate the complexities of digital transformation, the lessons learned from Transfer365's implementation could inform similar initiatives globally, ensuring that financial inclusion remains at the forefront of economic development strategies.

This case study will highlight the strategic steps taken by BCR to develop and implement Transfer365, analyze the socioeconomic impacts on financial inclusion in El Salvador, discuss the challenges encountered and the innovative solutions deployed to overcome them, and provide best practices and lessons learned that can be applied to similar initiatives in other countries.



Photo credit: Banco Central de Reserva de El Salvador

CHAPTER 2: TRANSFER365 - EL SALVADOR'S INSTANT PAYMENT SYSTEM

2.1 VISION AND STRATEGIC GOALS

Following its inception in 2013, the country's national payment system (also known as the "mass payment system") was limited exclusively to processing government transactions, including supplier payments, subsidies, and payroll processing.

These transactions were made in batches and settled on a deferred basis. Almost a decade later, in 2021, the BCR set out to revamp the national payment system with the goal of expanding it to deliver easy-to-use, accessible financial services to the entire population while advancing financial inclusion and boosting economic growth in the process.

As the brainchild of this quest for modernization, Transfer365 was born that same year following the BCR's acquisition of an Automated Clearing House (ACH) – a system that enables commission-free fund transfers, credit card and loan payments to be processed through the country's national payment system.

Accessible 24/7 and with immediate settlement for both customers and participating institutions, Transfer365 allows payments to be processed immediately, flexibly, and free of charge through the digital channels and financial entity agents of electronic platforms of financial institutions. Additionally, it extended the national payment system's capacity beyond just government payments, to accommodate transactions made by the entire Salvadoran population.

Transfer365's¹² digital platform has the potential to break down barriers, promote financial literacy, and enhance financial inclusion for Salvadorans, ultimately contributing to the country's economic growth and well-being through the following benefits:¹³

1. **Access and Convenience:** Transfer365 offers a user-friendly platform for financial transactions accessible via mobile phones, bridging the gap for rural areas without traditional banking services and providing diverse services such as remittances, bill payments, and peer-to-peer transfers.
2. **Cost-Effective Solutions:** Transfer365's digital approach reduces overhead costs and transaction fees, making financial services more affordable and encouraging greater participation by minimizing administrative expenses.
3. **Financial Literacy Promotion:** Transfer365 promotes financial literacy through its platform by providing educational resources, tips, and guidance, empowering users to make informed financial decisions.
4. **Targeting Priority Segments:** Transfer365 focuses on priority segments identified by the National Financial Inclusion Policy by offering customized features and tailored services that address the specific needs of low-income individuals, rural residents, and MSMEs.
5. **Digital Innovation and Financial Inclusion:** Aligned with the National Fintech Strategy, Transfer365 leverages technology to promote an inclusive digital ecosystem and financial innovations, contributing to El Salvador's digital transformation and making financial services more accessible, efficient, and inclusive.

2.2 REGULATORY AND LEGAL FRAMEWORK

The Central Reserve Bank of El Salvador, in accordance with the mandatory responsibility defined in its Organic Law to ensure the normal functioning of payment and securities settlement systems in addition to the power to operate them and with a vision of offering high service standards, made the Transfer365 service available to the population.

The adoption of Transfer365 necessitated significant regulatory and policy changes, including licensing, regulations, and supervision of payment service providers to ensure consumer protection and redress mechanisms. The BCR implemented these policy changes to address issues such as financial integrity and system resilience, enabling the initiative to move forward.

The operation of Transfer365 is guided by specific regulations,¹⁴ such as the "Instructivo para la Administración y Operación de Pagos Masivos" (Instructions for the Administration and Operation of Mass Payments), which ensures the proper administration and secure operation of mass payment transactions. This regulatory framework establishes rules for the administration and operation of the Mass Payments System.¹⁵

By regulation, all financial institutions, regardless of size, are required to offer this service. This mandate has thereby democratized access to interbank transfers, which were previously only available through the largest banks in the country.

To successfully implement Transfer365 CA-RD, it was essential to strengthen the legal framework and enhance the Payment Systems Surveillance of the Central Reserve Bank of El Salvador. Transfer365 CA-RD is a service launched by the Central Reserve Bank of El Salvador to facilitate low-cost, cross-border payments and transfers within Central America and the Dominican Republic. This service allows users to send money to and from countries like Guatemala, Honduras, Nicaragua, Costa Rica, and the Dominican Republic. This ensured that all participating institutions in the Real-Time Gross Settlement (RTGS) system could offer the Transfer365 CA-RD service through their digital platforms and branches, operating 24/7 at a low cost of USD1.00 per transaction.

Additionally, the Payment Systems Surveillance function was given greater authority to conduct onsite visits to participating entities. Non-compliant entities would face sanctioning procedures or be required to develop regulatory compliance plans.

12 BCR. 2021. Sistema de pagos masivos - Transfer365. Available at: <https://www.bcr.gob.sv/sistema-de-pagos-masivos/>

13 AFI. 2023. El Salvador paves the way for digital payment solutions with Transfer365. Available at: <https://www.afi-global.org/newsroom/blogs/el-salvador-paves-the-way-for-digital-payment-solutions-with-transfer365/>

14 BCR. 2021. Sistema de pagos masivos - Transfer365. Available at: <https://www.bcr.gob.sv/sistema-de-pagos-masivos/>

15 BCR. 2021. Instructivo Para La Administración Y Operación De Pagos Masivos. Available at: <https://www.bcr.gob.sv/regulaciones/upload/GOF-PAGOS-MASIVOS.pdf?v=1650725413>

2.3 OWNERSHIP AND OPERATIONAL STRUCTURE

Under a mandate to improve public services, the Central Reserve Bank of El Salvador made Transfer365 available to the Salvadoran population, with the service operating through the digital channels of financial institutions. The Central Bank of El Salvador owns and manages the Transfer365 and Transfer365 CA-RD services, with strategic direction from the heads of the institution, the board of directors, and operational management by the Financial Operations Management team. This approach ensures the sustainability and broad impact of the system.

RATIONALE FOR THE MODEL

Before the introduction of Transfer365, interbank transfer services were exclusively provided by private institutions. These services came with high costs, of up to USD3.00 per local transaction and an average of USD50.00 per regional transaction, without real-time settlement of funds.

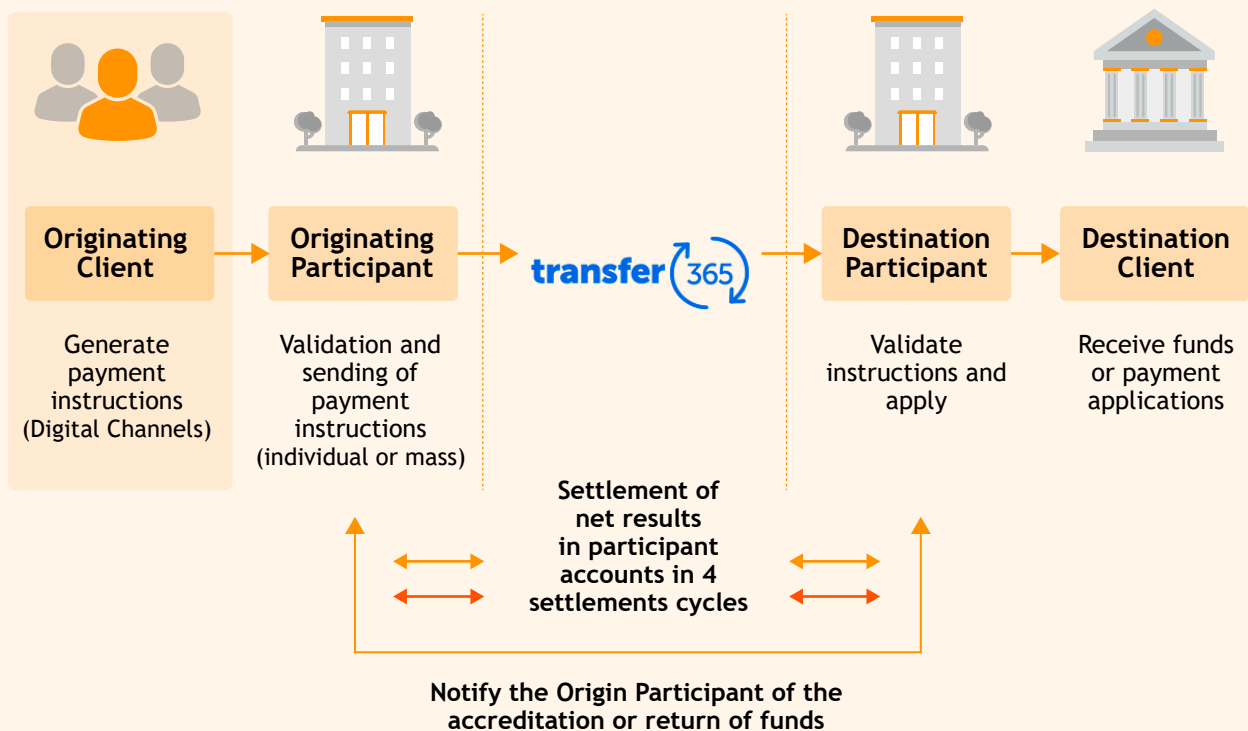
The Central Reserve Bank of El Salvador envisioned a transformation to offer low-cost, efficient digital financial services to the Salvadoran population. This vision led to the development of Transfer365 and Transfer365 CA-RD, along with new regulations mandating that all financial institutions collecting public funds provide these services through their electronic channels.

OPERATIONAL FRAMEWORK

To access Transfer365, users are encouraged to link their mobile number to their bank account at their preferred financial institution to enjoy the benefits of Transfer365 Mobile. Transfer365 operates as an Automated Clearing House (ACH) facilitating immediate credit transfers and interbank payments. Available 24/7, it is free of charge and accessible through various financial entities, including commercial banks, cooperatives, and savings and credit societies.

The service ensures interoperability with existing financial services and maintains robust security measures.

FIGURE 1: TRANSACTION SETTLEMENT PROCESS FOR TRANSFER365



Transfer365 allows users to generate payment instructions through the electronic channels of all institutions authorized to collect funds from the public. Users can make loan and credit card payments, as well as transfer funds to clients of any other institution whose payment orders travel through the BCR's systems. These payments are settled based on a reserve of funds from the participants in their account at the BCR, ensuring that once each of the four cycles has ended, the payments can be settled. The net results are reflected in the accounts that the participants have with the BCR, but since the operations have been guaranteed with the fund's reserves, they can be immediately credited to the accounts of the final beneficiaries.

IMPACT AND GOALS

By eliminating borders between financial institutions, Transfer365 enables seamless interbank operations, meeting the needs of depositors for immediate credit transfers and interbank payments (including loans and credit cards). Operating 24/7, 365 days a year, from any online platform of participating financial institutions, at no cost to users, Transfer365 aims to:

- > Eliminate market barriers for smaller financial institutions
- > Extend services to traditionally excluded populations
- > Enhance competitiveness within the financial sector

This initiative significantly reduces costs and ensures real-time settlements, creating a more inclusive and efficient financial ecosystem in El Salvador.

2.4 GOVERNANCE STRUCTURE AND STAKEHOLDER PARTICIPATION

Transfer365's governance involves a range of stakeholders, including governmental bodies, financial institutions, and FinTech players.¹⁶ This collaborative effort ensures that the complexities introduced by the instant payment system are effectively navigated and that financial inclusion is actively promoted.

The Central Bank of El Salvador is the owner and operator of Transfer365 and Transfer365 CA-RD. Therefore, it has the rights to make adjustments, improvements, and maintenance to the systems. The systems operate under the coordination and strategic direction of the Central Bank's president, vice president, and board of directors, with the Financial Operations Management team handling day-to-day operations.

Participants in Transfer365 include:

- > **Operator:** Banco Central de Reserva de El Salvador (Central Reserve Bank of El Salvador).
- > **Government Bodies:** Central government entities and autonomous state institutions.
- > **Participants:** Ministerio de Hacienda (Ministry of Finance), banks, cooperative banks, credit unions, federations, and other authorized institutions. Financial institutions include members of the financial system, subject to the supervision of the Superintendency of the Financial System. Authorized entities include companies and organizations that, with due authorization, have deposit accounts with the central bank.

Through this governance model, Transfer365 leverages the strengths of diverse stakeholders to enhance the financial system's efficiency and inclusivity. By promoting collaboration among various entities, Transfer365 promotes a robust financial infrastructure that supports real-time, low-cost transactions and drives financial inclusion across El Salvador.

2.5 TRANSFER365 USE CASES - DESIGNED FOR FINANCIAL INCLUSION

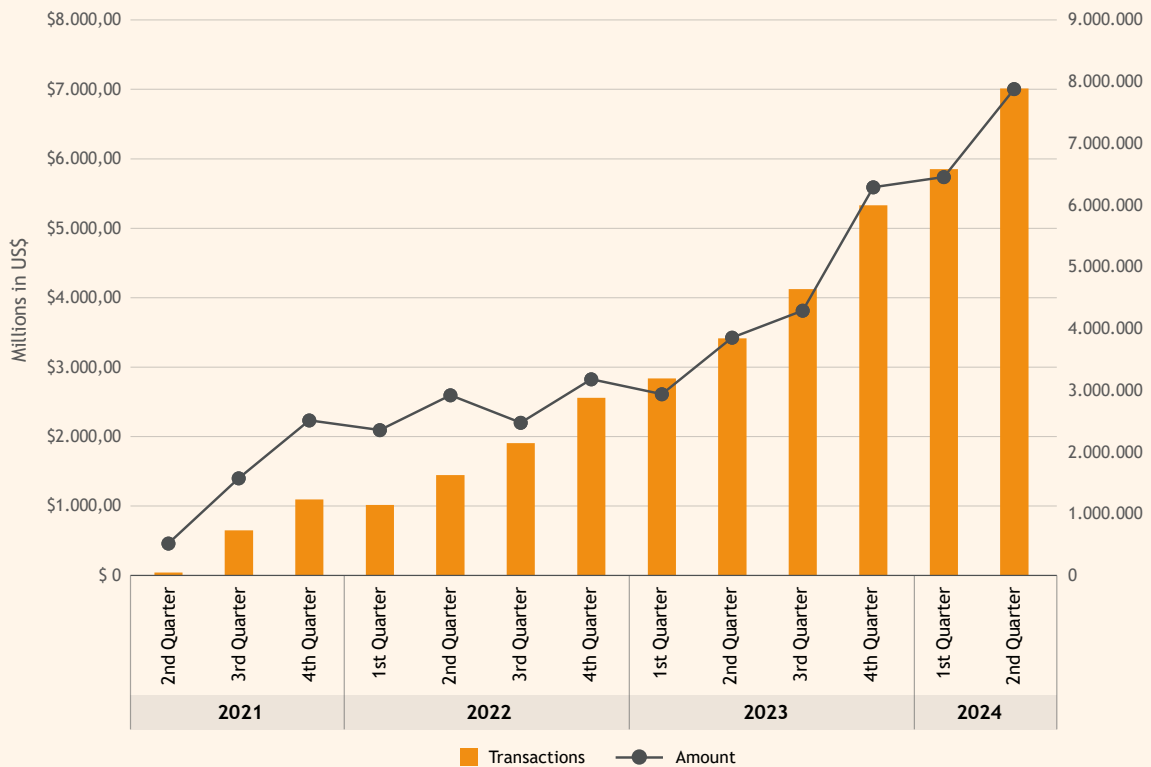
Launched in June 2021, Transfer365 is an immediate interbank transaction service provided by the Central Bank of El Salvador through the electronic platforms of various financial institutions. It allows for direct credit, loans, and credit card payments, all free of charge for the population. Prior to Transfer365, the interbank transaction market was dominated by private institutions, with transaction fees of around USD3.00, which was prohibitively expensive for many and hindered the efficiency of money circulation.

This "cost-free" model for the user is possible because each entity, in accordance with its internal policy and business model, establishes cost recovery through the savings or income generated by Transfer365 operations. The participating entities have identified direct benefits in cost reduction or income generation, as illustrated by the following examples: Increases in their clients' deposits, which allows them to intermediate the liquidity of incoming operations; reduction of costs for attention in physical agencies during extended hours to attend to fund transfers or services; customer loyalty since it allows for the centralization of payments from all entities in the financial system; loan and credit card payments 24/7; and a reduction in ATM withdrawals, which represents savings in the transportation of values, among others.

¹⁶ BCR. 2021. Sistema de pagos masivos - Transfer365. Available at: <https://www.bcr.gob.sv/sistema-de-pagos-masivos/>

USER ADOPTION

FIGURE 2: TRANSFER365 AMOUNTS AND TRANSACTIONS PERIOD: SECOND QUARTER 2021 TO SECOND QUARTER 2024 (IN MILLIONS USD)



Source: Own elaboration with data from the Central Reserve Bank of El Salvador.

One of the main achievements of Transfer365 is its inclusivity. For the first time, all institutions authorized to raise funds have had the possibility of providing their users with a modern, efficient, secure payment system that operates 24/7, without costs and with immediate and interoperable accreditation. In the second quarter of 2021, the service was implemented and made available to the population, 47,000 transactions were registered with a value of USD460 million. Three years later, user acceptance has exceeded expectations, and by the second quarter of 2024, 7.9 million operations were registered with a value of USD7,005.45 million, an increase of 16,374 percent in operations and 1,420 percent in the value of operations compared to the quarter in which the service began.

Transfer365 has significantly advanced financial inclusion through key use cases such as transfers, microtransactions, bill payments, and government disbursements. These applications aim to provide broad access to digital financial services, improve the quality and impact of financial transactions, and encourage

widespread use among the unbanked population. Catering to diverse digital payment needs, Transfer365 offers several specific applications:¹⁷

- 1. Transfer365 (Standard):** This service, which allows for seamless, immediate interbank transfers among individuals and businesses within El Salvador, aims to reduce transaction costs and increase accessibility, resulting in significant savings and a high volume of transactions.
- 2. Transfer365 Movil:** This service operates by using the cellphone number previously associated with a bank account to facilitate transactions.
- 3. Transfer365 Business:** Designed for high-value transactions, this service targets MSMEs, facilitating efficient business operations while contributing to economic growth.

¹⁷ Diario El Salvador. 2023. Transfer365 CA-RD, el nuevo servicio para transferir a bajo costo hacia la region. Available at: <https://diarioelsalvador.com/transfer365-ca-rd-el-nuevo-servicio-para-transferir-a-bajo-costo-hacia-la-region/385235/>

4. Transfer365 CA-RD (Central America - Dominican Republic): This extension of Transfer365 enables cross-border transactions across Central America and the Dominican Republic among 79 financial institutions, including six central banks and 73 financial institutions, 22 of which are Salvadoran.¹⁸ It enables instant payment for Salvadorans to Guatemala, Honduras, Nicaragua, Costa Rica, and the Dominican Republic,¹⁹ providing a cost-effective solution for international transfers by significantly reducing fees compared to traditional methods.

2.6 TRANSFER365 CA-RD CROSS-BORDER INTEGRATION

Regional trade has emerged as a cornerstone for the economic and social advancement of Central American countries, fostering cooperation and mutual benefit among neighboring nations. Despite being the smallest country by territorial area within Central America, El Salvador plays a key role in regional trade dynamics, significantly contributing to both the economic growth and stability of the country and the broader Central American region.

Historically, Central America has maintained intricate economic ties, reflecting its shared history, cultural affinities, and social similarities among its nations. El Salvador has actively participated in regional trade agreements, leveraging them to strengthen economic bonds within the region.

The signing of various trade agreements between El Salvador and neighboring countries has been instrumental in shaping these commercial dynamics. In addition, El Salvador's membership in the Central American Integration System (SICA), a regional organization aimed at promoting economic and political cooperation among Central American nations, underscores its commitment to regional integration.

Participation in these agreements has facilitated the elimination of trade barriers, tariff reductions, and the creation of a conducive environment for regional trade. El Salvador has been proactive in collaborative initiatives aimed at enhancing trade facilitation, developing infrastructure, and harmonizing regulations, all geared towards promoting a seamless regional trade environment.

As the region strives to enhance economic integration and promote regional development, establishing a cross-border digital financial service becomes imperative. Such a service should facilitate solid, efficient, secure, and inclusive regional interbank transfers and payments, serving as a cornerstone for boosting the economies of the countries involved.

In response to the fundamental objective of central banks to develop and strengthen payment systems, thereby facilitating the transmission of monetary policy and promoting the regional financial system's development, the Central American Monetary Council (CMCA) resolved on 20 November 2009 to create a regional payment system known as the Payment Interconnection System, or SIPA, by its acronym in Spanish. SIPA enables real-time regional fund transfers among member countries, including Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic.

The system commenced operations on 28 February 2011 involving a range of actors: the central banks of the region as direct participants, the financial institutions of each country as indirect participants, and the institutional manager, responsible for administering the regional system. Currently, the institutional manager operates under the responsibility of the Central Bank of the Dominican Republic (BCRD).

Its functions encompass the registration and control of operations, daily reporting on operational outcomes, administration of the central information system, decision-making, balance control, fee collection, payment correspondent bank account management, and overseeing messaging flows, security, risk management, and user management, among others.

Since SIPA's operations began, financial entities in member countries have had the opportunity to become indirect participants through their central banks. However, in El Salvador, participation remained low, with only six entities involved by the end of 2022, largely due to regulatory and technological constraints.

Despite 16 additional entities having the potential to integrate, various factors hindered their participation. Existing financial services in the market charged between USD35.00 and USD70.00 per transaction, dissuading major commercial banks from offering regional operations through SIPA. Moreover, inadequate technological infrastructure prevented the full automation of operations, impacting operational costs and efficiency.

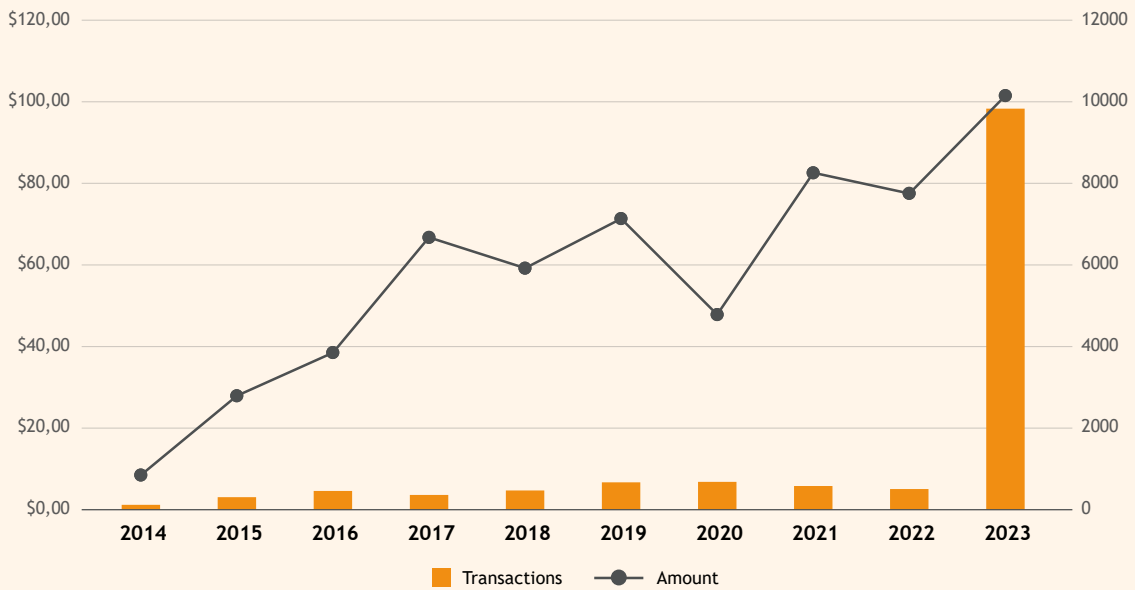
¹⁸ Radio YSKL. 2023. Transfer365 se amplía para bancos de Centroamérica y Dominicana. Available at: <https://radioyskl.com/2023/07/17/transfer365-se-amplia-para-bancos-de-centroamerica-y-dominicana/>

¹⁹ Dinero. 2023. Transfer365 CA-RD launches, which will allow transactions from El Salvador to the region for only US\$1. Available at: [https://dinero.com/sv/en/economy/item/8665-transfer365-ca-rd-launches,-which-will-allow-transactions-from-el-salvador-to-the-region-for-only-us\\$1.html?tmpl=component&print=1](https://dinero.com/sv/en/economy/item/8665-transfer365-ca-rd-launches,-which-will-allow-transactions-from-el-salvador-to-the-region-for-only-us$1.html?tmpl=component&print=1)

The limited involvement of financial entities in SIPA directly affected access to the low-cost service across all strata of the Salvadoran population.

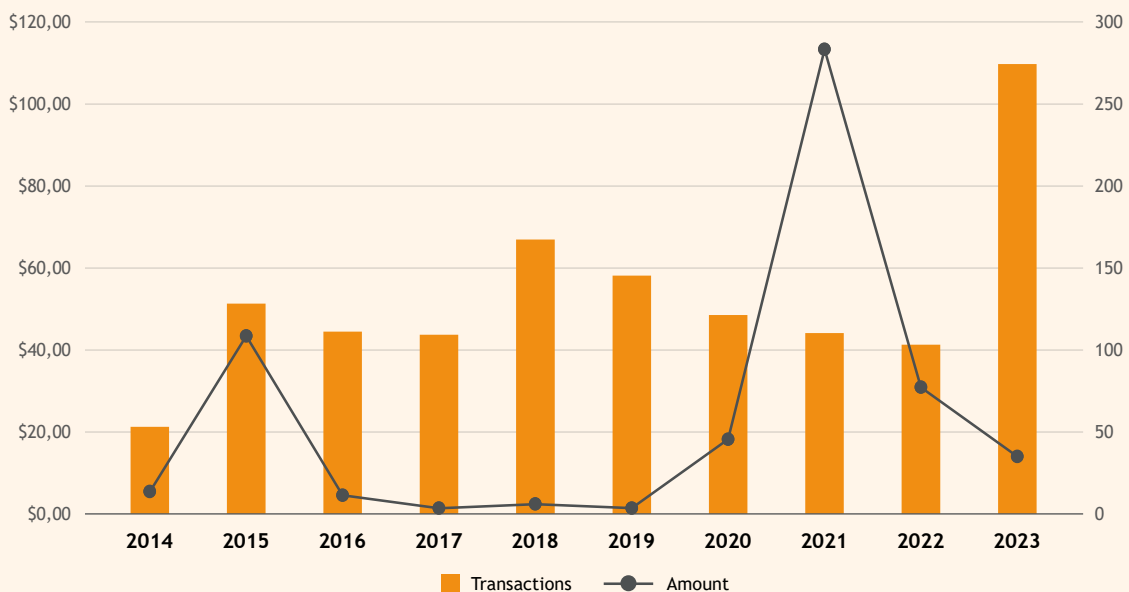
Furthermore, the absence of digital facilities for users among the few participating financial entities led to the abandonment of SIPA by the financial sector of El Salvador.

FIGURE 3: TOTAL REGIONAL SHIPPING TRANSACTIONS FROM EL SALVADOR THROUGH SIPA PERIOD: 2004-2023 (IN MILLIONS US\$)



Source: Own elaboration with data from the Central Reserve Bank of El Salvador.

FIGURE 4: TOTAL REGIONAL ENTRY TRANSACTIONS C.A EN DR TO EL SALVADOR THROUGH SIPA PERIOD: 2004-2023 (IN MILLIONS US\$)



Source: Own elaboration with data from the Central Reserve Bank of El Salvador.

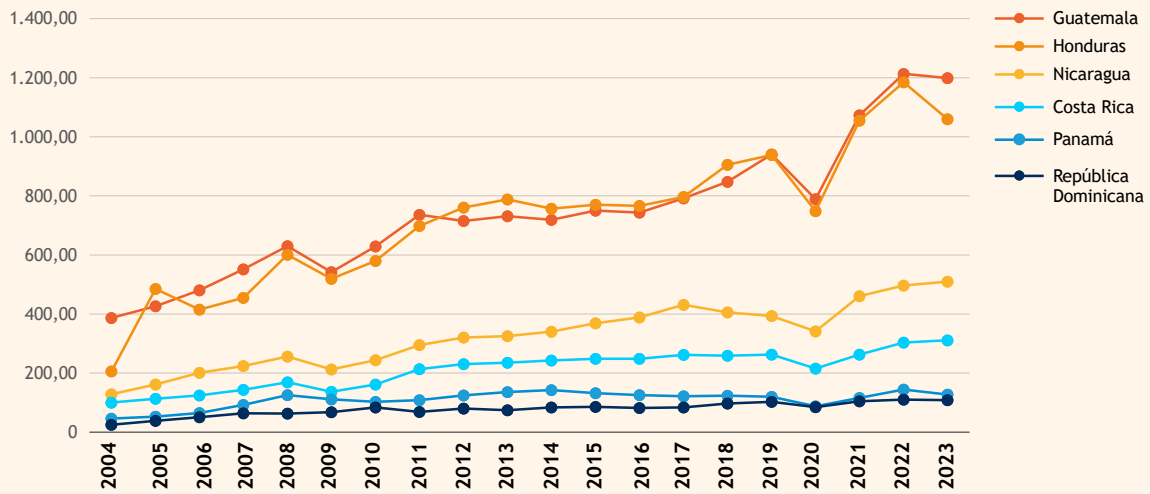
Regarding the Regional Payment System, the Central American Monetary Council (CEMCA) in Session No. 259/2022 held in November 2022 approved a proposal by the President of the BCR of El Salvador, which aimed to enhance the use of SIPA across the region, aligning with the Transfer365 CA-RD implementation project subsequently initiated by the BCR in June 2023.

Central America and the Dominican Republic accounted for 49.1 percent of El Salvador’s exports in 2023, valued at USD3.2 billion. The introduction of Transfer365 CA-RD

is expected to reduce costs for businesses and families in regional trade payments, transfers, and remittances, particularly benefiting migrant populations. This system integrates with SIPA, ensuring high security and efficiency standards.

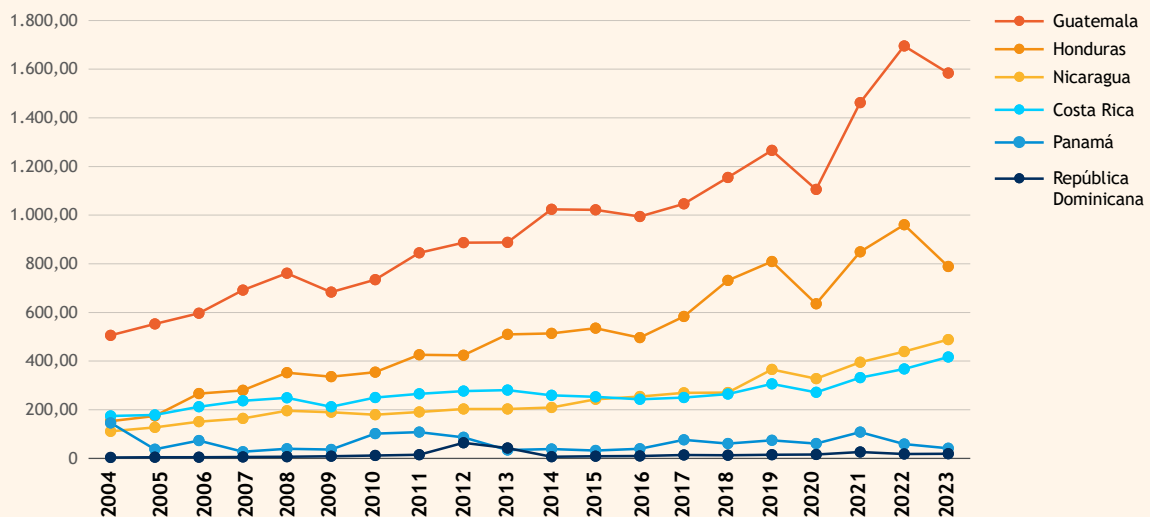
Over the last four years, the BCR has invested approximately USD20 million in advanced technology and payment systems infrastructure. Transfer365 CA-RD is seamlessly integrated into SIPA, the regional payment system of Central American countries and the

FIGURE 5: TOTAL EXPORTS FROM EL SALVADOR TO CA AND DR. PERIOD: 2004-2023 (IN MILLIONS OF USD)



Source: Information on International Trade in Goods, Central Reserve Bank of El Salvador.

FIGURE 6: TOTAL IMPORTS FROM EL SALVADOR TO CA AND RD. PERIOD: 2004-2023 (IN MILLIONS OF USD)



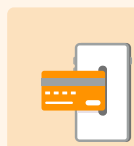
Source: Information on International Trade in Goods, Central Reserve Bank of El Salvador.

Dominican Republic, allowing for real-time settlement of regional interbank payments. Transfer365 plays a crucial role in Central America by facilitating efficient cross-border instant settlements and supporting regional economic integration. This innovative service benefits the entire Salvadoran population with low transaction costs, immediate fund crediting, and accessibility to all entities in the financial system.

Available 24/7, it ensures that transactions can originate from El Salvador to other countries in the region at any time.

Several pillars were defined and developed to ensure the provision of high-quality services like Transfer365 CA-RD to the population:

FIGURE 7: PILLARS OF TRANSFER365 CA-RD



BCR leadership

A strategic vision was formulated for payment systems, aimed at serving the population by expanding services under a 24/7/365 scheme, with the goal of minimizing costs and ensuring easy access for all.



Solid legal base

The obligation was imposed on banks, cooperative banks, and savings and credit societies to provide the service to their clients, ensuring the integration of 100 percent of financial institutions. Currently, there are a total of 22 participants in El Salvador.



Surveillance scheme

The surveillance and regulatory compliance scheme for administrators and participants of the payment system has been strengthened. This enhancement reinforces both the operations and the image of the service.



Investments in IT

To strengthen the technological infrastructure that supports the incremental volume of payment operations carried out by the population, investments were made in the purchase of software and hardware.



Cooperation of Participants

The system was developed in coordination with financial institutions, providing a service that is easily accessible to their clients through electronic channels.


The objective of this initiative was to connect all users with a bank account, regardless of their segment or stratum, whether they were clients of traditional commercial banks or clients of financial institutions serving less attractive sectors to large corporations.

In contrast to other SIPA member countries, El Salvador stands out as the only country where all institutions are integrated into Transfer365 CA-RD. The indirect participants of Transfer365 CA-RD include:


FIGURE 8: ENTITIES AFFILIATED WITH THE SERVICE




FIGURE 9: FEATURES OF THE TRANSFER365 CA-RD SERVICE:

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Transfers are settled through the Real-Time Gross Settlement Systems (RTGS) of the central banks of member countries, reducing costs compared to other international operations.

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It operates 24 hours a day, seven days a week, 365 days a year, allowing Salvadoran clients to initiate transactions through their preferred financial institution at any time, any day, year-round. Regionally, settlements occur during the operating hours of the central banks.

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The cost to the client is low, currently USD1.0 plus VAT, covering operations within the region and excluding commission from the national bank.

- 

Transaction amounts have no minimums or maximums, tailored to the client's profile with the financial institution and within the maximum limits established per operation by financial risk coverage policies.

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The operation is 100 percent digital, available on all electronic platforms and at financial institution branches facilitating remittances, payments, transfers between regional bank accounts, and securities market settlements, among other transactions.

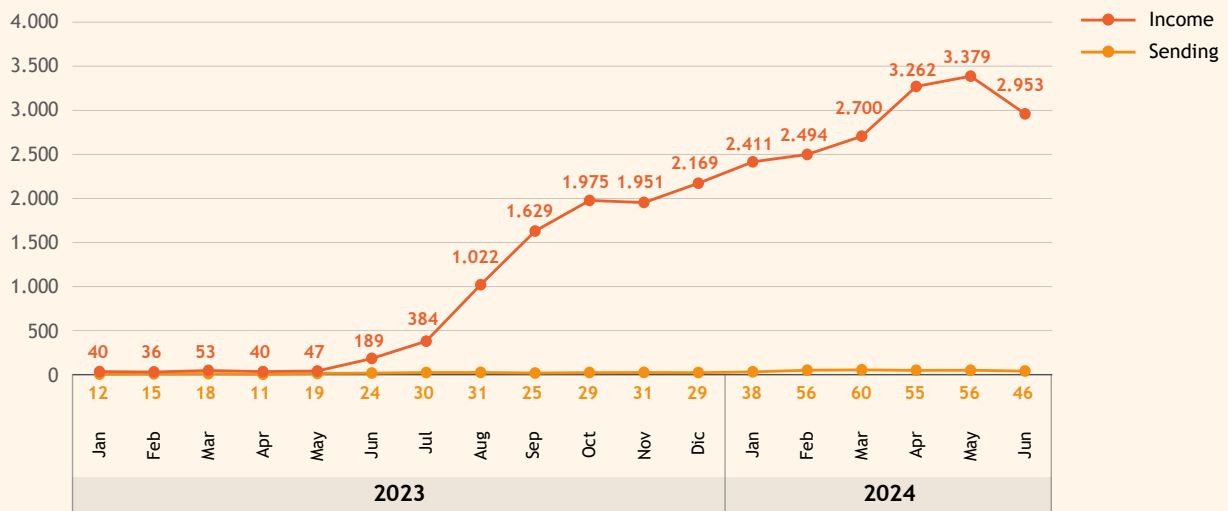
The data point to a significantly positive impact on the finances of Salvadorans, with the establishment of a fixed cost per shipping operation from El Salvador at USD1.00 + taxes, contrasting sharply with the exorbitant fees of up to USD70.00 per transaction charged by some institutions.

Based on these rates, the transaction costs established for Transfer365 CA-RD shipments are solely to cover the costs of the institutional manager and the Destination Indirect Participant. Moreover, the service was designed to be 100 percent digital and accessible across all electronic platforms and financial institution branches, ensuring that making a regional transfer to any country in Central America or the Dominican Republic is within reach for everyone. Additionally, it is an inclusive service available to all entities within the financial system and accessible to the entire banked population, including individuals and companies, facilitating regional transactionality, and promoting the development of various markets for the exchange of goods, services, and remittances.

Before Transfer365 CA-RD, regional transaction services were monopolized by private financial institutions, taking up to three days and costing between USD35 and USD70 plus VAT per transaction, which greatly affected settlement efficiency. Since June 2023, operations through Transfer365 CA-RD can be initiated at any time and settled according to the schedules of regional central banks, with a maximum cost of USD1.00 plus VAT per transaction.

Before the implementation of Transfer365 CA-RD, El Salvador recorded only 216 regional transfer operations from January to May 2023. However, since its inception in June 2023, the service has seen remarkable acceptance and usage. In July 2023, 384 transactions were facilitated, with this number surging to 2,700 by March 2024. From June 2023 to December 2023, the number of regional transfer operations skyrocketed to 9,327, representing a 4,218 percent increase. The value of transactions rose from USD18.35 million to USD81.06 million, a 342 percent increase, positioning El Salvador as a regional leader in regional financial transfers.

FIGURE 10: EVOLUTION TRANSFER365 CA-RD MONTHLY TRADING TRANSACTIONS. YEAR: 2023 (IN UNITS)



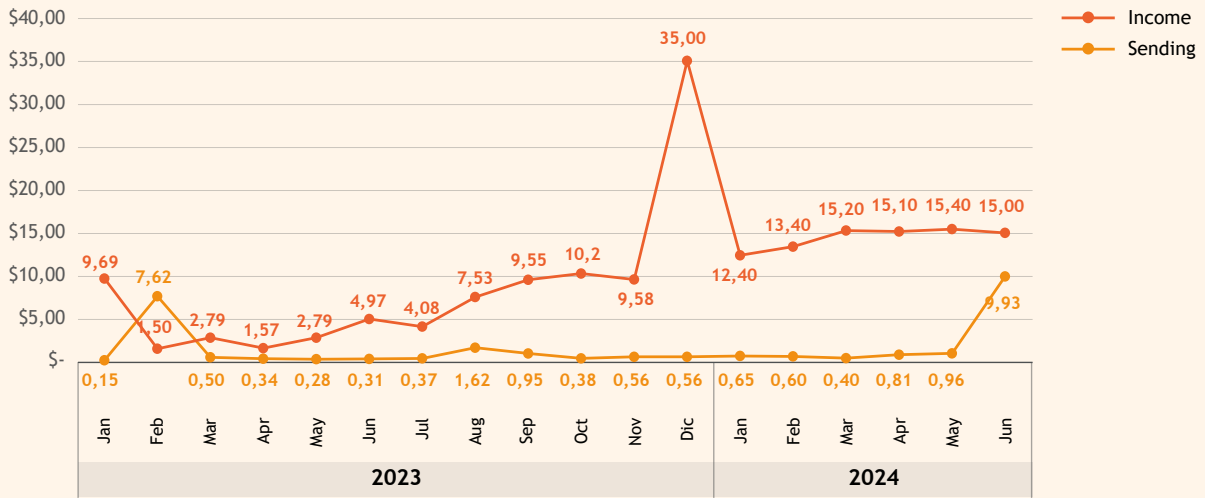
Source: Own elaboration with data from the Central Reserve Bank of El Salvador.

The user response has surpassed project expectations, with 27,036 transactions carried out from June 2023 to June 2024, with 98 percent (26,518 operations) corresponding to regional shipping, totaling USD167.83 million.

The remaining two percent (510 transactions) constituted income operations from other countries,

amounting to USD18.09 million. Year-on-year, during the period from June to December 2023, regional shipping operations increased by 2,988.41 percent compared to the same period in 2022. This dramatic surge clearly indicates the widespread acceptance of the service provided by the Central Reserve Bank of El Salvador among the Salvadoran population.

FIGURE 11: TRANSFER365 CA-RD MONTHLY AMOUNTS. PERIOD: JANUARY 2023 TO JUNE 2024 (IN MILLIONS USD)



Source: Own elaboration with data from the Central Reserve Bank of El Salvador.

One of the primary benefits of Transfer365 CA-RD is its low cost and accessibility through the digital channels of the 22 financial entities, making it highly attractive to users. Since its implementation, Salvadorans have collectively saved approximately USD1.52 million in banking fees, based on an average fee of USD50.00 for other services.

The success of Transfer365 CA-RD can be attributed to its seamless integration with a range of financial institutions and its round-the-clock availability, enhancing user convenience and trust.

This service has significantly benefited local and regional commerce and industry by facilitating payments for businesses, tourism, various purchases, family remittances, stock market transfers, and diverse operations between banks and their subsidiaries in the region.

Transfer365 and Transfer365 CA-RD support the National Financial Inclusion Policy and the National Fintech Strategy by promoting financial inclusion through innovation. These initiatives aim to meet financial needs and enhance the well-being of the Salvadoran population both domestically and internationally.

They enable the Central Reserve Bank of El Salvador to foster a digital ecosystem and financial innovations, developing the regulatory and normative framework to allow for further financial advancements.

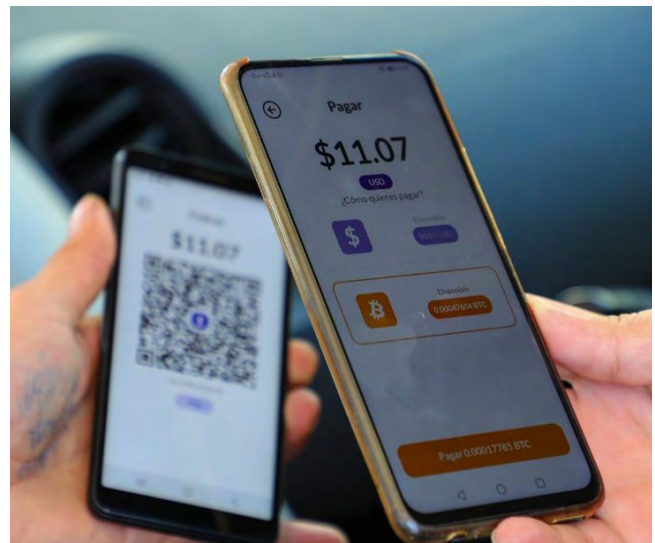


Photo credit: Banco Central de Reserva de El Salvador.

2.7 TRANSFER365 RISK MANAGEMENT AND RESILIENCE

Risk management is a critical aspect of any financial service, and Transfer365's approach exemplifies a comprehensive strategy to ensure resilience and reliability. The robust security mechanism aims to address security concerns, ensuring system uptime and efficiency, establishing business continuity plans, managing outsourcing risks, and maintaining service level agreements (SLAs) with the third party.

To prevent cybersecurity risks, the Central Reserve Bank of El Salvador incorporates robust security measures such as Public Key Infrastructure (PKI) tokens and digital certificates. Transfer365 fortifies its defenses against unauthorized access and cyber threats by implementing these measures. Additionally, the system's tiered authorization levels for sending and consulting operations further enhance this security framework by controlling access based on user roles and responsibilities.

The physical infrastructure's hardening, coupled with restricted access, protects against external threats but also minimizes the risk of internal breaches. The dual communication links, primary and secondary, are a prudent measure to maintain service availability. The operational continuity plan establishes contingency

mechanisms, ensuring that if one link fails, the other can sustain and activate the service without interruption.

The operational continuity plan is another cornerstone of Transfer365's risk management strategy. By outlining specific contingency mechanisms, it prepares the organization to respond swiftly and effectively to disruptive events. This plan is not static as it evolves with the changing risk landscape, incorporating lessons learned from past incidents to reinforce future readiness.

Managing outsourcing risks is also crucial, as third-party services can introduce vulnerabilities. Transfer365's approach includes a thorough vetting of vendors, regular audits, and the establishment of clear SLAs that define expectations and responsibilities. These SLAs are essential for holding all parties accountable and ensuring that outsourced services do not compromise the security and efficiency of Transfer365's operations.

Transfer365's risk management and resilience strategies are multi-faceted, addressing various potential points of failure. From cybersecurity to physical safeguards, and from operational redundancy to vendor management, Transfer365 has developed a robust framework to protect its services and clients.



2.8 RECONCILIATION AND SETTLEMENT MECHANISMS

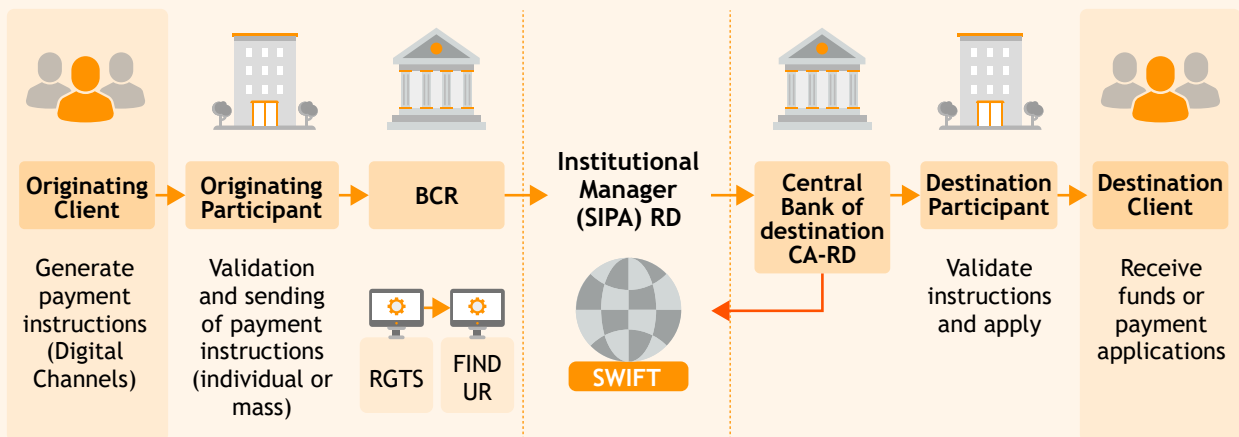
Reconciliation and settlement mechanisms are indeed crucial components of financial systems like Transfer365, ensuring the integrity and efficiency of transactions. The fund reserve mechanism employed by Transfer365 is designed to guarantee compliance and uphold the obligations of participants, allowing for the immediate settlement of user transactions while deferring settlements for participants based on their net positions. This system not only streamlines the process but also provides a layer of financial security and trust among users and participants alike.

In the context of Transfer365 CA-RD, the settlement process is meticulously carried out on an individual basis, contingent upon the available balance within the central banks' accounts managed by the institutional manager, which is currently the Dominican Republic. This method ensures that each transaction is reconciled accurately, reflecting the real-time financial status of the involved parties. Such a system is indicative of the advanced financial infrastructure that supports the robustness of the Transfer365 financial network.



A man making a payment through his mobile phone (peoplecreations / Freepik)

FIGURE 12: STRUCTURE OF THE ROLES OF TRANSFER365 CA-RD



The success and reliability of Transfer365 can be attributed to its innovative approach to digital financial services, which aligns with international standards and meets the needs of its users.

The system's 24/7 accessibility and immediate settlement capability have revolutionized the way payments are processed, offering flexibility and convenience through digital channels. Transfer365's impact on financial inclusion and economic growth, particularly in El Salvador, has been significant, demonstrating the transformative power of modern payment systems.

The implementation of Transfer365 and its subsequent iterations, such as Transfer365 Móvil²⁰ highlight the progressive nature of financial technology in Latin America. The system's expansion to accommodate cross-border payments through Transfer365 CA-RD is forecasted to further optimize digital financial services across Central America and the Dominican Republic, setting a new standard for regional financial cooperation and integration.

The reconciliation and settlement mechanisms of Transfer365, bolstered by its fund reserve system, exemplify the advancements in financial technology that are driving economic development and financial inclusion. The meticulous settlement process of Transfer365 CA-RD underscores the importance of accurate and efficient financial management, ensuring the stability, integrity, and reliability of the system for all participants involved. As Transfer365 continues to evolve, it stands as a beacon of innovation in the realm of digital payment solutions.

2.9 FEES, CHARGES, AND PRICING DYNAMICS

The financial and economic model of Transfer365 and Transfer365 CA-RD, which represent the domestic and regional digital payments landscape respectively, exhibit slight differences. Both infrastructures are designed to be sustainable by striking a delicate balance between user affordability and system economic viability.

For Transfer365, no fees are imposed for local transactions, ensuring inclusivity and accessibility for the Salvadoran population, thereby encouraging widespread adoption and usage. To ensure the sustainability of the infrastructure from the operators' perspective, the system incentivizes operators by replacing their previous costs associated with cash management services pre-Transfer365 with a robust digital payments option. This approach meets market needs while offering new revenue opportunities through upselling and cross-selling appropriate financial services and products, ensuring that the benefits of financial participation extend to all stakeholders.

In the case of Transfer365 CA-RD, a nominal fee, not exceeding USD \$1.00 per transaction, is set for all cross-border and sub-regional transactions. Additionally, a monthly subscription fee is charged to participating entities and operators by the Central Reserve Bank of El Salvador to cover the costs associated with the infrastructure and payment system security. This fee is strategically priced to maintain affordability while helping to offset the operational costs for operators and stakeholders.

The comprehensive economic model adopted for Transfer365 CA-RD aims to present a net positive or balanced cost perspective for all stakeholders by significantly reducing previous expenditures related to operational and capital expenses, such as cash management services including human resources, storage, transportation, security, and handling, thereby improving overall business and process efficiency. The pricing model is also subject to future adjustments based on data and insights to ensure the system's sustainability and adaptability to evolving economic conditions for all stakeholders.

The models adopted for both domestic and regional payment systems not only promote financial inclusion by removing barriers for the general population but also ensure the services' continued operation without financial deficits. The success of this model depends

²⁰ Transfer365 Móvil is a service, as part of the broader Transfer365 system, launched by the Banco Central de Reserva de El Salvador on 27 June 2022. It allows users to perform interbank transfers using the mobile phone number associated with their bank account.



Photo credit: Banco Central de Reserva de El Salvador.

on a high volume of transactions to offset the low transaction costs and a robust financial strategy that anticipates market changes and user needs.

This forward-thinking approach aligns with global trends towards reducing the cost of financial transactions and making banking services more accessible to all segments of society. The central bank's role is crucial in this ecosystem, as it not only regulates but also facilitates a stable environment for financial transactions. In essence, Transfer365's financial model exemplifies a modern financial service that prioritizes user accessibility while maintaining economic sustainability - a blueprint that could inspire similar initiatives globally.

Transfer365 and Transfer365 CA-RD are committed to maintaining an adaptable fee structure, ensuring responsiveness to market trends and a steadfast commitment to financial inclusion, while positioning their model as a paragon of sustainability in the evolving financial landscape.

2.10 CONSUMER PROTECTION, EDUCATION, AND REDRESS MECHANISMS

El Salvador's National Financial Inclusion Policy aims to address financial inclusion challenges and narrow gaps in access for low-income individuals, women, and MSMEs. This includes robust consumer protection, education, and redress mechanisms within the Transfer365 system.

Traditionally, the country's financial system has implemented private initiatives focused on providing financial services through its largest banks, but unfortunately, this approach has limited the levels of financial inclusion due to high commissions charged.

Due to the BCR's efforts in public policy, there have been significant advancements in modernizing payment systems and incorporating digital financial services. These services, like Transfer365 for local operations and Transfer365 CA-RD for regional operations, have proven to be innovative, efficient, and safe, benefiting all Salvadorans.

In regards to consumer protection by regulations, financial institutions that offer Transfer365 and Transfer365 CA-RD services must have mechanisms and procedures to address cases of claims or complaints by originating clients as well as the final beneficiaries of the accreditations.

CHAPTER 3: CONCLUSION AND FUTURE OUTLOOK

3.1 CONCLUSION

In conclusion, the case study of Transfer365 in El Salvador showcases a remarkable journey in advancing financial inclusion and digital financial services. Launched in 2021, Transfer365 revolutionized the interbank transaction market, previously monopolized by private institutions with high transaction fees, by offering immediate, free, and accessible digital financial services.

Its impact has been profound, significantly increasing transaction volumes and value, particularly with the introduction of Transfer365 CA-RD, which has facilitated cross-border transactions across Central America and the Dominican Republic.

The system's governance, risk management strategies, and reconciliation mechanisms demonstrate a commitment to security, efficiency, and reliability. Transfer365's success not only positions El Salvador as a regional leader in financial transfers but also sets a new standard for digital payment solutions, highlighting the transformative power of innovative financial technologies.

Central America and the Dominican Republic, with their diverse economies, currencies, and financial systems, are benefiting significantly from a robust regional payment system like Transfer365 CA-RD, which streamlines payment processes, reduces costs, and promotes cross-border trade and economic integration.

Transfer365 CA-RD enhances financial inclusion by providing a standardized platform accessible to a range of financial institutions, empowering individuals and businesses with improved banking access. Central banks play a crucial role in this progress by integrating financial institutions and extending operating hours, which lowers transaction costs and stimulates economic growth.

As Central American nations move towards greater interconnectivity and cooperation, a unified payments system stands out as a key driver of regional growth, stability, and prosperity.



Man selling ice cream in Santa Ana, El Salvador. (Kreatora / Shutterstock)

3.2 FUTURE OUTLOOK

The future outlook for Transfer365 in El Salvador is promising, with several key areas poised for development and expansion:

1. **Financial Inclusion Advancements through Inclusive and Innovative Solutions:** Transfer365 and Transfer365 CA-RD are leading the way in providing inclusive and innovative financial solutions, bridging the gap between the banked and unbanked populations. These platforms not only improve access to financial services but also pave the way for future innovations in the sector. Integrating inclusive and innovative digital solutions, as well as modernizing digital financial infrastructure and systems, allows high-quality digital financial services to include more segments of society.
2. **Collaboration and Integration:** Continued efforts to integrate digital payment solutions into the broader financial ecosystem are crucial to achieving a more inclusive environment. Collaboration between financial institutions and both domestic and regional regulatory bodies will be pivotal in driving these integration efforts. Including all financial institutions in the region within the payment system ecosystem sets a precedent for other central banks in the SIPA network, offering greater opportunities for individuals to seamlessly conduct transactions from any financial institution and location. From a technical standpoint, there is a need to standardize transactional references and enhance AML/CFT controls across the region. Establishing precise processing times for transactions and beneficiary applications is crucial for reducing operational returns and efficiently identifying underlying issues. Additionally, for other countries in the region to achieve the same level of progress as El Salvador and implement a 24/7 online and immediate settlement system, it is imperative that all financial entities operating in the region actively participate.
3. **Regulatory Expansion and Diversification:** El Salvador's regulatory landscape is expanding to accommodate new players or entities beyond traditional commercial banks or savings and credit societies, such as Fintech companies, among others, diversifying the financial services available. This expansion broadens the scope of Transfer365, enabling individuals without traditional bank account to utilize the service. This inclusivity is expected to further stimulate competition, reduce costs, and enhance service delivery for consumers.
4. **Empowering the Unbanked and Protecting Consumers:** El Salvador's ongoing efforts to bridge the gap for the unbanked population highlight a commitment to inclusive growth. By continuing to enhance access to financial tools, the country aims to boost economic participation and drive overall economic development. Looking ahead, strengthening consumer protection measures will be crucial to ensuring that financial innovation remains responsible and secure, safeguarding users' interests and fostering trust in digital financial services.
5. **Future Evolution:** Looking ahead, El Salvador's financial inclusion efforts are expected to continue evolving, driven by inclusivity, innovation, and collaboration. By leveraging digital technologies and encouraging partnerships, El Salvador is ideally positioned to create a more inclusive, efficient, and resilient financial ecosystem that benefits all segments of society.

DEFINITION OF TERMS

Central American Monetary Council (CMCA): An organ of the economic integration subsystem of the Central American Integration System (SICA) comprising the presidents of the central banks of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, and the Governor of the Central Bank of the Dominican Republic.

Payment Interconnection System (SIPA): A system designed to provide automated mechanisms to channel and process regional transfers in US dollars for interbank transactions between Central American countries and the Dominican Republic.

Institutional Manager: The central bank of a member country of the Central American Monetary Council, designated as settlement agent of operations that affect the accounts of direct participants processed in the Payment Interconnection System.

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