



FinTech Business Guide 2024



PERU


Ministry
of Foreign Affairs





FinTech

Business Guide



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Author(s):

Collectively authored.

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2024






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Lima


Av. Víctor Andrés Belaúnde 171,
San Isidro, Perú 
+51 (1) 411 4444

Av. Jorge Basadre 330,
San Isidro, Perú 
+51 (1) 411 4444

Arequipa

Urb. Teresa de Jesus Mz. I Lt. 1 Edificio
City Center, Oficina 1301 Torre Sur 
Cerro Colorado, Arequipa
+51 (54) 484 470

Trujillo

Sede Miguel Ángel Quijano Doig 
Av. El Golf 591,
Urb. Las Flores del Golf III,
Víctor Larco Herrera 13009
Trujillo, La Libertad
+51 (44) 608 830



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of Foreign Affairs

Javier González-Olaechea Franco

Minister of Foreign Affairs

I am pleased to have this opportunity to present the latest edition of the FinTech Guide, which is the result of the sustained and productive collaboration between the Ministry of Foreign Affairs and EY Peru.

Long before I assumed the leadership of the Ministry of Foreign Affairs, I have been studying and sharing the immense challenges and various opportunities presented to us by the transition from an era of changes to a change of era: The Disruptive Era.

This substantial change, the emerging disruptive era, is marked by an important triad that is mainly composed of the exponential convergence of AI, bioengineering and new forms of communication, and whose most distinctive and accelerating factor is the digital transformation. The current evolution of global and national changes without borders guides or determines the direction of money, business, demand for goods and services and much more.

This Guide is intended to be a valuable tool for those who are most curious about topics related to finance and technology, as well as to satisfy the interest of specialized investors, both domestic and foreign, eager to develop new businesses and initiatives in Peru. Likewise, the issues addressed in this publication contribute to a more updated and complete knowledge of the FinTech ecosystem in our country, where financial services users, companies, digital developers, investors and regulators, among others, interact.



In recent years, the FinTech sector has been consolidating in Latin America. Our region shows that factors have aligned, with a direct impact on the growth of the ecosystem, attracting a growing interest from foreign investors. Furthermore, Fintech brings a great opportunity for disruption and innovation in business and a great way to provide greater opportunities and access to financial services, expanding inclusion to more citizens in modern services.


Interestingly, despite the severe impact of the COVID-19 pandemic on our economy and the persistence of harmful gaps that characterize different types of poverty and extreme poverty, coupled with an uncertain and challenging global context due to threats to international peace and security; Peru's financial technology subsector has broadened its scope and increased its projections, contributing to the financial inclusion of our whole population, including the poor and the extremely poor.

According to the National Statistics and Data Processing Institute ("INEI"), as of the first quarter of 2023, 57.4% of the population aged 18 and over had an account in the

financial system (savings, term deposit or current accounts), which represents an increase of 3.9% compared to the same period of the previous year.

According to the Central Reserve Bank of Peru ("BCRP"), the operational scale of FinTech companies continues to grow, although their progress is still relatively small compared to that of the financial system. The segments with the highest participation rate are funding (loans), currency exchange, and payments. Throughout 2023, ending this month, the development of digital investment solutions for retail investors in the capital market has stood out. Thus, as of September this year, there are a total of 447 FinTech companies in the Peruvian market, 188 of which are local.

These figures prove that Peruvians have the increasing need and interest in accessing digital financial services, which progressively contributes to the maturation and consolidation of the FinTech subsector and ventures in the country. For example, FinTech companies in Peru have sustained an average annual growth of 15% since 2014, when there were only 50 of these companies on record.



It has been estimated that during 2021, these would have reached a traded value of between USD 10B and USD 12B, that is more than five times what it was in 2019.

Along the same lines and with the purpose of contributing to the consolidation of the subsector, the National Institute for the Defense of Competition and the Protection of Intellectual Property ("INDECOPI"), published a market research in September 2023 that highlights the work needed from public bodies such as the regulation of technological financial services, and the creation of an environment that fosters the innovation pushed by new technologies and competition among companies.

This investment guide is meant to be a valuable consultation tool to consider, support and make investment decisions, since it contains the main regulatory, legal, economic and accounting aspects necessary to this type of business, as well as key information on the regional scenario and industry trends.

Finally, the work undertaken by the ministry I lead, and EY Peru represents an additional commitment to their ongoing efforts, undoubtedly highlighting the irreplaceable factor of private sector's initiatives in order to facilitate financial inclusion and contribute to the boost of the economic reactivation of Peru, in turn benefiting our Reinforced Foreign Policy.

Join me in the discovery of the FinTech ecosystem in the country and being a contributing part of its continuous development.



PERU

Ministry
of Foreign Affairs

Augusto Morelli Salgado

General Director of Economic Promotion

According to the Superintendency of Banking, Insurance and Private Pension Fund Management, in Peru -December 2023- the percentage of adults with credit in the financial system increased to 35.9%, surpassing the level reached in June 2018.

This statistic reflects Peru's remarkable experience with the Fintech sector, which has a notable growth, driven by technological advancements, new financial management models, and a still underbanked population. Collaboration between traditional banking and FinTech are generating interesting synergies that benefit the unbanked population and accelerate the process of financial inclusion in the country. According to the World Bank, these collaborations are vital for financial inclusion, as they allow innovative services to reach previously underserved sectors.

FinTechs are recognized for their innovation and efficiency, transforming the financial ecosystem through the intensive use of technology. These companies stand out for their focus on digitization and innovation, improving the efficiency, speed, and accessibility of financial services. Their agility and adaptability have revolutionized the industry, offering innovative alternatives to traditional banking services. This capacity for innovation and adaptation allows them to provide more personalized and efficient solutions, benefiting users and the financial system.



Peruvian growth is part of the growth of the sector in Latin America, according to the Inter-American Development Bank report, there is a substantial increase in the number of active startups in the region. Since 2018, the number of active startups has doubled, reaching a total of 2,482 by the end of 2021.

Additionally, the Central Reserve Bank of Peru (BCRP) reports a notable growth in operations conducted through virtual banking (internet, software, telephone banking and mobile banking). These operations increase from PEN17 million in June 2018 to PEN380 million in February 2024.

In addition, the number of bank accounts continued to increase, mainly due to the opening of accounts for the use of cash transfer programs and the digitization of financial transactions in the Peruvian market, reflecting greater access to digital financial services.

The Foreign Affairs Ministry is pleased to be part of the publication of the latest FinTech Business Guide 2024, which offers significant information for national and international entrepreneurs, highlighting key opportunities for investments.

I invite you to explore and participate in the exciting FinTech ecosystem of the country, thereby contributing to its continuous growth and the expansion of financial inclusion for all the Peruvian Nationals.




Paulo Pantigoso Velloso da Silveira

Country Managing Partner, EY Peru

The financial revolution that has come hand in hand with FinTech companies, which emerged as a disruptive force over the last decade, has given rise to a new way of interacting with our personal finance and has democratized access to investment opportunities. This is a constantly growing market with more users joining every day, and the traditional financial market has even joined by developing products and services or acquiring companies in the sector.

During the second quarter of 2023, FinTech companies in Latin America and the Caribbean raised close to USD 500 million. Likewise, investments in the region continue to grow; according to the Latin American Venture Capital & Private Capital Association (LAVCA), venture capital investors had invested USD 7.8 billion in 1,114 deals by the end of 2022.



The results are attractive, and the investment potential is high. For example, in Peru, 70% of the users of the financial system are non-digital users, which represents a large latent market, since 90.3% of the population uses the Internet daily.

Currently, the Peruvian market has just over 200 FinTech companies that mainly offer products and services related to loans, payments and digital wallets, and currency exchange, among others. Although growth opportunities exist across the sector, certain activities have resulted in higher rates; for example, in 2019, digital retail payments did not show up in the statistics and currently, as of March 2023, they represent 52.3% of total digital payments, according to the BCRP.

At EY, we reassert our commitment to the development of the country by promoting key sectors. This FinTech Business Guide, produced for the third consecutive year, seeks to promote investment opportunities that strengthen the market and create better conditions for the business community and the population. The purpose of this new edition of the guide is to become a promotional tool for the sector, and to provide investors with key information about the current market situation, trends, regulations, among others topics of interest for business development.

Please use this guide to dive deep on the FinTech sector. We are at your service.



Darío Bregante Tassara

Senior Manager at EY Law
Financial and FinTech Regulation Leader

Today, one of the main challenges that companies in the financial system face is the introduction of digital transformation to the company in order to generate value. The pandemic proved that clients are capable of adapting to digital financial services quickly and highlighted the need for companies to offer FinTech services. According to the BCRP, digital wallets have become the main retail payment instrument by number of transactions, going from non-significant in 2019 to 52.3% of the total number of transfers in March 2023.

In this regard, throughout 2023, technological development and financial innovations have driven the creation of new businesses in the Peruvian FinTech sector, whether regulated or unregulated. According to the 2023 EY Peru FinTech Index, as of October 2023, there are 203 FinTech companies nationwide, representing an approximate growth of 32% compared to last year.

This context shows the Peruvian financial sector's commitment to the optimization of financial services in order to offer services that are faster, more efficient, and accessible from anywhere and at any time. This edition of the FinTech Business Guide serves as a ratification of our commitment to the development of FinTech businesses in Peru, as well as to the creation of a better business environment at all levels.



Therefore, we updated the content of the guide with the goal of providing more information about the situation of the FinTech ecosystem, advances of the verticals, and the challenges that someone interested in establishing, developing and/or investing in a FinTech business in Peru would have to face.

The first chapter presents an overview of the FinTech ecosystem's current scenario. This edition showcases a preview of the 2023 EY Peru FinTech Index, a report that identifies the state and advances of the FinTech sector in Peru.

The second chapter offers key information about current FinTech services in Peru, and it highlights the growing use of e-wallets in the country. As of September 2023, the BCRP reported an increase of 143.7% in the number of transactions using digital wallets compared to the same period in 2022, and, in the same period, PLIN was used in 42 million transactions and YAPE in 41 million transactions, as part of -bank to bank- transactions.


In order to provide support to overcome the challenges of developing FinTech businesses, the third chapter delves into the main options when establishing a FinTech company in Peru, whether by incorporating a non-regulated company, requesting authorization to carry out a regulated operation, or even forming a business alliance. Likewise, we also present a general overview of the venture capital industry in the country. It is important to note that, according to the Peruvian Seed and Venture Capital Association ("PECAP"), FinTech businesses represented 77% of the USD 87 million invested in the venture capital market in Peru during 2022.

Another new feature of this edition is the update of the fourth chapter with information on each of the main FinTech verticals in Peru: payment and transfer solutions, currency exchange, factoring, lending, financial management, crowdfunding, services with virtual assets, InsurTech, FinTech as a Service, and wealth management.

The fifth chapter offers a multidisciplinary and comprehensive approach for people interested in starting a FinTech business and, thus, covers the main up-to-date aspects related to tax, prevention of money laundering and terrorism financing, free competition, information security and cybersecurity, intellectual property, labor and accounting matters.

Finally, the sixth chapter offers a glimpse of Latam's FinTech ecosystem, which would not be possible without the support of our offices in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Central America and Uruguay. We invite you to review this guide hoping that it will bring you benefits when carrying out your activities and we are at your disposal to assist you.

Table of Contents

Click here to go directly to the chapter 



2. General information

Main government actions for digital transformation.

32



1. FinTech Scenario

We present the results of the EY Peru FinTech Index.

18



3. FinTech Business in Peru

How to establish a FinTech company?

94

4. FinTech eco- system in Peru

FinTech verticals:
main trends.

148





5. Transverse regulation

Current regulations in the sector.

249



6. FinTech in Latin America

Main advances of the sector in the region.

325

Annexes



Regulatory
bodies
Pg. 390



Our
services
Pg. 397



Acknowledgement
Pg. 408



Acronyms
Pg. 409



References
Pg. 411



Statement
Pg. 423

FINTECH
1

FINTECH
SCENARIO



1.1

>> FINTECH

1.1. What is FinTech?

The Financial Stability Board (FSB) defines FinTech as a technological innovation applied to financial services that has the potential of creating new business models, applications, processes or products with significant effects associated with financial services.

Today, FinTech (Finance + Technology) is used to refer to a sector of the economy or business groups providing or supplementing financial services with an emphasis on the use of digital technologies. This includes a wide range of innovations and business models aimed at improving and automating financial processes and services, such as payments, money transfers,



investments, insurance and loans. It can include companies regulated and supervised by a financial authority.

FinTechs are born on the market as a solution to the existing gaps in banking penetration and financial inclusion, providing financial-technological solutions that allow citizens to obtain greater opportunities for their economic development.

FinTech solutions have contributed to improving user experience in financial services, reducing unnecessary friction and making it easier and faster to register, access and use these virtual platforms.

Following that trend, according to Statista forecasts, 2025 will see more than 380 million FinTech users. It is estimated that the FinTech vertical of digital payments is the one with the largest number of users.

The dynamism and variety that characterize the FinTech sector and its financial technology products include both traditional and innovative digital solutions.

Taking into account their characteristics, in order to prepare the EY Peru Fintech Index 2023, which gathers information on FinTech companies in Peru, we have taken into account the most representative verticals for this sector in the country.

1.2. Evolution of FinTechs in Latin America

In recent years, the number of startups and users in the Latin American and the Caribbean FinTech markets has significantly increased. According to Statista, Latin American countries make up around 2,300 of approximately 11,000 FinTech ventures in the Americas.

Mexico, Brazil and Argentina are the Latin American countries with most of these ventures. Also, Brazil and Mexico receive most of the investments destined for FinTech companies. In this regard, according to CB Insights, in the second quarter of 2023 showed a drop in FinTech investments globally; however, FinTech investments in Latin America and the Caribbean increased by approximately 150% in the second quarter of 2023 compared to the first one.



FinTech verticals

Payment and transfers:

Digital solutions to make payments or transfer funds, either domestically or internationally, that are accepted in physical locations or in e-commerce. This includes sending and receiving funds from abroad (remittances), as well as digital solutions that facilitate or carry out processes at some stage of the payment processing cycle (e.g., payment processing companies).

Loans:

Digital platforms or apps through which the publication of offers and/or contracting of loans is facilitated, which includes peer-to-peer (P2P) or business-to-consumer (B2C) loans. It also includes financial leasing transactions.

Crowdfunding:

Digital platforms or apps through which a plurality of investors or donors are allowed to place or send money to projects for various purposes. It includes the modalities of loans, equity and/or debt securities, donations, among others.

Factoring:

Businesses dedicated to the acquisition and marketing of negotiable invoices and other credit instruments, which operate through digital platforms or applications, as well as those that allow their users to transfer and invest in the acquisition of invoices and other instruments offered on a digital platform or application (e.g., crowdfactoring).



Currency Exchange:

Platforms or apps through which the offer and sale of currencies is facilitated virtually, including those platforms that allow their users to buy and sell currencies among themselves.

Insurtech:

Digital solutions used to carry out processes and/or services of an insurance company, including platforms that facilitate contracting insurance, as well as technological tools that automate processes of an insurance company (e.g., AI used for claims management).

Finance Management:

Digital solutions that seek to facilitate or improve money management belonging to an individual or a company (e.g., platforms with savings opportunities). Alternative credit scoring platforms are included here.

Wealth management:

Advisory, sales and asset management services using digital solutions and platforms, such as robo-advisors.

Services with Virtual Assets:

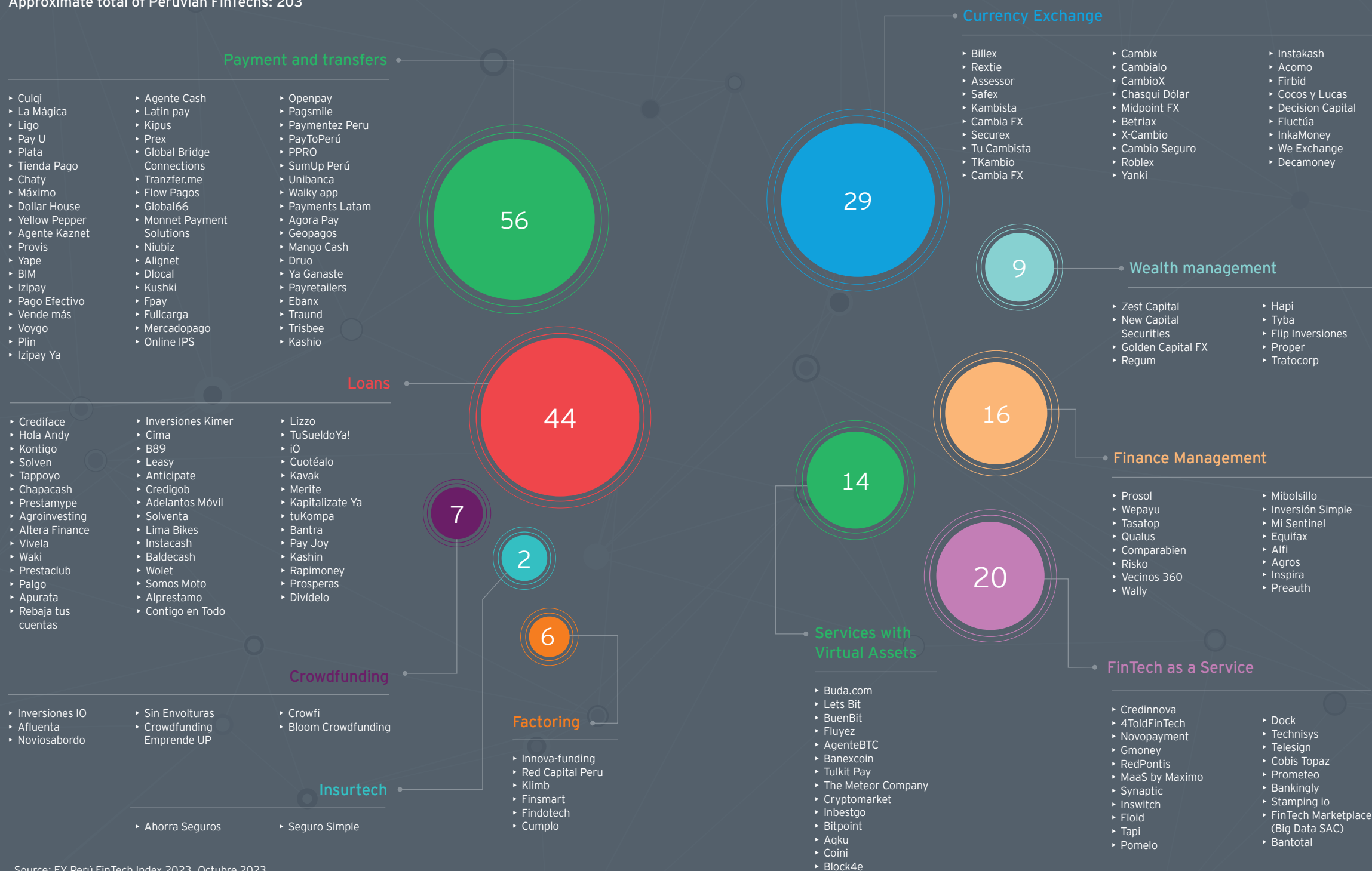
Digital platforms or apps that facilitate or allow access to financial services or products with virtual assets (e.g., crypto assets, tokens, among others). This includes services to buy and sell or exchange virtual assets, as well as the transfer of virtual assets.

FinTech as a Service (FaaS):

Digital technology solutions related to the finance business or financial technology for companies or institutions that provide financial services and/or products (e.g., loan companies), such as KYC solutions, infrastructure and/or technological platforms, data analytics, transaction processing, account opening, etc. These services are offered through cloud-based platforms, APIs and software as a service (SaaS).

EY Perú FinTech Index 2023

Approximate total of Peruvian FinTechs: 203



Source: EY Perú FinTech Index 2023, Octubre 2023.

FinTech Growth

As of the year-end 2014, there were 50 FinTech companies in Peru. Currently, according to the 2023 EY Peru FinTech Index, there are approximately 203 FinTech companies in the country. Compared to last year, data shows an approximate growth of 32%.

In this edition, it is relevant to highlight that the number of Payments and Transfers FinTech companies increased to 56, surpassing the Lending vertical, with 44 FinTech companies.

Today, the main FinTech verticals in Peru are Payments and Transfers and Loans and Currency Exchange, respectively.



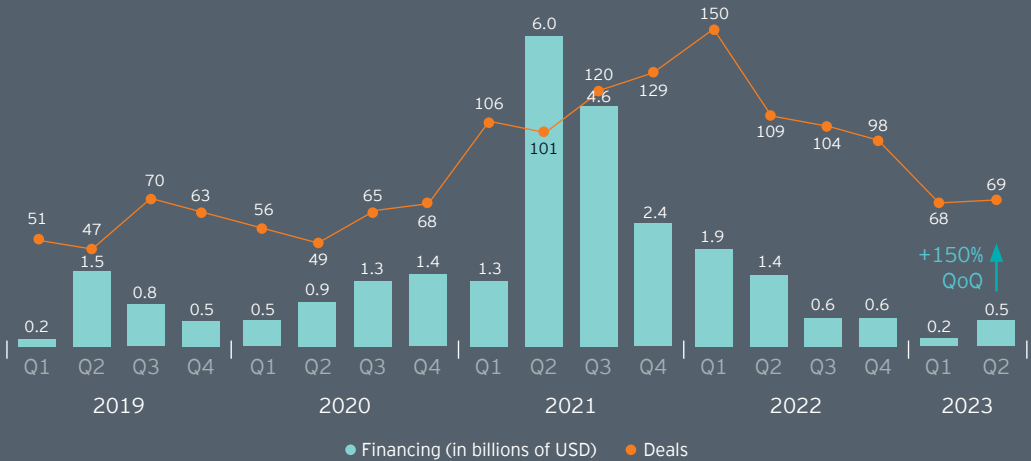
FinTech Investment and Unicorns in Latin America

According to a TechCrunch article and to CBInsights' State of FinTech Q2 report, FinTech companies in Latin America and the Caribbean raised USD 500 million in the second quarter of 2023, an amount that represents an increase of 150% compared to the previous quarter.

According to Contxto.com, the Latin American Venture Capital & Private Capital Association ("LAVCA") reported that venture capital investors invested USD 7.8 billion in 1,114 deals in Latin America in 2022, down from USD 15.9 billion in 2021. Likewise, the FinTech sector was the main recipient of venture capital investment in US dollars in 2022, representing 29% of last year's investments.

The report notes that early-stage operations represented 81% of the 2023 total. Perhaps the most remarkable results in the region during the quarter were those of the DeFi platform Kross Wallet, based in the Cayman Islands, which raised USD 100 million in a seed funding round.

Latin America and the Caribbean are the only regions in which financing is growing



Source: State of Fintech Q2 2023 Report from July 19th 2023.



A unicorn is a company with a valuation above US\$1 billion that is not listed on the stock market. According to Statista, as of March 2023, there are 23 unicorns in Latin America. The headquarters of these companies are located mainly in Argentina, Chile, Colombia, Mexico and, most commonly, in Brazil. The latter country has the largest number of unicorns in the region. However, currently, the unicorn with the highest market value in the region is the Mexican company Kavak. The total capitalization of unicorn companies in Latin America is approximately USD 123.3 billion.

Only 3% of all unicorns in the world are in Latin America, according to a report on the situation published in 2022 by Endeavor and Glisco Partners. Approximately 58% of total unicorns in the region are in Brazil, 20% in Mexico, 13% in Argentina, 6% in Chile and 3% in Colombia.

When distributed by sectors, companies in the financial sector (FinTech) have the highest accumulated value among all the unicorns, amounting to almost USD 80 billion.

Main companies in the FinTech sector that have reached the unicorn valuation either in the present or in the past*

Brazil

- Creditas, secured or unsecured loans
 - C6 Bark, digital bank
 - Dock, banking as a service
 - Ebanx, payment solutions
- PagSeguro, payment solutions (by listing on the stock market)
- Mercado Bitcoin, cryptocurrency exchange
- Nubank, digital bank (former unicorn, now listed on the stock market)
- Stone Pagamentos, payment solutions (by listing on the stock market)
 - Neon, digital bank
 - Unico, FinTech as a service

Colombia

- Rappi, marketplace with financial solutions
- Habi, proptech with financial solutions

Mexico

- Bitso, cryptocurrency exchange
- Clara, corporate finance management
- Clip, corporate finance management
 - Kavak, secured loans
- Konfo, corporate finance management
- Nowports, financial arm of secured or unsecured loans
 - Stori, credit cards
- Yaydoo, finance management solutions

Ecuador

- Khuski, payment solutions

Argentina

- Uala, digital bank
- Mercado pago, digital payment solutions
- Itfarma, platform dedicated to cryptocurrency mining

Chile

- Betterfiy, insurtech

Uruguay

- dLocal, payment solutions (former unicorn, now listed on the stock market)

* List of unicorns from contxtto.com



Interview with Roberto Vargas, President of the Peruvian FinTech Association



Roberto Vargas

President of the
Peruvian FinTech
Association

Please tell us in your opinion and considering the last 6 years, what is the FinTech ecosystem scenario in Peru?

Peru is in the process of forming an industry driven by the promotion of financial inclusion. Cooperation and collaboration among industry stakeholders has increased, which has impacted regulatory changes that finally acknowledge the evolution of the FinTech sector and the capacity of the private sector to create greater value through powerful strategic alliances. Therefore, a positive ecosystem is emerging nurturing an increase in FinTech actors, both Peruvians and foreigners. It is worth noting that some important matters such as the defense of free competition, the interoperability of e-wallets, the fact that e-money issuing companies have been considered in some regulatory change initiatives, the change of mindset by banking actors, among others, push for a new scenario of closer collaboration with FinTech companies. Also, the Ministry of Economy and Finance, the Ministry of Foreign Affairs and the Ministry of Production place a lot of importance on FinTech topics. We could see this point in time as the take-off of the FinTech industry.

1.

Regulatory updates have been issued recently by authorities such as the BCRP and the FIU. In that sense, as president of the FinTech Association of Peru, what would you consider to be the most valuable pending regulatory modifications for the promotion and support of FinTech activities?

Regulatory advances are valuable and can be considered an adaptation to the reality of FinTech activities in the market. However, Peru must show interest in promoting the financial technology industry and causing a rapid acceleration of public policies related to FinTech, as well as in co-creating large national projects, such as Financial Education, a Financial Technology Transfer Center, and in finding specific solutions for problems in markets in the regions. Understanding FinTech as accelerators of technological progress, and of development and economic growth is key to making the country more competitive.

When you think about the short-term FinTech ecosystem in our country, in your opinion, what will be the prevailing trends in FinTech businesses?

A considerable increase in the number of foreign FinTech companies operating in Peru, a high capacity from the banking sector to associate with FinTech companies, and an increase in the leadership of founders of Peruvian FinTech companies and of the Peruvian Guild for FinTech at the international level.

FIN TECH 2

GENERAL INFORMATION



2.1

>> GEOGRAPHY

A. Geographic Characteristics

Peru is located in the center-western part of South America, bordered by the Pacific Ocean to the west, Ecuador and Colombia to the north, Brazil and Bolivia to the east, and Chile.

It has a total surface area of 1,285,215.6 km², divided administratively into 25 regional governments and 196 provinces, including the Constitutional Province of Callao. Geographically, it is divided into three regions:



Surface area
1,285,215.60 km²

3 natural regions,
25 Regional
Governments

196 provinces

 **Coast 11.7%**

The Coast consists of a narrow strip of desert-like flatlands, accounting for 11.7% of Peru's total area. This Region sits between the Pacific Ocean and the western flank of the Andes Cordillera, running from Ecuador in the north to Chile in the south. In the central part of this Region is the city of Lima, the capital of the Republic of Peru.

 **Highlands 27.9%**

The highlands are a mountainous region located between the western and eastern flanks of the Andes, featuring altiplano ecosystems and deep valleys. They account for 27.9% of the country's surface area.

 **Jungle 60.4%**

The jungle accounts for 60.4% of the country's surface area, consisting of the high jungle and low jungle. The majority of the low jungle is located in the Amazon Rain Forest.





B. Demographic Characteristics:

Demographic information on Peru¹

According to 2023 data, Peru is the seventh most populous country in the Americas, with 33.7 million inhabitants. The population is estimated to reach 39 million 363 thousand people by 2050.

Lima Metropolitan Area is the most dense region (30.1%) with 10 million 151 thousand people, followed by Piura with 2 million 127 thousand people, and then we have La Libertad, Arequipa, Cajamarca, Cusco, Junin and Lambayeque.

The projected population by region for 2023 are:

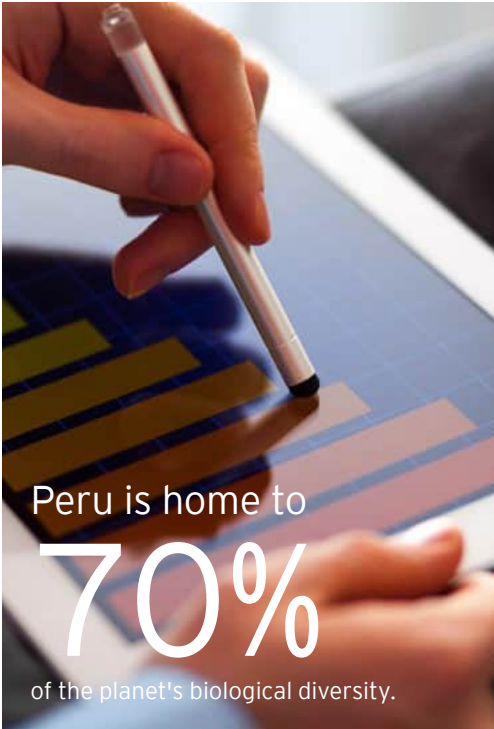
1. National Statistics and Data Processing Institute. State of the Peruvian Population. 2023.

Department	Population according to Census							Projected Population 2023
	1940	1961	1972	1981	1993	2007 a/	2017	
Total	6,208.0	9,906.7	13,538.2	17,005.2	22,048.4	27,412.2	29,381.9	33,725.8
Amazonas	65.1	118.4	194.5	254.6	336.7	376.0	379.4	429.9
Áncash	425.0	582.6	726.2	818.3	955.0	1,063.5	1,083.5	1,196.5
Apurímac	258.1	288.2	308.6	323.3	382.0	404.2	405.8	428.3
Arequipa	263.1	388.2	529.6	706.6	916.8	1,152.3	1,382.7	1580.1
Ayacucho	359.0	410.8	457.4	503.4	492.5	612.5	616.2	670.4
Cajamarca	494.4	746.9	919.2	1,045.6	1,259.8	1,387.8	1,341.00	1,451.4
Prov. Const. del Callao	82.3	213.5	321.2	443.4	639.7	876.9	994.5	1,190.9
Cusco	486.6	612	715.2	832.5	1,028.8	1,171.4	1,205.5	1,389.7
Huancavelica	244.6	302.8	331.6	346.8	385.2	454.8	347.6	343.0
Huánuco	234	328.9	414.5	484.8	654.5	762.2	721	751.1
Ica	140.9	255.9	357.2	433.9	565.7	711.9	850.8	1,041.3
Junín	338.5	521.2	696.6	852.2	1,035.8	1,225.5	1,246.0	1,377.8
La Libertad	283.3	582.2	783.7	962.9	1,270.3	1,617.1	1,778.1	2,104.3
Lambayeque	192.9	342.4	514.6	674.4	920.8	1,112.9	1,197.3	1,350.7
Lima	828.3	2,031.1	3,472.6	4,745.9	6,386.3	8,445.2	9,485.4	11,147.9
Loreto	168.6	337.1	495.5	445.4	687.3	891.7	883.5	1,051.6
Madre de Dios	5.0	14.9	21.3	33.0	67.0	109.6	141.1	191.3
Moquegua	34.2	51.6	74.5	101.6	128.7	161.5	174.9	199.3
Pasco	90.4	138.4	176.6	213.1	226.3	280.4	254.1	267.4
Piura	408.6	668.9	855.0	1,125.9	1,388.3	1,676.3	1,856.8	2,127.1
Puno	548.6	686.3	776.2	890.3	1,079.8	1,268.4	1,172.7	1,218.0
San Martín	94.8	161.8	224.4	319.8	552.4	728.8	813.4	935.2
Tacna	36.3	66	95.4	143.1	218.4	288.8	329.3	390.3
Tumbes	25.7	55.8	76.5	103.8	155.5	200.3	224.9	263.2
Ucayali	-	-	-	200.7	314.8	432.2	496.5	627.2
Lima Metropolitan Area 1/	562.9	1,632.4	2,981.3	4,164.6	5,706.1	7,605.7	8,575.0	10,151.2
Department of Lima 2/	265.4	396.7	491.3	581.3	680.2	839.5	910.4	996.7

a/ The population from the district of Carmen Alto, province of Huamanga, department of Ayacucho was not included. Local authorities did not allow the Census to be conducted there.
1/ This includes all 43 districts belonging to the province of Lima.
2/ This includes the provinces of Barranca, Cajatambo, Cata, Cafete, Huaral, Huarochiri, Huaura, Oyon and Yauyos.
Source: National Institute of Statistics and Data Processing ("INEI") - Population and Housing National Censuses from 1940, 1961, 1972, 1981, 1993, 2007 and 2017. Department Population Estimates and Projections by Calendar Year and Age, 1995-2030. Special Bulletin 25.

The information below is also relevant:

Average Age	33,6
Population Density	26 people per km²
Most Dense Region	Coastline (59.0%)
Young Population (15 to 29 years old)	7 million 867 thousand (23.3% of the population)



C. Resources and Climate



Peru is situated between the Equator and the Tropic of Capricorn, which means that its climate should be tropical. However, a number of factors - such as the Humboldt Current, the Andes Cordillera, and the dynamic of cyclones and anticyclones - give it a heterogenous climate.

The heterogeneity of its geography and climate conditions makes Peru one of the ten countries in the world with the greatest biodiversity.



Peru possesses a wide variety of mineral resources, including:

- Silver
- Zinc
- Copper
- Lead
- Gold

Its deposits, mostly consisting of mixed metal ore minerals, are located primarily in the Andes, although they are spread throughout Peru.

2.2

2.

>> E-GOVERNMENT AND DIGITAL TRANSFORMATION

Peru's government is wagering on digital transformation at all levels.

A. Secretariat of E-Government and Digital Transformation²

The Secretariat of E-Government and Digital Transformation (SGTD) (previously known as the Secretariat of E-Government) which forms part of the Office of the Prime Minister, is the national technical and regulatory authority in matters of (i) e-government; (ii) digital trust; and (iii) digital transformation.

2. By means of Regulations on the Organization and Functioning of the of the Presidency of the Council of Ministers, approved by Supreme Decree 022-2017-PCM, the Digital Secretary of Government is incorporated Digital ("SEDGI") is incorporated. Subsequently, by Supreme Decree 126-2021-PCM amended the denomination of this authority to the "Secretary of Government and Digital Transformation" ("SGTD").



It is the governing body of the National Digital Transformation System, in charge of leading the Peruvian state's processes of technological innovation and digital transformation. It is also the national leader of digital governance, tasked with carrying out digital governance for the cross-cutting use and strategic adoption of digital and data technology in the Peruvian state.

As part of its duties, it coordinates actions among public administrative bodies, civil society, citizens, academia, and the private sector.



B. Main Actions and Initiatives

The government has been committed to digital transformation since the beginning through the SGTD of the Office of the Prime Minister approved the Digital Agenda for the Bicentennial, where the digital goals for the country are established through concrete strategies and actions in order to implement technology that will foster competitiveness, as well as social and economic development for a better livelihood of all citizens.

Likewise, in July 2023, the government passed the National Digital Transformation Policy for 2030 ("PNTD"), a public policy instrument that aims to determine the guidelines, objectives, standards, actions, services, indicators, activities, goals and those responsible for achieving the digital transformation of the country. The policy also creates the Peruvian Digital Agenda, as part of PNTD services, that will articulate the commitments, actions, measures and initiatives prioritized and established in the national strategies for digital transformation.

The policy also states that a Peruvian Digital Agenda will be created, which will be the main mechanism for articulating the commitments, actions, measures and initiatives prioritized and established in the national strategies for digital transformation.

Some significant digital transformation outcomes in Peru so far are:

1. Digital security and trust in the government:

► Ministries

They have a digital security response team

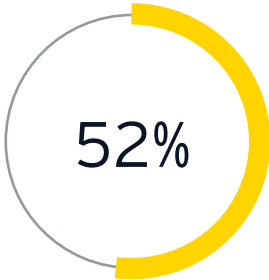


Implementation of the Information Security Management System

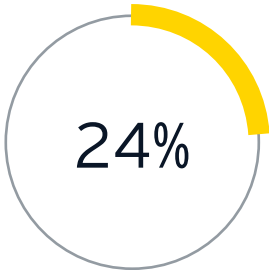


► Regional governments

They have a digital security response team



Implementation of the Information Security Management System

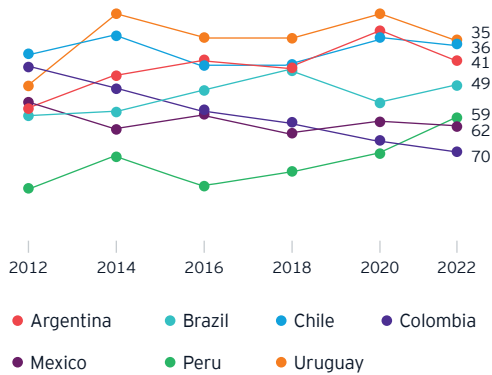


Source: Reporte de avances en gobierno y transformación digital, julio - 2023.

2. E-Government Development Index (EGDI)

According to the 2022 edition of the EGDI, which measures the progress of digital government in member countries of the United Nations, Peru is ranked 59 out of 193 economies assessed, ranking above Mexico and Colombia.

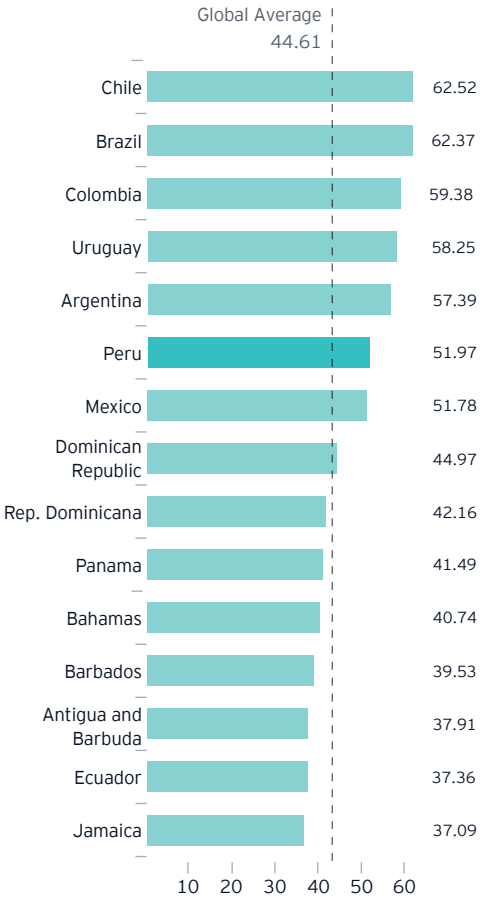
Ranking of positions by country



Source: Progress Report on Governance and Transformation digital. SGTD. July, 2023.

3. Government AI Readiness Index

The Government AI Readiness Index, published by Oxford Insights, ranks economies according to the level of AI integration into public services, it is noted that Peru ranks 61 out of 181 countries assessed, having risen 30 positions compared to the previous edition (2021).



Source: Progress Report on Governance and Transformation digital. SGTD. July, 2023.

2030 National Digital Transformation Policy

In July 2023, the 2030 National Digital Transformation Policy was approved, in which the guidelines, objectives, standards, actions, services, indicators, activities, goals and those responsible are established so that Peru can achieve digital transformation.

- The problem that the PNTD aims to solve is “low digital citizenship participation”. The participation of the digital citizenship comprehends the individual’s capacity to participate as an active agent in society, exercising their rights and obligations in a safe digital environment, which is achieved through the execution of a series of capabilities and freedoms. It is worth noting that one of the eight capabilities used in the assessment methodology includes “using banking and other financial services” by citizens in a digital environment.

Problem:	Low digital citizen participation
Objetives:	Digital connectivity, digital economy, digital talent, digital trust, and digital innovation.
Aim is to promote	E-commerce using digital identities, e-signatures and e-payments, payments using digital wallets, currencies or gateways, among others.
Target group	Any national or foreign individual aged 6 years or older.



2.



PNTD's approach to 2030:

Problems	Outcomes	Solutions
1. Inefficient quality or non-existent internet access	1. It restricts the exercise of rights in the digital environment, preventing the exercise of digital capabilities or freedoms related to "searching and obtaining information on the Internet," "training and educating oneself," "using banking and other financial services," among others.	1. Ensuring quality, safe and inclusive access for everyone.
2. Emerging relationship between the digital economy and the reactivation and competitiveness of the country's productive processes.	2. It weakens digital citizen participation.	2. Linking the digital economy to the country's sustainable production processes.
3. Insufficient citizen-friendly public administration digital services.	3. It weakens information access transparency.	3. Ensuring citizen-friendly, predictive, and inclusive digital public services are available.
4. Population's low digital literacy.	4. It hinders social inclusion.	4. Developing digital talent in everyone.
5. Limited development of digital security and trust.	5. It hinders intercultural discussions.	5. Consolidating digital security and trust in society.
6. Emerging innovation culture, and smart and ethical management of data security, digital technology and AI (indirect or cross-sectional cause).	6. Limited companies' efficiency.	6. Ensuring innovation and exponential technologies are adopted and used ethically.
	7. It limits and restricts citizens' access to the tools that are necessary for their integral development, and this prevents obtaining feedback for citizenship digital competences.	

Report on progress in government and digital transformation. SGTD, July, 2023.

2030 Expected Outcomes

Once the PNTD has been implemented, the expectation is for the digital citizen participation per capita to have doubled to four digital capabilities or freedoms in the population over 6 years of age . Likewise, certain applied capacities are expected to increase as follows:

Reach

85.7%

in the use of the capacity to obtain information using digital means.

Reach

27.2%

in the use of the capacity to train and educate oneself using digital means.

Reach

86.1%

in the use of the capacity to communicate using digital means.

Reach

30.4%

in the use of the capacity to carry out documentary processes with the government using digital means.

Reach

34.7%

in the use of the capacity to purchase products and services using digital means.

Reach

84.4%

in the use of the capacity to be entertained using digital means.

Reach

39.1%

in the use of the capacity to use banking services digitally.

Reach

25.7%

in the use of the capacity to sell products and services using digital means.

3. Digital citizenship per capita is an aggregate weighted average of the exercise of digital citizenship. It's a value quantitative from 0 to 8, and refers to the amount (number) of digital skills a person exercises in a frame of reference. It is calculated considering the ENAHO, having a longitudinal perspective of more than 10 years. It is worth mentioning that of the 8 digital capabilities, it is estimated that 4 will increase the Exercising Digital Citizenship.

Compliance with the PNTD will require following a monitoring process that includes the periodic collection of information, data recording and descriptive analysis. Subsequently, a permanent, systematic and continuous management control model will be used to assess the progress and achievement of the goals and objectives, the impact of approved interventions, and the implementation and follow-up of the recommendations obtained from the monitoring and assessment. Finally, all the above will be reflected in the Compliance Report, which will describe the progress and current situation of the PNTD. This report will be prepared annually by the SGTD.



C. Relevant Regulations on Digital Matters:

1. Administrative simplification measures (Legislative Order 1246)

In Peru, Legislative Order 1246 that introduces various administrative simplification measures, such as the progressive implementation of interoperability among entities. Thus, public administration entities are prohibited from demanding the administered or users' information that they can obtain directly through interoperability.

2. Electronic Administrative Procedures

Peru has regulations in place regarding electronic administrative procedures, e-files and notifications delivered by electronic means.

3. E-Government Law and Regulations (Legislative Order 1412 and Executive Order 029-2021-PCM)

The Peruvian regulatory framework covers digital government for public administration to improve the provision and access to digital services in interoperable, secure, available, scalable, agile, and accessible conditions, that facilitate transparency for citizens and people in general.

4. Digital Trust Framework

In Peru there is a regulation on digital trust that is under development, while the approval of the regulation of its rules is still pending. The purpose of this regulatory framework is to establish the measures that are necessary to gain people's trust when interacting with digital services provided by either public entities or the private sector in the country.

5. Regulación en materia de Transformación Digital

Our regulatory framework provides for binding digital transformation measures for public administration entities and some guiding measures for civil society organizations, citizens, companies and academies that decide to adopt good practices. The regulation covers principles for the use of technologies and the development of digital transformation processes within organizations. We also have a National Digital Transformation Policy for 2030 as indicated above, in section "B".



6. Digital Signatures Regulations

Our current regulatory framework provides for three types of electronic signatures, differentiating the prerogatives applicable to each one. Below is a summarized scope of the main aspects to consider:

Electronic signature modalities (Law 27269)



Simple Electronic Signature

- ▶ Electronic datum attached to or logically associated with other electronic data used by a signer to sign.



Advanced Electronic Signature

- ▶ A simple electronic signature that meets the following characteristics: (i) it is unique to the signer; (ii) it permits the identification of the signer; (iii) it has been created using signature creation data that the signer can use and control; and (iv) it is linked to the signed data such that any subsequent modification thereof is detectable.



Qualified Electronic Signature or Digital Signature

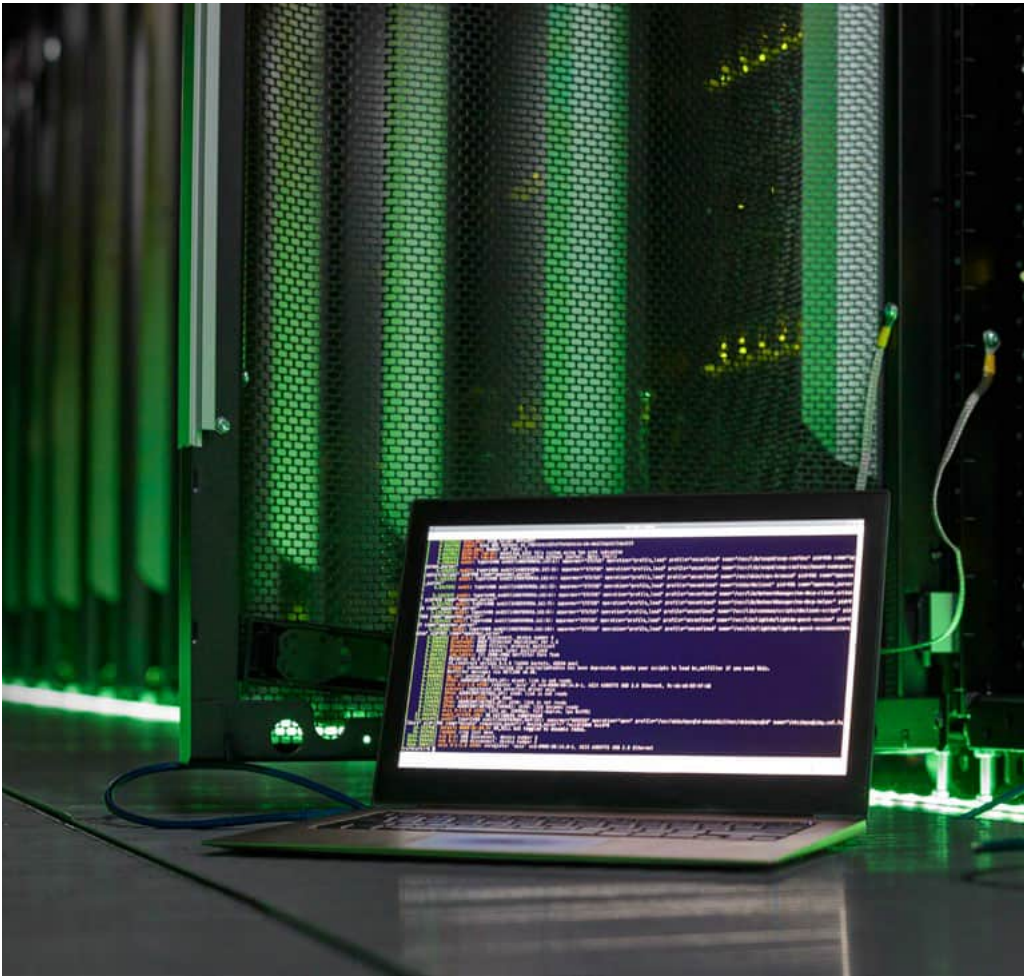
- ▶ An electronic signature that can be used, via public-key cryptography, to identify the signer, and that has been created using means that remain under the control of the signer with a heightened degree of security, such that it is associated exclusively with the signer and the data to which it refers.
- ▶ Thus guaranteeing the integrity of the contents and making it possible to detect any subsequent modification.
- ▶ It has the same legal validity and force as a handwritten signature, provided it has been generated by a duly authorized Digital Certification Service Provider within the Official Electronic Signature Infrastructure, and none of the defects of consent provided for in the Civil Code have occurred.

7. Regulation on Artificial Intelligence

In July of this year, Law 31814 was published. This law promotes the use of AI and it establishes the principles for the use of this technology, including privacy protection, ethical development, and the implementation of a risk-based security approach, among others.

The SGTD is the regulator and sponsor responsible for articulating the necessary actions to promote the development, adoption and strengthening of AI, as well as of the guidelines, infrastructure and professionals that are part of the ecosystem.

2.



2.3

2.

>> TECHNOLOGICAL AND DIGITAL INFRASTRUCTURE

A. Overview of Peru's Connectivity Status and Digital Infrastructure

The growth of internet access in Peru showed sustained positive results in the first quarter of 2023. According to the Supervisory Agency for Private Investment in Telecommunications ("OSIPTEL"), 3'289,767 home broadband connections were reported, which means an increase of 5.0% compared to the first quarter of 2022.

The current situation in Peru shows that there are aspects in which we need for certain initiatives to bridge the digital divide.



1. Digital Competitiveness: Internet Coverage and Use of Technologies

Although there has been a significant increase of 5.0% in home broadband service nationwide, it is worth noting the increase at the departmental level, where regions such as Apurímac (+41.8%), Ica (+39.5%) and

Lambayeque (+28.8%) were the ones that reported the greatest increase compared to the first quarter of 2022. However, regions such as Pasco (-16.7%) and Puno (-10.4%) reported a great reduction.

2.

Increase in the Number of Fixed Broadband Connections by Region

Regions	March '22	March '23	Participation as of March '23	Percentage Change
Áncash	77,372	80,074	2.4%	+3.5%
Apurímac	13,029	18,480	0.6%	+41.8%
Callao	165,098	149,751	4.6%	-9.3%
Huancavelica	7,480	9,262	0.3%	+23.8%
Ica	86,778	121,096	3.7%	+39.5%
Lambayeque	103,702	133,567	4.1%	+28.8%
Lima	1,752,654	1,805,653	54.9%	+3.0%
Loreto	10,156	12,177	0.4%	+19.9%
Moquegua	18,753	22,976	0.7%	+22.5%
Pasco	7,056	5,878	0.2%	-16.7%
Puno	40,756	36,524	1.1%	-10.4%

Source: Statistical Report OSIPTEL. May 2023.
Prepared by EY

Because of this context, the Executive Branch has been working on public policies to bridge the digital divide, e.g., the National Infrastructure Plan for Competitiveness (2019) and the 2022-2025 National Sustainable Infrastructure Plan for Competitiveness. Likewise, the Legislative Branch approved Law 31207 in 2021, establishing the minimum regulatory speed for broadband services. Regarding the latter, the Ministerial Resolution 1197-2022-MTC/01.03, issued by the Ministry

of Transportation and Communications, updated the broadband regulatory download speed, in which it is determined that the effective broadband download for fixed internet goes from 4Mbps to 20Mbps, and the upload speed from 1Mbps to 7Mbps.

These initiatives intend to guarantee the speed needed for users to interact with Internet services without difficulties when using apps and services that may include audiovisual content.

The Legislative Branch issued Law 31841 in July 2023 as part of the National Infrastructure Plan for Competitiveness (2019). This created the National Infrastructure Authority (“ANIN”) with the aim of granting an administrative authority the necessary powers to drive the bridging of the digital divide, as well as the development of basic access infrastructure, including technological and digital ones. Along the same lines, the Ministry of Education issued Resolution 438-2022, approving the Bridging the Digital Divide Plan. This initiative is part of the 2036 National Educational Project, which seeks to bridge the digital divide and popularize the use of technology in school environments, especially in vulnerable circumstances.

This Plan seeks to ensure that teachers have the necessary technological devices, such as laptops, tablets or projectors, as well as to ensure internet access. According to the description of the Plan itself, a significant percentage of students and teachers do not use tablets due to the lack of internet coverage (47.08% of students and 40.1% of teachers).

Achievements by 2023

- According to a June 2023 report by INEI, in the first quarter of 2023, the Lima Metropolitan Area presented the highest number of households with broadband services at 77.8%, while the rest of the urban areas reached 58.7%, and the rural area, 19.3%.
- According to the 2022 Statistical Compilation prepared by INEI, during 2021, 82.1% of secondary schools accessed the internet, while in rural areas, it was only 65.5% of secondary schools.

In regard to digital competitiveness, Peru has ranked 55 (out of 64 countries) in the 2023 World Digital Competitiveness Index, published by the Institute for Management Development (IMD) World Competitiveness Center, whose objective is to show the indicators of the capacity that countries have to adopt and explore digital technologies as a key driver for economic transformation in business, government and wider society⁴.

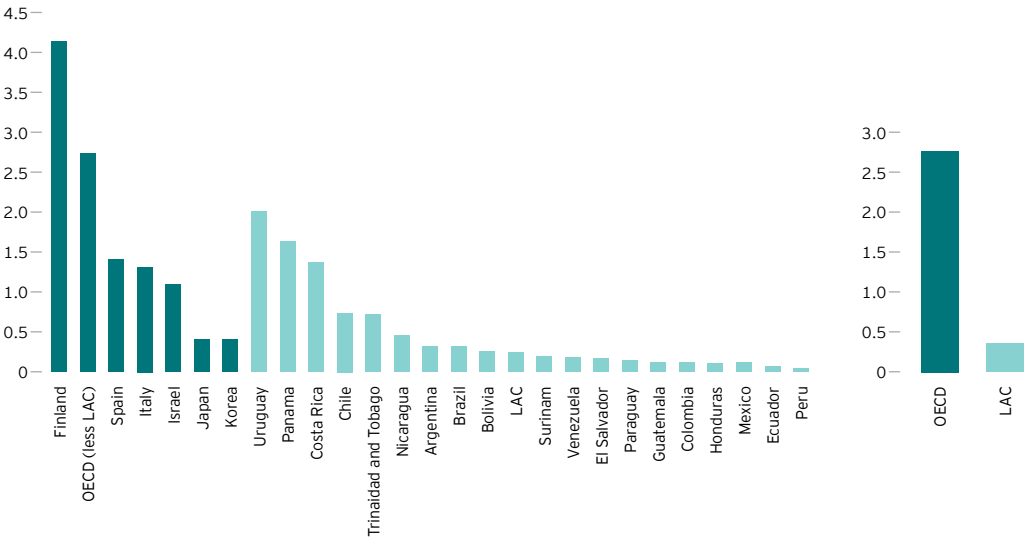
It is worth noting that Peru has dropped one position compared to 2022, due to poor performance in the three pillars measured: knowledge, technology and readiness for the future. However, within the region, Peru remains above Colombia, Brazil, Argentina and Venezuela.

4. Business Center at the Pontifical Catholic University of Peru (Centrum PUCP). Resultados del Ranking de Competitividad Digital Mundial 2023. Junio 2023. Results from the World Digital Competitiveness Ranking.

Additionally, in this era of digital economy, data has gained great relevance as a medium of exchange. Colocation centers offer advantages such as reliability (power, cooling and security) and expansion potential. As the economic value of data and its integration into value chains increases,

countries have begun to pass laws on data ownership. However, Peru, compared to the other countries in the region, is below the average number of data centers per million inhabitants, with less than one data center per million inhabitants.

Colocation Centers per Million Inhabitants



Source: Inter-American Development Bank (IDB). Data from digital infrastructure and connectivity (2022)

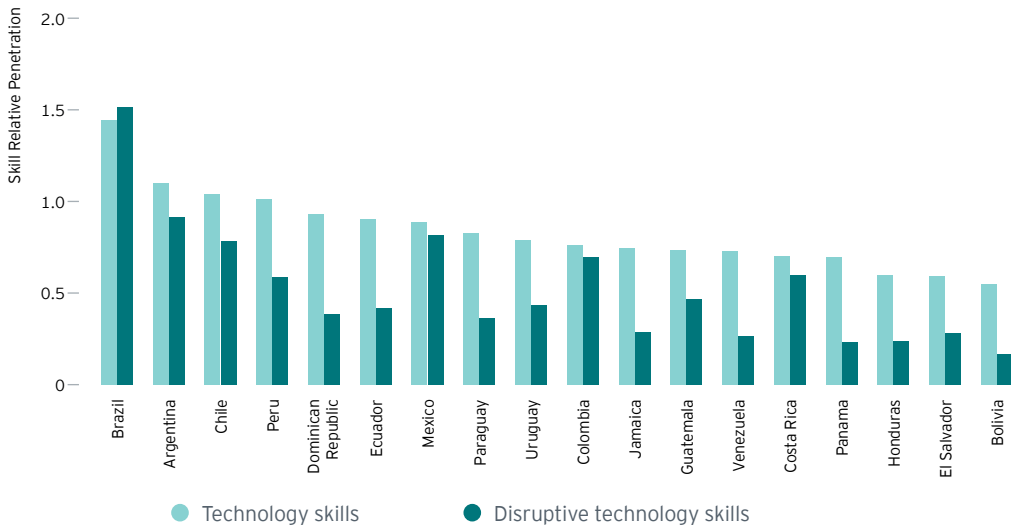
It is essential that users master digital and technological skills so that both the public and private sectors can continue promoting the adoption of new, more advanced digital technologies. In terms of digital technological skills and disruptive technological skills,

Brazil is the only country in the region that is above the world average. In some sectors considered as knowledge-intensive business services (KIBS), there is a balanced presence of disruptive technological skills.

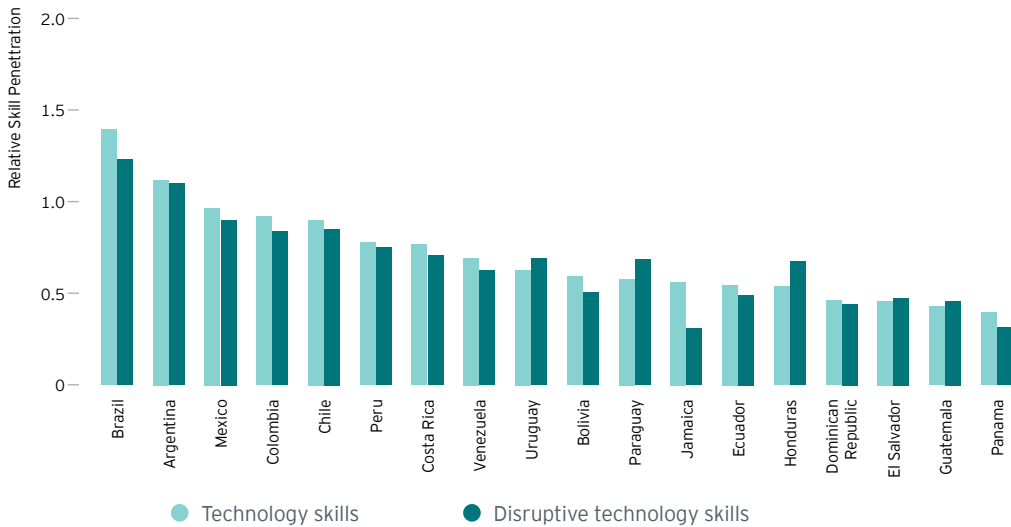
5. Disruptive technology skills include the following skill groups: aerospace, engineering, AI, data science, development tools, financial technology (FinTech), genetic engineering, human-computer interaction, materials science, nanotechnology, and robotics.

Disruptive Tech and Technology Skills in selected KIBS in Latin America and the Caribbean

Finance



IT software and service

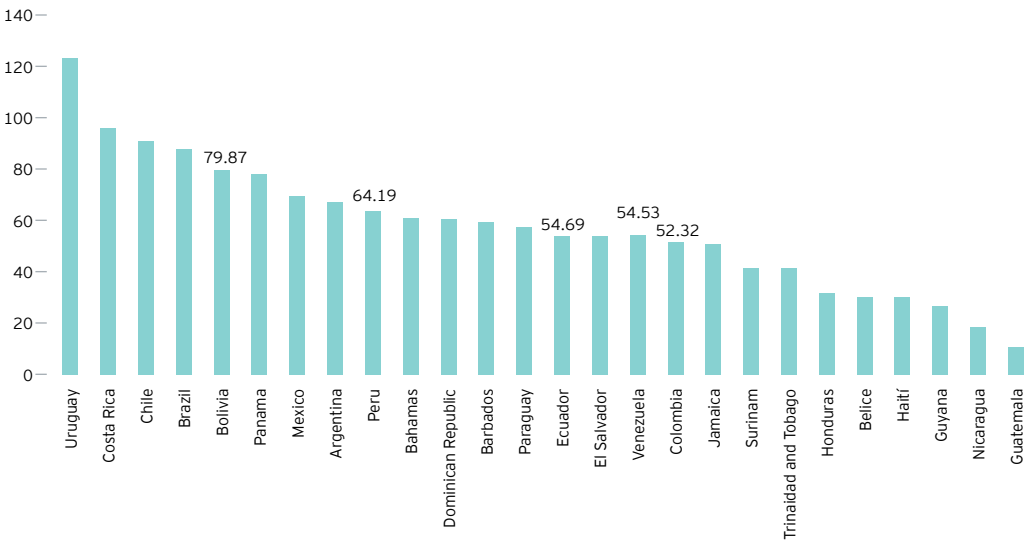


Source: BID. Disruptive Technology Skills in Selected Industries of Latin America and the Caribbean (LAC). 2022.

Comparison of Wireless Data Coverage

According to the OSIPTEL report as of the end of 2022, the number of wireless data connections continues to increase. It specifies that the number of mobile phones that used wireless data exceeded 29 million, which represents an increase of 9.12% compared to the last quarter of 2021. This increase positions Peru above the regional average for percentage of people with a contracted service.

Mobile Broadband Penetration (% of People with a Hired Service)



Source: IDB. Access to Telecommunications in the Andean Region (2023).

2. Digital connectivity and financial inclusion

One effect of developing new technologies is the promotion of financial inclusion. According to the World Bank, the percentage of adults in developing economies that make or receive digital payments grew from 35% in 2014 to 57% in 2021. It is in this context that the World Bank reaffirms that financial inclusion using technological platforms, does not only allow for transactions to be easier, safer and cheaper, but it also is a measure against government corruption, given that it increases the transparency of the flow of money destined to social programs.

However, the World Bank notes that currently less than 50% of the population of Latin America and the Caribbean has broadband connection. This inequality becomes more evident by geography itself, given that connection in urban areas reaches 71% of the population, while in rural areas it barely reaches 40%.

Despite this scenario, the percentage of accounts in the financial system by population in Latin American and the Caribbean has increase, going from 54% to 72%, between 2017 and 2021. A SBS report from 2022 highlighted the significant progress in Peru regarding the number of people who have an account in the financial system, going from 43% to 57%, and the percentage of people who made or received digital payments, going from 34% to 49%, between 2017 and 2021.

On the other hand, together with the progress in financial inclusion, there has also been an increase in the risks associated with a digital economy, such as financial fraud and information theft.

According to the 2022 Financial Capabilities Survey, developed by the SBS and the Development Bank of Latin America (CAF), 16% of Peruvians reported having been exposed to some type of financial fraud, 6% of which reported having been a victim of impersonation to carry out financial transactions. Despite this situation, the number of intrabank and bank-to-bank transfers using digital wallets has continued to increase. According to the BCRP, as of September 2023 and compared to the same month in 2022, intrabank transfers increased by 120% and bank-to-bank transfers by 256%. Likewise, for that same period, according to the BCRP, PLIN reported 42 million transactions and YAPE, 41 million transactions. In general, the BCRP highlighted that, as of September 2023, the total number of transactions using digital wallets increased by 143.7%, compared to the same period in 2022.

Data compilation from the region until 2021 by the IDB shows the percentage of the population over 15 years of age per country, placing Peru (57.5%) below the average for Latin America and the Caribbean.

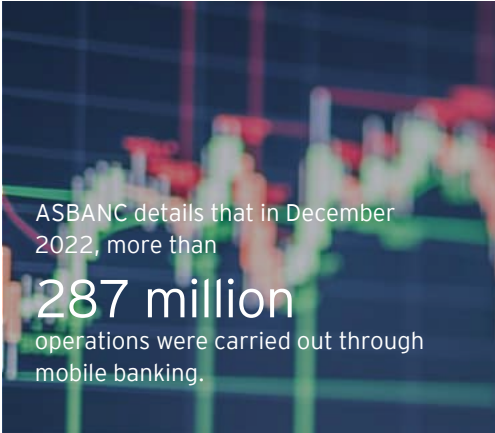
People with a Financial Account or an E-Wallet
(% of Population 15+)



Source: IDB. ICT adoption and eso in the Andean region. 2022

Digital media is still underutilized when carrying out financial activities. According to the Financial Inclusion and Digitalization Report (2022), Peru and Mexico are the countries with the lowest digitalization levels where 70% of financial system users are non-digital users. Thus, only 21% of users use digital media to carry out financial transactions.

To learn more about financial inclusion, go to the Financial Inclusion and Banking Penetration section hereof.



3. Relevant data:

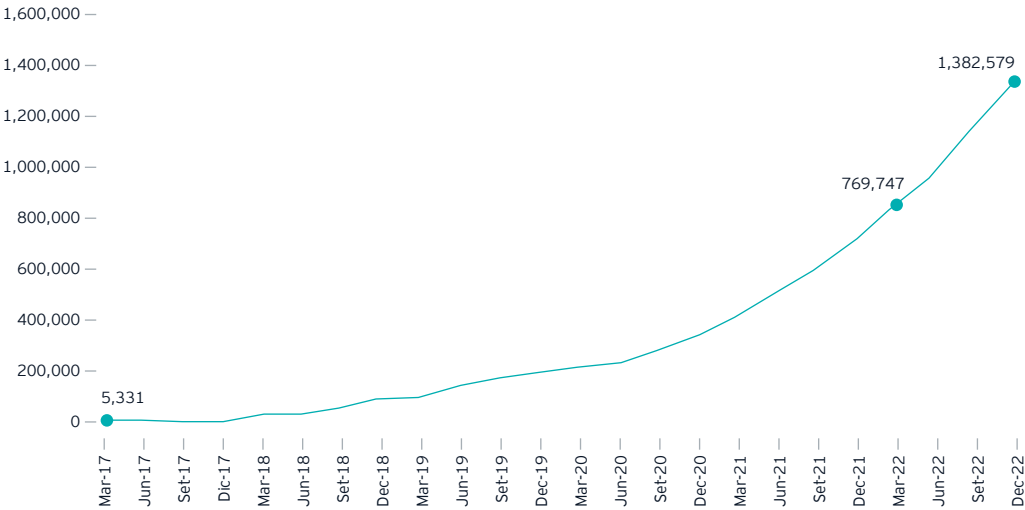
i. Fixed internet speed:

- Peru has established the regulatory speed for effective broadband download for fixed internet connection at 20 Mbps and 7 Mbps for uploads. Likewise, the Ministry of Transportation and Communications has established that the regulatory speed for effective broadband for wireless data internet connection download ranges from 4 Mbps to 5 Mbps, and from 1 Mbps to 2 Mbps for uploads.

ii. Optical Fiber Connections: Optical fiber technology services stand out (79.61%), which have increased steadily in the last five years with an average annual growth rate of 121%.

2.

Evolution of fiber optic connections



Source: OSIPTEL. Fixed internet connections with fiber optics increased 79.61% as of March 2023

B. Use and access to technologies in Peru:

► Cellphone

In the first quarter of 2023,

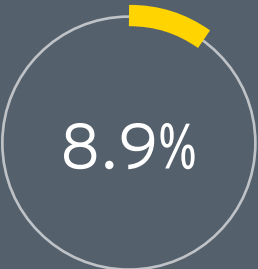
84.9%

of households in the country only have access to cell phone technology. Likewise, according to INEI, as of March 2023, 48% of users access the internet through a cell phone without a data plan, while 43.1% use a cell phone with a data plan.

► Frequency of internet use:



of the population over 6 years old use the Internet daily



use the Internet once a week.

► Preference in activities:

92.8%

of the population access the Internet to communicate with one

89.3%

uses the Internet for entertainment activities

78.4%

uses the Internet to obtain information



► Technologies used to access the Internet:



access the Internet with **cellphone**

► **14.8%**
with a desktop computer

► **17.6%**
with a laptop

► **2.4%**
with a tablet

► **9.4%**
use another type of device, such as a smart TV

C. Digital Identification Systems

1. What is a digital identity?

A digital identity consists of the set of attributes corresponding to a single individual that make it possible to identify them in digital environments.

2. Regulatory Framework on Digital Identity

Government Act (Legislative Order 1412)

Since 2018, this law has regulated the e-government framework for the proper management of digital identity, digital services, digital architecture, interoperability, digital security, data, and cross-sector use of digital technologies in the digitalization of processes and the provision of digital services by public administrative entities. This law is important because it establishes the Peruvian government's digital identity framework, consisting of the main guidelines and standards for the effective identification and authentication of Peruvian citizens and the general public when they access digital services.

Regulation on the E-Government Act

Executive Order 029-2021-PCM,
Regulation on Legislative Order
1412):

Recently, in February 2021, this law was issued to regulate the E-Government Act, approved by virtue of Legislative Order 1412. The regulations set forth the following components of the Peruvian government's digital identity framework, which applies to the digital identity of both Peruvian citizens and foreigners:

1. Principles: Inclusion, unique identifier, non-discrimination, and functional equivalence of identity verification
2. Digital citizens
3. Digital identity managers
4. Creates the National Digital Identification and Digital Identity Authentication Platform (ID GOB.PE)
5. Digital identity attributes
6. Providers of supplementary identity attributes
7. Authentication credentials

Digital Services Providers (DSPs)

Emergency Order (Decreto de
Urgencia) 007-2020

The purpose of this law is to establish measures that guarantee people's trust in their interaction with digital services. It also requires digital service providers to implement mechanisms to verify the identity of persons accessing digital services, in keeping with the risk level thereof and in accordance with the laws in force on personal data protection.

To date, no regulations have been issued for this emergency order. These regulations are expected to clarify the scope of the law that will regulate digital interaction, establishing the rights and obligations of users and digital service providers.

3. Digital Identity Management and Progress

The National Registry of Identification and Vital Statistics (RENIEC) is the Peruvian entity in charge of organizing and maintaining consolidated identification records for individuals, as well as issuing National Identity Cards (DNIs) proving people's identities. RENIEC has taken a number of initiatives to provide identification services using information and communications technologies. For example, we have:

► The Electronic DNI (DNle):

The DNle is a smart card with a chip that stores our digital certificates. In addition to allowing us to identify ourselves in person, it also allows for identification using online platforms, as well as digitally signing legally enforceable documents. RENIEC also issues digital certificates for both individuals and legal entities. While this initiative was rolled out several years ago, RENIEC is still implementing the Electronic National Identity Card (DNle) Mass Use Plan for the 2019-2021 period.

► Citizens' Portal:

This tool is only for citizens who have a DNle, and allows them to perform a number of tasks, such as registering births or deaths, finding out who has searched for a person's personal information in the RENIEC system, obtaining a certified copy of a birth, marriage, or death certificate, etc.

► RENIEC Movil Facial:

RENIEC has an app available through Google Play that provides users with authentication services via facial biometrics. This app can be used to make changes to their DNI, search for information on this document, or other processes.

► RENIEC Bio Facial:

Allows users to renew or update information such as their photograph or home address on their DNI or DNle entirely online, effective almost immediately. This app can also be used for identity verification purposes as part of certain paperwork processes.

► ID Peru:

This app can be used to read fingerprints for identity verification purposes. It operates using the National Authentication Platform.





Interview with Carla Sosa (Ministry of Transportation and Communications, MTC)



Carla Sosa

Vice Minister of
Communications at the
Ministry of Transportation
and Communications
(MTC).

What have been the main challenges to achieve greater and better-quality Internet in low-income regions in Peru, in terms of internet access by geographical divisions and the availability of digital infrastructure?

4G mobile service coverage reaches more than 27 million people in the country i.e. more than 80% of the population. Although this indicates a sustained and constant growth in national connectivity levels based on digital infrastructure, nearly 6.4 million Peruvians live in localities that do not have broadband Internet coverage.

In that sense, an important part of our public efforts focuses on the connectivity divide happening, mainly, in the most remote rural areas with low population density.

In fact, 99% of this divide comes from towns with less than 500 inhabitants, which exacerbates the connectivity challenge when developing sustainable business models and attracting important investments to build infrastructure.

The radio spectrum is essential in mobile communications. How does its management contribute to addressing the country's connectivity challenges? What is the relationship between the spectrum and the advancement of 5G in Peru?

Managing the spectrum is of the utmost importance given that mobile communications are the telecommunications service with the greatest penetration in the country. They also play a key role in engaging private investment and increasing service coverage and quality.

Along these lines, it is worth highlighting the recent tender award (June 2023) of the 2.3 GHz and AWS-3 bands. This contract will allow more than 3,800 locations to have 4G services within the next two years, increasing population coverage by approximately 1 million people, with an investment of approximately USD 600 million.

The global telecommunications industry has identified the 3.5 GHz band as ideal to massify 5G technology. For this reason, we are focused on the technical evaluation of the most efficient mechanisms for the next tender for the 3.5 GHz band for 5G services, as well as its rearrangement.

How do Digital Access Centers contribute to financial development and inclusion?

In order to understand the context, it is important to mention Internet access levels in the country. We know that 9 out of 20 households do not have access the Internet, and 3 out of 10 people do not use the Internet. However, in rural areas, the divide deepens and doubles the national average.

Additionally, 7 out of 10 elderly individuals do not use the Internet, a divide that is similar to that of people with disabilities. Also, 6 out of 10 primary school children and 11 out of 20 citizens that speak an indigenous language as their first language do not have access to the Internet either.

That is why we have Digital Access Centers (“CAD”), locations that have (i) computers, (ii) Internet access, (iii) an adapted physical space and (iv) access to content. These places provide advice on the productive use of ICT and the development of digital skills. Thus, this holistic approach of meaningful connectivity is applied to use ICT as a vehicle for social empowerment, job creation or local entrepreneurship, and digital financial inclusion for citizens.

Today, there are 104 CADs in operation launched between 2021 and 2022 in six regions of Peru, benefiting citizens of 104 villages. In 2024, we will have an additional 441 CADs as part of regional broadband projects.

The CAD scheme works on three gradual stages of training towards digital literacy: basic literacy, intermediate literacy and IT proficiency. This last stage holds space for financial inclusion and the use of FinTech companies, where they can become a powerful tool for social and economic development.

What priority measures is the government taking to address the challenges of connectivity by geographical division and to enable access to platforms for new digital and financial services such as FinTech?

Internet access and telecommunications infrastructure are both the basis and the enabler for the implementation of digital and financial services for citizens. Therefore, our main efforts aim to reduce the connectivity divide so that more Peruvians can be included in the digital world through Internet access.

In this regard, today’s management is committed to the promotion of investment in the development of telecommunications nationwide, as well as to goals that address our short and long-term priorities for bridging the divide.

For that, we have the following priority measures:

- Implementation of Internet access in 34,000 public schools using fiber optic access networks, mainly.
- Increase in the geographical coverage of 4G mobile services in villages that do not have this service already.

- ▶ Implementation of broadband Internet services to Tambos nationwide, which are multi-service platforms that can serve government entities by delivering their services to populations in the most remote areas of the country.
- ▶ Strengthening of incentive mechanisms for the private sector, such as the Paid with Coverage initiative, for example.
- ▶ Management of the radio spectrum tender processes for spectrum bands. Currently, the most efficient mechanisms are being technically evaluated for the next tender for the 3.5 GHz band for 5G services, as well as its rearrangement.
- ▶ Enhancement of state-owned optical networks, such as the National Optical Fiber Backbone Network (“RDNFO”), currently operated by the National Telecommunications Program (“Pronatel”), and regional broadband projects.
- ▶ Focus on rainforest regions where ground-based connectivity solutions tend to be further away from each other and geographically more complex. This is activated through Pronatel with the Conecta Selva initiative.
- ▶ Promotion of massive access to the Digital Terrestrial Television (DTT) signal, which is the free digital television signal that allows citizens to enjoy a high-definition (HD) image and better sound quality.



2.4

>> CURRENCY AND EXCHANGE RATE

The Sol has been the official currency of legal tender in Peru since 1991. In December 2015, the currency unit acquired its current name, changing from “Nuevo Sol” to simply “Sol”.

In terms of commercial use, the United States Dollar (“Dollar”) continues to be widely used in the Peruvian market, so much so that it is possible to buy goods or pay for service using paying with US dollars directly.



A. Currency Stability of the Sol

The BCRP is in charge of currency stability of the Sol (PEN), as well as the design and implementation of national monetary policy. This policy is currently based on an inflation target of 1% to 3%. This range seeks to maintain inflation expectations at a level similar to that of developed economies and show permanent commitment to currency stability.

Since 2006, compliance with said target is constantly being evaluated through a monthly review of the inflationary variation in the previous twelve months. This has positioned Peru in the group of countries with low and stable inflation rate.

Inflation rate has decreased in recent months from 8.45% by the end of 2022 to 3.60% in November 2023. According to the BCRP, this is mainly due to three factors: (i) the correction of energy prices; (ii) a slowdown in growth in the eating out category; and, (iii) the reduction of core inflation i.e., excluding food and energy. In addition, inflation indicators are trending down—they are still, however, above the target range.

According to the BCRP, the projected end-of-the-year inflation rate will reach 3.8%, evidencing an increase compared to the March report; this is because the effect of negative climatic effects and the avian flu on food prices has also been measured. Inflation is expected to decrease by 2024 and close at 2.4%.

On the other hand, the BCRP has also indicated that there still is an upward bias in the balance of risks for the inflation projected. The risks in the projection mainly consider the following contingencies: (i) lower demand in the event that business and consumer confidence do not recover due to the persistence of political instability; (ii) a slowdown in global growth, which would mean a lower demand for exports; (iii) the intensification of geopolitical tensions, which could exacerbate and prolong the current energy and food crises; (iv) the possibility of climatic events such as a strong global El Niño with a significant negative impact on the economy; and (v) an upward pressure on the exchange rate, capital outflows, and greater volatility in financial markets due to greater political uncertainty, disturbances to economic growth, or due to the tightening of international financial conditions.

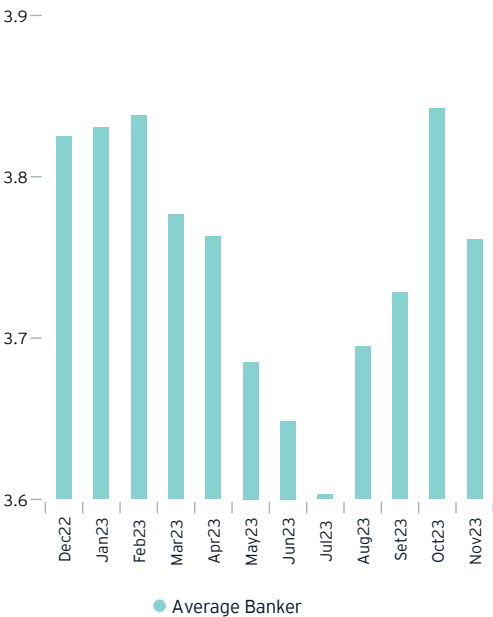
B. Dollarization in Peru

As noted above, it is possible to find providers of goods or services in Peru who accept the Dollar as a form of payment. Examples include the markets for automobiles, technology, real estate (sale or lease) and companies in the financial system that offer loans in Dollars. There are also many individuals and legal entities who hold some part of their savings in this currency.

One of the causes of dollarization in Peru was the hyperinflation experienced in the late twentieth century by the previous currency of legal tender, the Inti millón. In response to this situation, the use of the Dollar became widespread to ensure that savings or liquid assets were reasonably able to maintain their value over time. Remittances from abroad also played a role in the dollarization process.

Today, dollarization remains present in Peru, which has led to a particular focus on the evolution of the exchange rate and foreign exchange risk.

Average Bank Exchange Rate (December 2022 - November 2023)

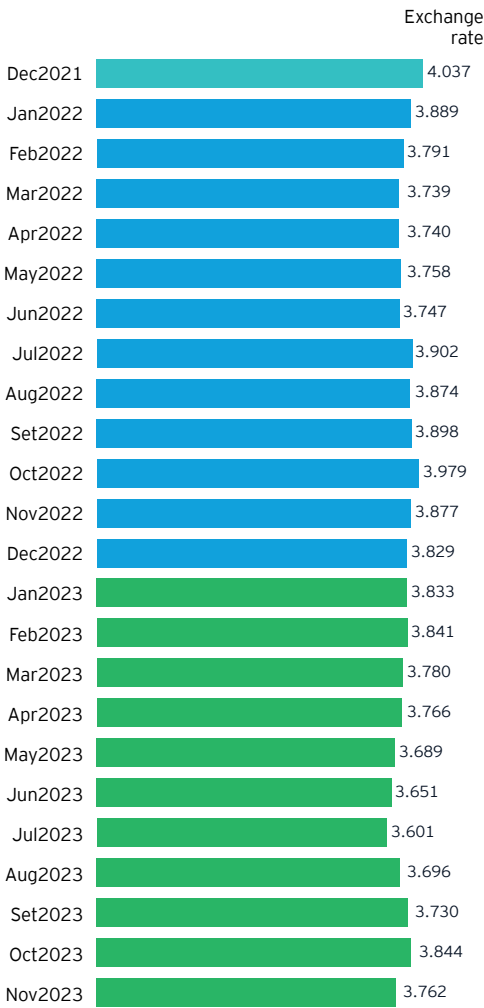


Source: Central Management of Economic Studies, BCRP.

C. Evolution of the Exchange Rate

According to figures from the BCRP, the monthly average exchange rate between the Sol and the Dollar has evolved as follows:

Recent exchange rate developments



Source: Central Management of Economic Studies, BCRP.

D. FinTech Offers for Currency Exchange

One of the new options offered in the Peruvian market for exchanging PEN to USD and vice versa is the use of FinTech platforms. These platforms offer competitive exchange rates with the advantage that transactions can be carried out entirely online, unlike physical currency exchanges.

It is worth mentioning that these new alternatives of houses of virtual exchange are regulated by the Superintendency of Banking, Insurance and AFP (SBS) and coming establishing alliances with traditional banking actors.

Rextie:

USD 4 billions

The first digital foreign exchange platform registered with the SBS; reports that more than USD 4 billion were negotiated with clients. This year, Rextie began the implementation of its internationalization plan launching in Canada, with an intention to close the year with USD 600 million exchanged.

Kambista:

USD 2 billions

Over USD 2 million exchanged in more than one million transactions performed, with an alliance established with Banco Internacional del Perú - Interbank.

As we can see, the exchange of currencies using FinTech or traditional banking has shown sustainable growth in the Peruvian market, especially in the number of clients that carry out transactions of smaller amounts. There are currently around 30 currency exchange FinTech companies.

2.5

>> PAYMENT SYSTEMS AND AGREEMENTS

“The number of payment transactions per inhabitant went from 97 digital payment transactions per adult in 2021 to 174 payment transactions in 2022,” as stated by the BCRP in the May 2023 Financial Stability Report. The increase in digital payments could be driven by the growing number of transactions in digital wallets and immediate transfers.

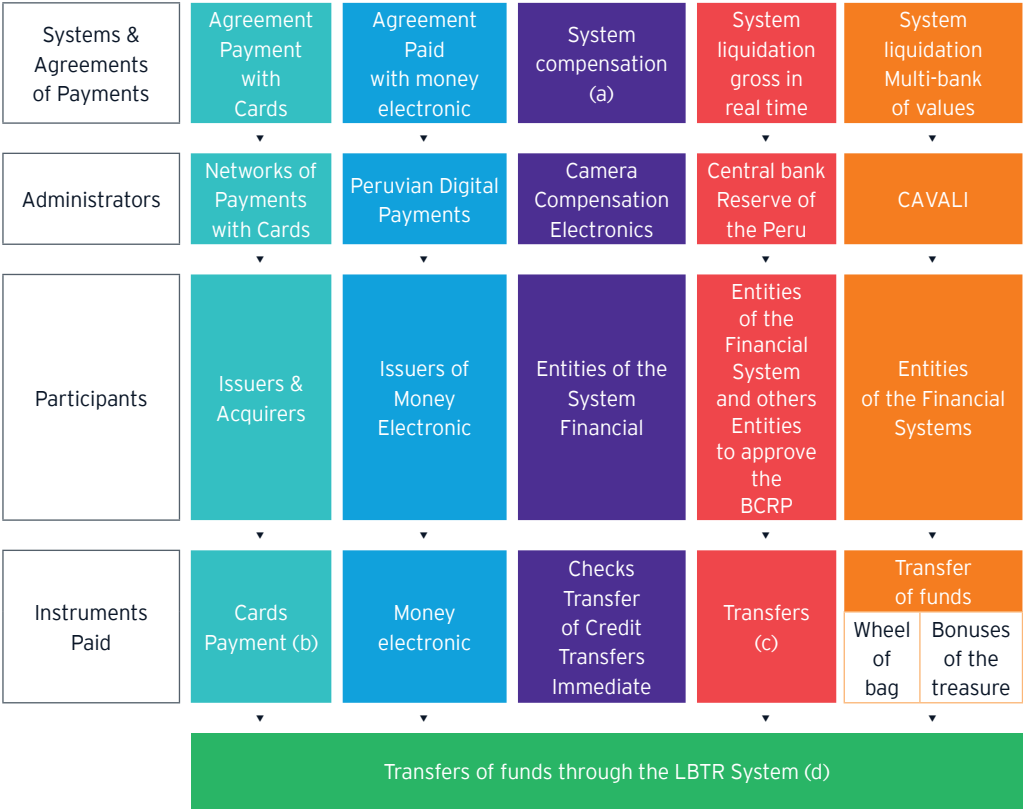
The success of payment systems in different countries lies in ensuring the effectiveness and security of the processes necessary for the execution of payments that are made through instruments and channels other than cash. In Peru, the rules, procedures, agreements and payment systems are supervised and regulated by the BCRP.



In Peru, the regulator defines Payment Systems as infrastructures essential to the economy in interconnecting companies in the financial system and in facilitating

making payments, investments, and even in implementing the monetary policy. The Payment Systems and Agreements in our country are organized as follows:

Peru: Systems and Agreements of Payments



(a) System for clearing and settling checks and other clearing instruments.
(b) Settlement agents and paying banks are involved in the settlement.
(c) Includes transfers between participants, in the name of clients and for transactions in the foreign exchange market and by operations with BCRP Securities.
(d) The LBTR System also settles the monetary operations of the Central Bank

Source: BCRP.

A. Overview of the Payment System in Peru

1. General information

- The digitization process, led by retail payments, shows the growing adoption of digital wallets and an increased use of instant transfers.

High-value and low-value payments (average 12 months)						
Payment Instrument	to March 2022		to March 2023		Change %	
	Value	Number	Value	Number	Value	Number
LBRT System						
Transfers Intrabank - via Digital Wallets <small>(Intrabank transfers: Transfers made between customers of the same bank)</small>	11,370	246	79	120	161	197
Transfers Interbank - via Digital Wallets <small>(Interbank transfers: Transfers that are made between customers of different banks)</small>	4,636	83	237	256	164	388
CCE System						
Instant Transfers	10,922	12	29	21	43	71
Bim: Payments & Transfers	306	0.7	85	37	48	-27

* Value in millions of soles and number in millions of operations.

Source: BCRP. Financial Stability Report. May 2023.

- The implementation of the first phase of interoperability that allows users to transfer funds between the two main digital wallets has spurred a greater number of bank-to-bank transactions.
- This evolution will have a positive impact on the adoption of digital payments, which will consequently improve society's well-being and efficiency.

2. Specific data

a) High-Value Payment Systems: Real-Time Gross Settlement (LBTR) System

The Real-Time Gross Settlement System ("LBTR System") manages high-value transactions, such as interbank loans, interbank transfers, among others. The BCRP has stated that, as of November 2023, the value of transfers in the LBTR System in national currency has decreased by 9% compared to the previous year, while transfers and loans between bank accounts of those in the LBTR System have increased.



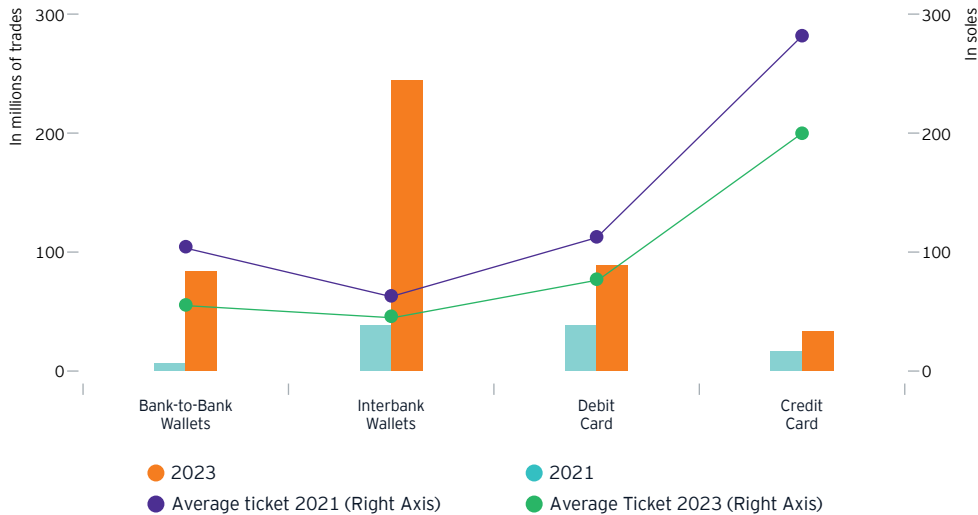
b) Low-Value Payment Systems

b.1. Clearing and Settlement System by the Electronic Clearing House ("CCE"):

Low-value payments are cleared electronically through the Electronic Clearing House (CCE). This includes clearing payment instruments such as checks, credit transfers, among other transfers, and digital wallets. The BCRP reported the following for the twelve months prior to September 2023:

- Low-value digital payments grew in number by 78%, but fell 0.2% in value, compared to September 2022.
- As of September 2023, the average value for transfers using digital wallets or debit cards is under PEN 80.

Percentage in the Number of Digital Retail Payments and Average Bill



Source: BCRP. Financial Stability Report. November 2023. Page 64.
<https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Estabilidad-Financiera/2023/noviembre/ref-noviembre-2023.pdf>



- Instant transfers increased 37% in value and 61% in number, making up 72% of the total number of transactions in the CCE.



b.2. Intrabank transfers and use of bank digital wallets

Intrabank transfers are those that are made between clients of the same bank. It should be noted that 98.5% of intrabank transfers are made through remote channels, such as online banking and mobile banking. In this regard, as of September 2023, the BCRP has published the relevant data, such as:

- The number of transactions increased by 74% while their value fell 3%, compared to September 2022, mainly due to business transactions.
- Transfers using digital wallets have increased in value and number for payments within the same bank.

Increase in transfers via digital wallets* (quarterly)

Transfers	to Sep. 2022		to Sep. 2023		Participation Set. 2023 %		Change %	
	Value	Number	Value	Number	Value	Number	Value	Number
Total Transfers	7,742	135	16,006	329	100	100	107	143
Transfers Intrabank - via Digital Wallets								
(Intrabank transfers: Transfers made between customers of the same bank)	6,368	112	11,370	246	71	75	79	120
► Yape (BCP)	6,126	109	11,145	243	70	74	82	123
► Plin (BBVA)	222	2	173	2	1	1	22	-23
► Tunki (Interbank)	20	0.3	52	0.9	0.3	0.3	164	220
Transfers Interbank - via Digital Wallets								
(Interbank transfers: Transfers that are made between customers of different banks)	1,374	23	4,636	83	29	25	237	256
► Yape	273	12	1,694	41	11	13	521	254
- Yape to Plin	-	-	775	10	5	3	n.a.	n.a.
► Plin	1,101	12	2,942	42	18	13	167	258
- Plin to Yape	-	-	1,846	28	12	9	n.a.	n.a.

* Value in millions of soles and number in millions of operations.
Source: BCRP. Financial Stability Report. May 2023. Page 77.
<https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Estabilidad-Financiera/2023/mayo/ref-mayo-2023.pdf>

b.3. Payment Cards

The BCRP reported that, as of March 2023, payment cards are used less than digital wallets for retail payments. However, it should be noted that this payment instrument is gaining acceptance in e-commerce, given that as of September 2023 and compared to the same period in 2022, online purchases with debit cards have grown by 44% in value and 101% in number; while online purchases with credit cards increased by 14% in value and 41% in number.

In Peru, a multi-acquisition system has been in place since January 2020. This has generated greater competition at the level of acquirers, as indicated by the BCRP as of May 2021, as the benefits are focused on variables such as commissions, security, efficiency, availability of funds; as well as the fact that interchange fees came to be determined by card brands, as is the case in other countries. Additionally, transactions using these instruments are regulated in the Regulation for Card Payment Agreements, as explained in section 4.1. herein.

b.4. Electronic Money Payment Agreement ("APDE")

The APDE is the set of agreements or procedures to process and clear Electronic Money Transfer Orders, which are regulated by the BCRP and administered by Pagos Digitales Peruanos S.A. (PDP), in which companies in the financial system, including electronic money issuing companies and mobile operators, participate.

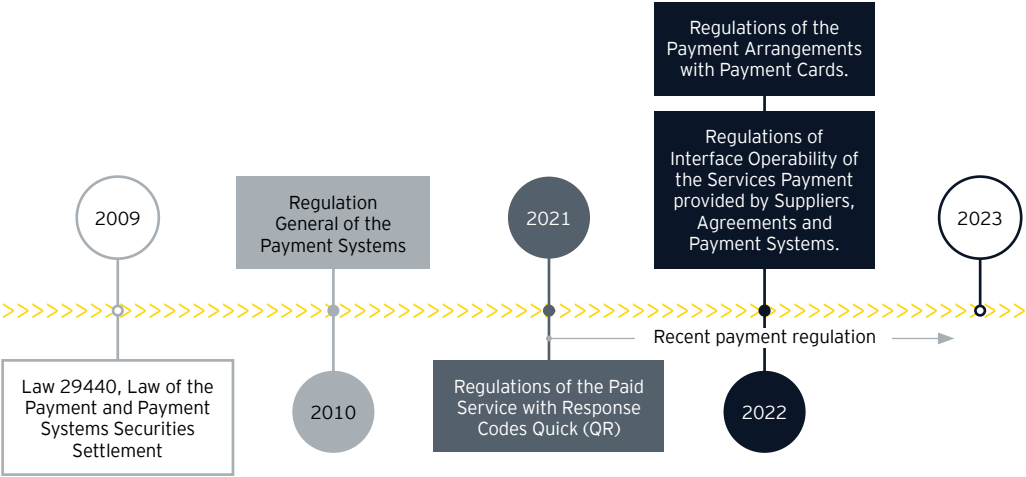
Although participation in the APDE is low in total retail payments, in the last 12 months, as of September 2023, the value of payments and transfers with BIM increased by 85% and their number increased by 37%.

Additionally, the BCRP reported that the PDP has added new features to the Bim wallet in order to encourage adoption and to improve user experience. Some of these improvements are:

- ▶ Geolocation tools that facilitate the identification of nearby places to cash-in or cash-out from the wallet.
- ▶ Corporate features to grant and cash loans, for example, for finance companies and cooperatives.
- ▶ Integrations with companies such as Western Union to receive remittances, and Kasnet and Niubiz to make purchases and add money to the wallet, among others.

B. Regulation applicable to the Peruvian Payment System

Evolution of the regulation of the Peruvian Payment System



1. QR Code Payment Services: Quick Response (QR) Code Payment Service Regulations

Due to the fact that Peru has observed a growing use of QR codes to make digital payments, the BCRP published an applicable regulation for payment services with QR codes. This standard establishes a single standard for QR code payments, as well as general guidelines that promote the efficiency, security, interoperability and transparency of

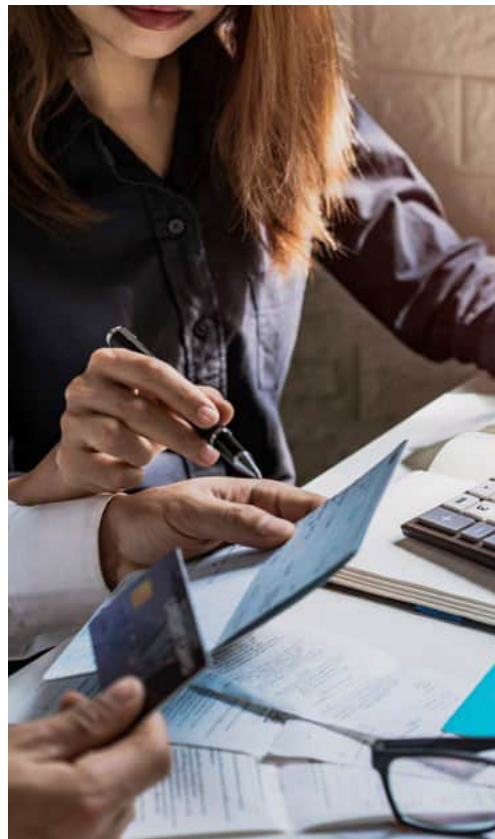
information for digital payments using the QR code payment service. The regulation sets forth obligations applicable to QR code providers, digital wallet providers and payment networks. The main obligations established therein include the enforceability of internal policies, regulations and procedures that ensure the efficiency and security of transactions; the registration in the Registry of Digital Wallet Providers and QR Code Providers at the BCRP; and the reporting of information to the BCRP.

2. Regulation on the Interoperability of Payment Services provided by Suppliers, Agreements and Payment Systems.

In line with the growing use of e-wallets in the country, the BCRP published the Regulation on the Interoperability of Payment Services provided by Providers, Agreements and Payment Systems in October 2022 in order to set forth the conditions and opportunities for the interoperability of payment services provided by Regulated Entities, made up of Payment Service Providers, Payment Agreements and Payment Systems (as defined therein). Learn more about this regulation in the E-Wallets section.

In this regard, the BCRP's interoperability strategy includes four phases: (i) Phase 1: interoperability of fiat money accounts (deposit accounts in financial institutions); (ii) Phase 2: Interoperability of QR codes; (iii) Phase 3: Interoperability of e-money; (iv) Phase 4: Access to new actors such as FinTech and Big Tech companies. According to the BCRP and in accordance with valid provisions of this regulation regarding interoperability, the main bank wallets i.e., YAPE and PLIN started interconnecting in March 2023, and gradually during the month of April and the first days of May fully deployed the interoperability functionality for all their users.

Likewise, recently in July 2023, a modification to the interoperability regulation was issued. It mainly included "tech providers" selected by the BCRP and involved in the interoperability processes, to be part of the scope covered by certain obligations. It also updated the list of Regulated Entities in Phase 3 of interoperability, which mainly includes E-Money Issuing Companies ("EEDC"), Bim's APDE, Payment Systems and one tech provider.



3. Regulation for Card Payment Agreements

The Regulation for Card Payment Agreements entered into force in January of this year (2023); its purpose is to strengthen, and make card transactions efficient and secure, where parties such as Card Payment Networks, Issuers, Payment Processing Companies, and Payment Facilitators, are involved. The main

obligations include registration with the BCRP, publication of commissions (exchange rates and discount rates) on web portals, and periodic reporting to the BCRP.

According to the regulator, as of April 5, 2023, there are 63 entities participating in different payment agreements, as shown in the following table:

Number of registry entities by APT

Role of the entity	Card Payment Network			
	Visa	Mastercard	American Express	Diners
Emitters	37	21	2	1
Acquirers	5	5	1	1
Payment Facilitators	17	17	13	13
Total	59	43	16	15

Source: BCRP. Financial Stability Report: May 2023. Page 80. <https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Estabilidad-Financiera/2023/mayo/ref-mayo-2023.pdf>



4. Recent Modifications Applicable to E-Money

In December 2022, the SBS reduced the limit restriction on transactions carried out with simplified e-money accounts, including deposits for instant withdrawal in multi-operational companies classified A+, as a guaranteed modality for the e-money issued.

C. Initiatives in the Payment System

- ▶ In terms of payments, the BCRP is yet to issue the regulation for the continuance of the interoperability of EEDs, and FinTech and Big Tech companies.
- ▶ The BCRP has stated that it will assess the need to issue connectivity and security standards, minimum levels of service quality and availability, and user experience guidelines for the payment system. It is also working, in collaboration with the SBS, in the revision of information security and cybersecurity guidelines related to risk control of possible fraud and malicious use of information.
- ▶ In the first quarter of the year, the BCRP prepared a document analyzing whether it would make sense to have a digital currency for Peru, considering that a Central Bank Digital Currency (CBDC) could contribute to the digital payments ecosystem, favoring it with greater financial inclusion and offering the population an improved version of cash. In this regard, the BCRP has stated that it will continue to research and evaluate the convenience of issuing a CBDC, including the possibility of discussing the issue with tech providers, regulators and experts in said topics.



2.6

2.

>> BANKING PENETRATION AND FINANCIAL INCLUSION

A. What is financial inclusion?

Financial inclusion is defined by the BCRP as “access to and use of high-quality financial services by all segments of the public”. “Access” is understood as the possibility of finding access points and infrastructure and a high-quality offer in the service market. And, “use” is understood as the frequency and intensity with which these services are utilized, while the quality of financial services means that their characteristics must meet users’ needs.



Accordingly, the financial inclusion process involves not just the possibility of accessing these types of services, but that all segments of the public effectively make continuous and prudent use of them. As we will explain further below, the adoption of financial services offers a number of benefits to society.

According to the SBS, financial inclusion must be used as a means for improving the public's wellbeing, allowing them to do the following, among other things:

- Securely save surplus capital so users can make future investments.
- Access financing for the performance of income-generating activities, for both individuals and companies.
- Strengthen the ability to withstand losses by taking out insurance.
- Access liquid cash to cover specific expenses.
- Increase business productivity and profitability through payment transaction facilities.

B. National Financial Inclusion Strategy and Policy

In 2015, the Peruvian government developed its National Financial Inclusion Strategy, in recognition of the fact that financial inclusion has an impact on social inclusion and economic development. This policy is based on access to and the use and quality of financial services through the following lines of action:

- Payments, including digital payment services, government payments, and remittances.
- Savings, which includes simplified basic accounts, pensions, etc.
- Financing, focused on microcredits, micro- and small enterprise loans, agricultural loans, and other financial instruments.

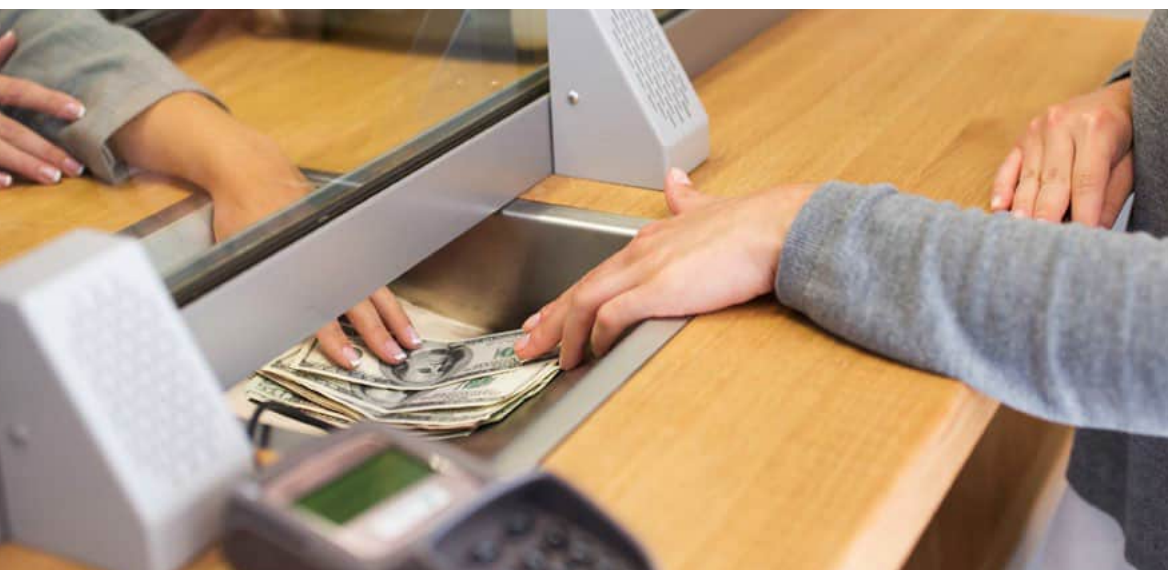


- Insurance, including micro-insurance, agricultural insurance, and health, life, and pension insurance.
- Vulnerable groups, focused on the implementation of actions and measures based on their needs.
- Financial education, focused on the development of financial capacities among all segments of the population to ensure appropriate decision-making.
- Consumer protection, which involves the protection of their rights through transparent information and adequate dispute settlement systems.

In mid-2019, the National Financial Inclusion Policy was published. This policy, contained in Executive Order 255-2019-EF, established the following priority objectives:

- Foster greater trust in the financial system among all segments of the population.
- Ensure a sufficient and adequate offer of financial services that meet the public's needs.
- Mitigate friction in the functioning of the market.
- Develop telecommunications infrastructure and digital platforms to increase the coverage and use of financial services.
- Strengthen mechanisms to coordinate institutional efforts.

2.



C. Current State of Financial Inclusion in Peru

According to the Credicorp Financial Inclusion Index 2023, Peru is on a positive trend in all dimensions (access, use and perceived quality), with an overall score of 43.3% this year. The study also highlights that Peru is one of the countries where digital wallets are most frequently used.

Peru Financial Inclusion Index

Peru	Total * 2023	Total * 2022	Peru 2023	Peru 2022
Peruvian financial inclusion index	45.5 ▲	44.2	43.3 ▲	39.8
Access	45.1	45.4	46.5 ▲	41.5
Use	30.5 ▲	29.2	25.9 ▲	22.0
Perceived quality	60.9 ▲	58.0	57.6 ▲	55.9

Less financial inclusion 0 ● — ● — ● — ● — ● 100 More financial inclusion

* The total comprises the regional average between Argentina, Chile, Panama, Ecuador, Colombia, Peru, Mexico and Bolivia
Source: Credicorp. Financial Inclusion Index. 2022.

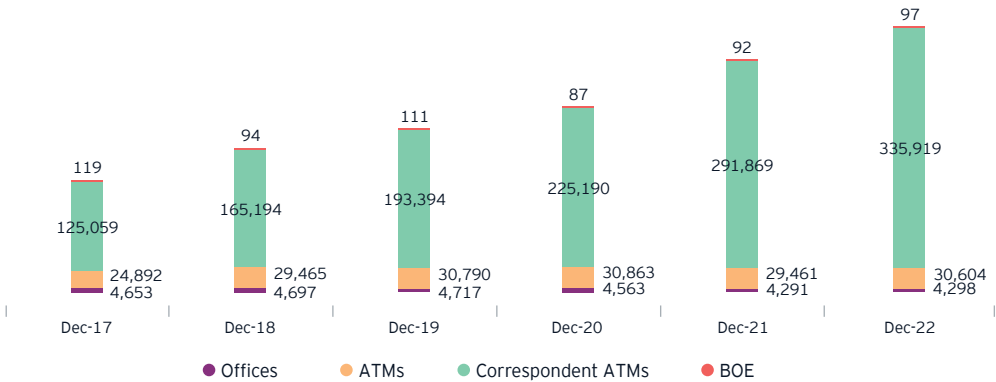


1. Infrastructure

In recent years, the indicators on the financial inclusion process prepared by

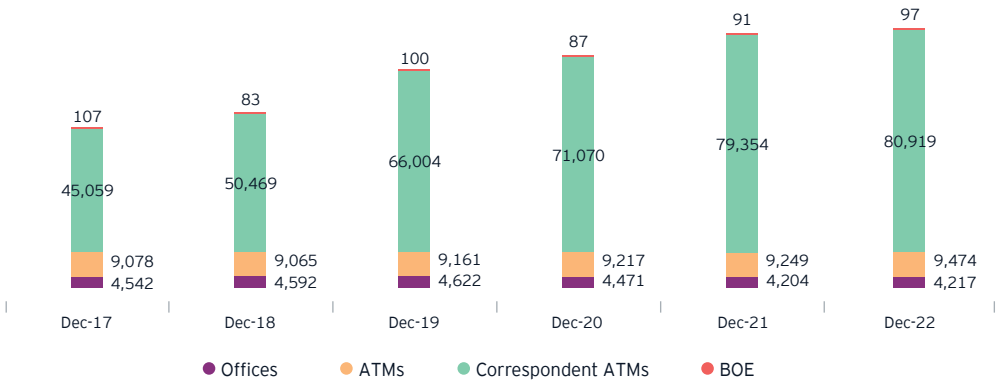
the SBS have shown positive trend in the increase of financial infrastructure.

Number of ATM offices (ATMs), Correspondent ATMs (POS) and Basic Operations Establishments (BOEs)



Source: SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December 2022.

Office infrastructure, ATMs, POS, BOEs



Source: SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December 2022.

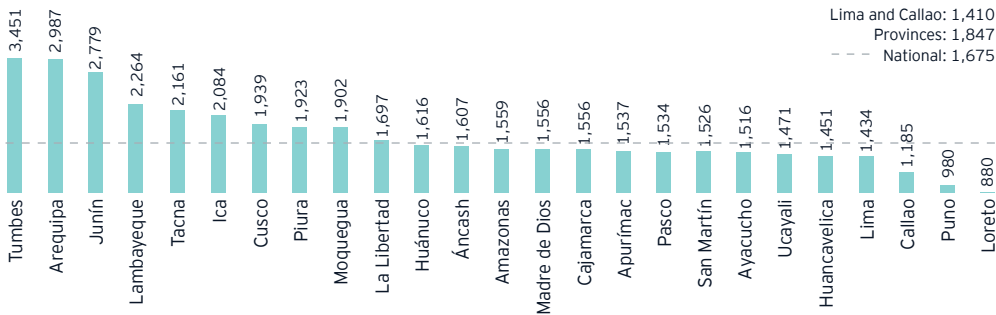
*ATM: Automated teller machines.
*BOE: Fixed or mobile establishments operated by the company itself, in which only the operations allowed to correspondent tellers.

As we can see, although there was a slight drop in the number of offices of financial institutions between December 2020 and December 2021, ATMs and banking agents (payment terminals) have been steadily increasing. However, there is an evident disparity regarding their distribution by

region in Peru, in some cases reflecting their demographics:

- The national average number of customer service locations for every 100,000 adult residents per department is 1,675, where 1,410 is for Lima and Callao, and 1,847 for all other provinces.

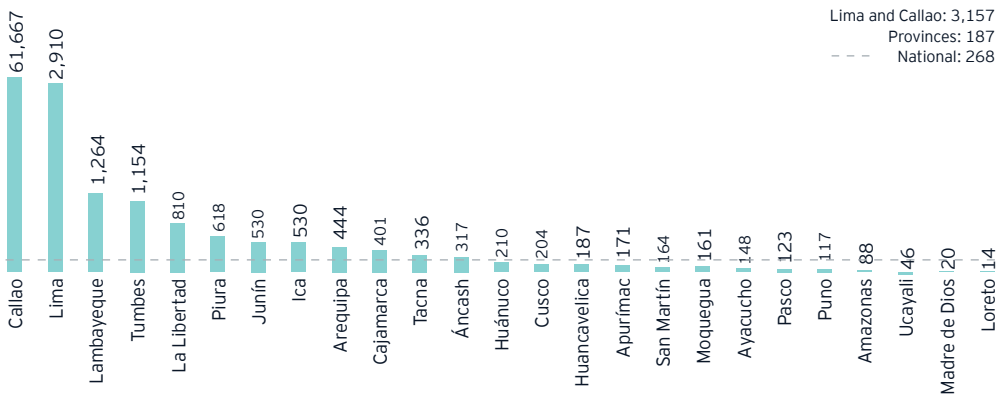
Number of care points per 100 thousand adult inhabitants per department



Source: SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December 2022.

The national average number of customer service channels per 1,000 square kilometers is 268; where 3,157 in Lima and Callao, and 187 in the other provinces.

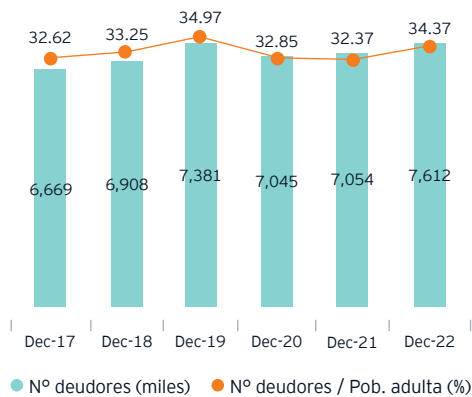
Number of service channels per 1,000 km² by department



Source: SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December 2022.

2. Infrastructure Use

Number of debtors in the System Financial and Number of debtors as percentage of adult population

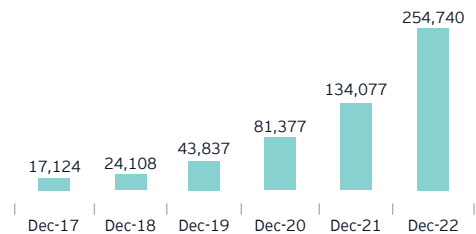


Source: SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December 2022.

As we can see, between December 2017 and December 2021, the number of debtors increased steadily, while between December 2019 and December 2021, there was a reduction of 3.26%, mientras que, entre diciembre de 2019 y diciembre de 2021 hubo una reducción de 3.26%, which went back up by 2% in December 2022, compared to the same month of the previous year.

It is also important to note the number of online banking transactions:

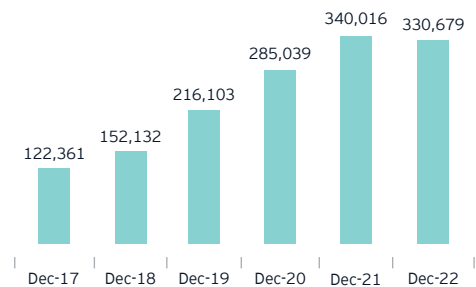
Number of System operations Financial in virtual banking (in thousands)



Source: SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December 2022.

According to the reporting on this indicator, there was a significant increase of more than 190% in the number of online banking transactions between December 2021 and December 2022. These transactions include online payments, corporate software, client software, telephone banking, and mobile banking. The amount of these transactions has also increased, from PEN 340.016 billion in December 2021 to PEN 330.679 billion in December 2022.

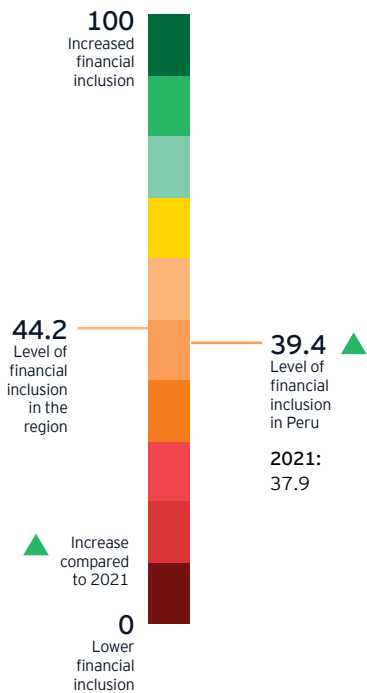
Amount of System Operations Financial in Virtual Banking (in Million Soles).



Source: SBS. Peru: Report on Indicators of Financial Inclusion of Financial Systems, Insurance and Pensions. December 2022.

D. Financial inclusion indicators in the region

According to the results reported on Peru's Credicorp Financial Inclusion Index (2022 FI Index), prepared by Ipsos, Peru has a Financial Inclusion Index of 39.4%, a figure that is below the regional average (44.2%).



Source: Credicorp. Financial Inclusion Report. 2022.

Credicorp evaluation reached the following conclusions, among others:

- ▶ A gender gap in financial inclusion of 4.8 points remains; with men reached 42.3 points and women 37.5.
- ▶ The age group with the highest financial inclusion score is of 18 to 25 years old (46.6), followed by the group of 26 to 42 years old (43.1), the group from 43 to 59 years old (35.4) and, lastly, the group of 60 years and over (29.3).
- ▶ People who live in urban areas have a higher level of financial inclusion, with a difference of 11.1 points compared to the people living in rural areas. In this regard, the score of urban areas reached 42 points, while rural areas only 30.9.
- ▶ People with a highest educational level have the highest level of financial inclusion. In this regard, those with postgraduate studies obtained a score of 65.3, while people without tertiary studies only 22.
- ▶ Workers in the formal sector presented a higher level of financial inclusion with a score of 57, unlike informal workers and unemployed people, who obtained a score of 38.4 and 33.5, respectively.

► Finally, internet access is a key indicator of financial inclusion, with a difference of 19.3 points between people who have internet access and those who do not have access to said service.

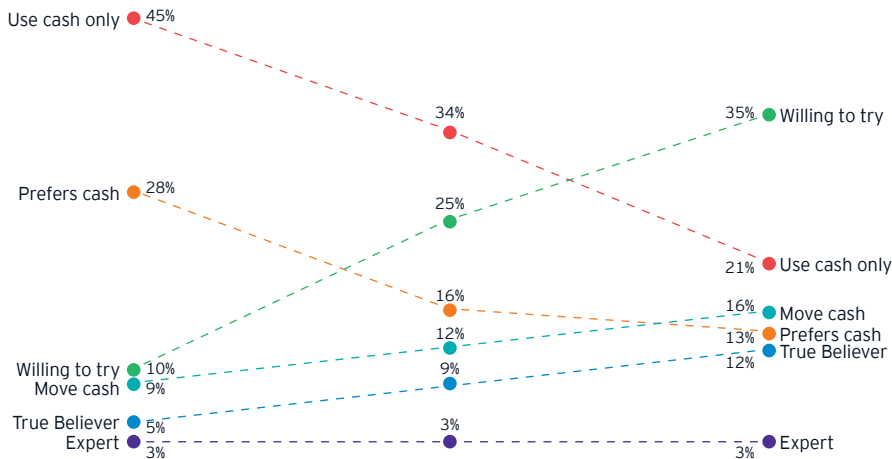
The report State of Financial Inclusion post COVID-19 in Latin America and the Caribbean shows that one of the most important items, which is the percentage of people who use

cash only, decreased from 45% to 21. Also, the number of people who prefer cash went down from 28% to 13%; and the number of people willing to try different financial services increased from 10% to 35%.

Thus, although people are using less cash, it continues to be the most used means of payment daily, coexisting with debit cards and digital wallets.

2.

Evolution of financial inclusion in Latin America



Source: Mastercard and Americas Market Intelligence. State of financial inclusion after Covid-19 in Latin America and the Caribbean. 2023.

Furthermore, the report states that, in general, savings and payment products (e.g., digital payments) have had a significant positive impact on financial inclusion in Latin America. This is because consumers save time and do not need to travel or wait in line to make their payments. Some of the products with the greatest positive impact are savings accounts, debit cards, and credit cards, among others.

Although in recent years there has been great progress in the financial inclusion front due to the adoption of mobile financial services and the decrease in the use of cash, plus government support; the figures show that Latin America still has a long way to go and divides to bridge in issues such as, access to credit and financial education.



Extract - Interview with Oscar Orcón (Ministry of Economy and Finance - MEF)



Oscar Orcón

Director of Financial
System and Capital
Markets, General Direction
of Financial Markets and
Private Pensions - MEF



Review the interview [here](#).



Oscar Orcón, Director of Financial System and Capital Markets under the General Direction of Financial Markets and Private Pension at the Ministry of Economy and Finance, highlighted three key areas for Peru to expand financial inclusion: First: Strengthening financial education, since according to the latest financial capabilities survey carried out by CAF and the SBS, only 13% of Peruvians are versed in financial education.

Second: Building telecommunications infrastructure, as it is the foundation for financial services to grow across the country allowing the access to technologies using the Internet. And, third: Promoting the articulation of institutional efforts from the public and the private sectors, as well as civil society, so that financial inclusion can be fully implemented, including the FinTech ecosystem, which offers fast and innovative tech solutions.

Orcón also mentioned that the Ministry of Economy and Finance has been focusing on improving financial inclusion. In 2019, the National Financial Inclusion Policy was approved, which aims to ensure that financial services are reliable, innovative and that they can cover the needs of all segments of the population.

Along the same lines, the National Bank of Peru created Cuenta-DNI, a digital account with 13 million accounts opened and 2 million accounts active to date. Financial Inclusion Consultative Committees (“CCIF”) have also been created, a space for articulation and dialogue between the public and the private sectors for the development of concrete actions towards financial inclusion. The FinTech CCIF seeks to continue promoting the development of the FinTech ecosystem through regulation that allows and facilitates innovation in a safe environment.

The implementation of IMPULSO MYPERU has helped the financial inclusion process of MSMEs and has promoted a culture of timely payment.

In addition, the expert pointed out that some actions are still needed to ensure greater security. Also, that financial education is key

in the financial inclusion process, since it allows individuals to make better decisions.

Finally, Orcón highlighted that since 2015, when the Multisectoral Financial Inclusion Commission was created, its most notable achievements have been: the creation and implementation of the National Financial Inclusion Strategy (“ENIF”), which promoted important regulatory advances such as the Regulation on E-Money Payment Agreements, the modification of the National Bank of Peru Statute to include the Issuance of E-Money, and the approval of the Regulation on Market Conduct Management of the Financial System*.

Likewise, the MEF decided to elevate the ENIF to the National Financial Inclusion Policy (“PNIF”)**, which establishes 5 priority objectives, implemented through its Multi-Sector Strategic Plan (“PEM”)**.

* SBS Resolution 3274-2017 that approves the Regulation on Market Conduct Management of the Financial System and modifies the Accounting Manual for companies in the financial system and the Credit and Debit Cards Regulations.

** Executive Order 255-2019-EF from August 5, 2019.

*** Executive Order 112-2021-EF from May 5, 2021.

FINTECH
3

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BUSINESSES
PERU



3.1

>> INCORPORATION OF UNREGULATED COMPANIES

3.

The corporate structures that are regulated under Peruvian law fulfill different objectives and purposes, which depend on the needs of the parties incorporating those companies. The most widely used corporate structures include the following:

A. Joint Stock Companies

At least two shareholders are required to establish a joint stock company. The initial capital stock - whether paid in local or foreign currency - must be deposited in a local financial institution.

There is no minimum capital stock amount required under the Business Corporations Act (Ley General de Sociedades, or "LGS 72"). However, local financial institutions often ask for a minimum amount of PEN 1,000 (approximately USD 250) for the initial capital stock deposit.



A joint-stock company's capital stock is represented by shares, which may, in turn, be represented by physical certificates or book entries.

Characteristics

Name
Must include the indication "*Sociedad Anónima*", also known in its abbreviated form as "S.A."

S.A.

Limited Liability

Shareholder liability is limited to the amount of their capital contributions. Shareholders are not personally liable for corporate debts. The company's net worth itself is the guarantee offered to creditors. If this is insufficient, shareholders are not liable.

Governing Bodies

Shareholders' Meeting, Board of Directors, and Management

Shareholders' Meetings

May be held in person or remotely. Remote shareholders' meetings shall be possible provided the company's bylaws so allow and/or there is no legal prohibition against it, and shall be held via electronic or other means that make it possible to guarantee the members' identification, communication, participation, the right to speak and vote, and the correct performance thereof.

Legal Reserve

Consists of a minimum of 10% of the distributable profits for each fiscal year, after income tax, until reaching an amount equal to one-fifth (1/5th) of the capital stock.

Share Transfers

Shares are freely transferable, unless otherwise established in the bylaws.

Continuity

The death, illness, insolvency, withdrawal and/or resignation of shareholders does not entail the dissolution and winding-up of the company.

A joint-stock company may be regular, or adopt one of the following two particular forms, whose characteristics differ from those of a regular joint-stock company.

1. Closely-Held Corporation (Sociedad Anónima Cerrada)

Characteristics

Name

Must include the indication “*Sociedad Anónima Cerrada*”, also known in its abbreviated form as “S.A.C.”

S.A.C.

A Closely-Held Company must have at least two (2) and no more than twenty (20) shareholders. The shares cannot be listed in the Public Stock Exchange Registry (RPMV) kept by the Peruvian Superintendency of the Securities Market (SMV).

Governing Bodies

Shareholders’ Meeting and Management. The Board of Directors is optional.

Share Transfers

Limitation on the free transferability of shares. Shareholders have preemptive rights in the event of a proposal to transfer shares to another shareholder or a third party. This right may be eliminated by virtue of the bylaws. The bylaws may also establish a preemptive right in favor of the Company itself.

2. Public Corporation (Sociedad Anónima Abierta)

Characteristics

This corporate structure applies to companies with a large number of shareholders (over 750) those for which an initial public offering has been made for shares or convertible bonds, or those corporations in which over 35% of the capital stock belongs to 175 or more shareholders. All of their shares must be registered in the RPMV kept by the SMV.

Characteristics

Name

Must include the indication “*Sociedad Anónima Abierta*” also known in its abbreviated form as “S.A.A.”

S.A.A.

Governing Body

The General Shareholders’ Meeting, the Board of Directors and the Management.

Oversight

Public corporations are subject to the supervision of the SMV.

Share Transfers

Freely transferable. No restrictions or limitations whatsoever are permitted. The inclusion of clauses in the bylaws limiting the transfer of shares is prohibited.

B. Limited Liability Company (Sociedad Comercial de Responsabilidad Limitada)

Limited liability companies are organized with at least two (2) and no more than twenty (20) members. The requirements for incorporation are the same as for all other types of companies. Their capital stock is divided into equal, accumulative and indivisible ownership interests.

Characteristics

Name
Must include the indication “*Sociedad Comercial de Responsabilidad Limitada*,” also known in its abbreviated form as “S.R.L.”

S.R.L.

Limited liability

The partners are not personally liable for corporate obligations.

Governing Body

Members’ Meeting and Management.

Members’ Meetings

PMay be held in person or remotely. Remote members’ meetings shall be possible provided the company’s bylaws so allow and/or there is no legal prohibition against it, and shall be held via electronic or other means that make it possible to guarantee the members’ identification, communication, participation, the right to speak and vote, and the correct performance thereof.

Legal Reserve

No legal reserve obligations.

Share Tranfers

The transfer of ownership interests to third parties is subject to preemptive rights, and must be performed by virtue of a notarially recorded instrument that must be registered in the Public Records Office. Unless otherwise established in the bylaws, if the period of thirty (30) days established in the Business Corporations Act (LGS) expires and none of the members has used their preemptive right, the company itself may acquire the ownership interests offered. If the Members’ Meeting decides not to purchase them, the offering partner shall be free to transfer the ownership interests to third parties.

C. Simplified Closely-Held Corporation (Sociedad por Acciones Cerrada Simplificadas)

This corporate structure seeks to offer an alternative for the formalization of an individual's economic activities, with digital signatures, by using DNle or another digital certificate for its incorporation, making it a fully virtual process and eliminating the need of a public deed.

Characteristics

Name
Must include the indication "*Sociedad por Acciones Cerrada Simplificadas*", also known in its abbreviated form as "S.A.C.S."

S.A.C.S.

A Simplified Closely-Held Company must have at least two (2) and no more than twenty (20) shareholders, who must be individuals (natural persons).

Governing Body
Shareholders' Meeting and Management.
The Board of Directors is optional.

Share Transfers

Limitation on the free transfer of shares. Shareholders have the right of first refusal if it is proposed to transfer the shares in favor of another shareholder or a third party.

D. Branch (Sucursal)

Branches are secondary establishments through which a corporation (whether Peruvian or foreign) performs activities at a location other than its domicile. Branches are not separate legal entities. The parent company is liable for the branch's obligations.



A woman with dark hair and glasses, wearing a white button-down shirt, stands on a train platform. She is looking down at a black smartphone held in her hands. Her left hand is resting on a red vertical pole. The background is a blurred train station with tracks and overhead lights.

Incorporation of a Joint-Stock Company or Limited Liability Company

To incorporate a company in Peru, the following requirements and steps apply, after first selecting the type of company to be incorporated:

Search for and Reserve a Name

Optionally, those seeking to incorporate a company in Peru can search for and reserve a corporate name, in order to determine whether it matches any other names or trade names (whether complete or abbreviated) requested previously.

The search and reservation process is performed with the National Superintendency of Public Records Offices (SUNARP) and can be carried out virtually at Gob.pe or in-person at a SUNARP office. The approximate cost in 2023 is PEN 30.

3.

2

Draft an Agreement of Incorporation (Minuta)

Draft and execute the agreement (minuta) for the incorporation of the company, which shall include the articles of incorporation and bylaws. The agreement of incorporation shall indicate whether the founding shareholders or members are individuals or legal entities, Peruvian or foreign. If a shareholder is a legal entity, it must grant a power of attorney to an individual to perform the incorporation procedure and register the power of attorney with SUNARP.

If the founding shareholder or partner is a foreign legal entity, in addition to the power of attorney mentioned above - and in order to register the power of attorney with the Public Records Office - said shareholder shall send the following to Peru: (i) a certificate of good standing; and (ii) a certificate of incumbency whereby a legal representative states that the grantor of the power of attorney has the standing, according to the bylaws and the laws in force in the country of origin, to act as the company's representative and grant powers of attorney on its behalf.

Bear in mind that powers of attorney, certificates of good standing, and certificates of incumbency issued abroad must be apostilled or legalized by the Peruvian consul in the foreign country, as applicable, and then sent to Peru.

If the documents, apostilles and legalizations are issued in a language other than Spanish, they must be translated in Peru by a sworn translator appointed by the Ministry of Foreign Affairs.

3

Pay in capital and assets

Once the agreement of incorporation has been executed by the founding shareholders or partners, or by their representatives, where applicable, at least 25% of the par value of the shares must be subscribed and paid up, in a Peruvian banking institution.

3.

4

Execute directors' affidavits

If the company has a board of directors, the appointed members shall execute an affidavit expressly stating that they accept the position of director. Their signatures shall be notarized by a Peruvian notary public.

If a director is foreign, the affidavit shall be apostilled or legalized by the Peruvian consul in the foreign country, as applicable, and then sent to Peru. If the affidavit is issued in a language other than Spanish, it must be translated in Peru by a sworn translator appointed by the Ministry of Foreign Affairs.

5

Submit documents to a notary public

The agreement of incorporation, the certificate of deposit of the initial capital stock, and, where applicable, the directors' affidavits, shall be submitted to a Peruvian notary public to be made into the public deed, so that the registration of the company's incorporation in the Public Records Office can be requested. The registration procedure with the Public Records Office takes approximately two (2) weeks.

6

Obtain a Tax ID Number (RUC) from the National Superintendency of Tax Administration (SUNAT) and notarize books and records

If the notary public in charge of the procedure for the incorporation of the company has submitted the notarized documents online via the Public Records Digital Intermediation System (SID-SUNARP) SUNAT automatically assigns a Tax ID Number (RUC) at the time the incorporation is registered. It is possible to apply for a RUC via notary public, rather than the company itself, when registering an S.A., S.A.C., or S.R.L. with the Registry of Companies in and for Lima and Callao.

Otherwise, the company must apply for a RUC directly with the SUNAT and activate its Clave SOL (PIN). In all cases, the company shall notarize the minute books (e.g., the shareholders' meeting minute book) with a notary public.

3.

The preceding points consist of the company's incorporation, properly speaking. However, there are other applicable formalities, such as registering payroll workers with the Ministry of Labor (MTPE), obtaining a municipal operating license, and others.



To incorporate a simplified closely-held corporation, the following requirements and steps apply:

The deed of incorporation is registered by inputting the relevant information in the fields of the SACS Module of the SUNARP's Digital Intermediation System (SID-SUNARP). The act consists of the articles of incorporation and the bylaws.

Capital stock contributions can only be made in cash or non-recordable personal assets. In the case of non-recordable assets, the required appraisal report shall also be included. The shares subscribed by the founding shareholders must be fully paid-up.

3

Execute additional documents

Depending on the information submitted by the founding shareholders in the deed of incorporation, the SACS Module of the SID-SUNARP will generate the following documents, as applicable:

- ▶ Affidavit on the existence and accuracy of the information provided.
- ▶ Affidavit on the legal origin of the funds contributed to the capital stock by the founding shareholders.
- ▶ Affidavit of receipt of non-recordable personal property, in the case of capital stock contributions not made in cash.
- ▶ Affidavit of express acceptance of the position of director, where established in the deed of incorporation.

4

Digitally execute documents

The founding shareholders, directors, and the general manager, as applicable, shall digitally sign the SACS act of incorporation and the documents referred to in the preceding point, via the SACS Module of the SID-SUNARP, using a Digital DNI Certificate or other

certificate issued by a certifying entity accredited or recognized by the competent administrative authority in charge of the Official Electronic Signature Infrastructure (IOFE).

Note that the incorporation agreement must be completed within a term not to exceed seventy-two (72) hours, from the temporary incorporation of the trade name in the National Index of Legal Entities until the execution thereof by all of the participating parties using a digital signature.

5

Submit documents to the Public Records Officer for evaluation

To register the deed of incorporation, the founding shareholders must submit (i) an application generated using the input information; and (ii) the electronic document consisting of the articles of incorporation, the bylaws, and the affidavits mentioned in Point 3, including a voucher for the deposit of cash contributions. The registration process with the Public Records Office takes one (1) day.

3.

6

Register RUC and notarize books and records

Once the company has been registered with the Public Records Office, a RUC will be generated. Therefore, the company's legal representative must subsequently (i) obtain a Clave SOL (PIN) from the SUNAT and activate the assigned RUC; and (ii) acquire and notarize the corporate books and records required by the LGS.

7

Other applicable procedures after the incorporation of the company

The preceding points consist of the company's incorporation, properly speaking. However, there are other applicable formalities, such as registering payroll workers with the Ministry of Labor (MTPE) obtaining a municipal operating license, and others.

2. Procedure for the incorporation of a Company Branch

To establish a branch of a foreign corporation in Peru, the following requirements and steps must be applied:

A

Draft an agreement for the establishment of a branch in Peru, which must be adopted by the competent body of the parent company

In addition to this branch establishment agreement, the parent company shall issue the following documents and send them to Peru: (i) certificate of good standing; and (ii) a copy of its articles of incorporation and bylaws, or the equivalent instrument in the country of origin.

The branch establishment agreement, the certificate of good standing, and the copy of the articles of incorporation and bylaws shall be apostilled or notarized, as applicable, in the foreign country and then sent to Peru. If the documents and/or the certifications thereof are issued in a language other than Spanish, they must be translated in Peru by a sworn translator appointed by the Ministry of Foreign Affairs.

3.

B**Request the public deed**

The documents referred to in Point 1 above shall be submitted to a Peruvian notary public to be put into the form of a public deed, and the registration of the branch shall be applied for with the Public Records Office. The registration process with the Public Records Office takes approximately two (2) weeks.

C**Registration in the RUC of SUNAT**

Once the branch is registered with the Public Records Office, its legal representative must apply for a Tax ID Number (RUC) from SUNAT and the respective Clave Sol (PIN).

3. Use of blockchain in public records and its potential use when setting up companies

Currently, the LAC PropertyChain1 initiative is underway. This is a project promoted by the Inter-American Development Bank (IDB), aimed at the implementation of a platform with blockchain technology, seeking to support the formalization of land titles, formalization of legal acts, transfer of rights, as well as, for incorporations and lifting charges and encumbrances. It is not intended to replace the physical filing system of Public Records, but to be a value-added solution for monitoring notarial procedures until obtaining the registrar's statement of validity.

In this sense, we are presented with an example of a technological solutions project with high added value, which can be applied to various deeds, such as the incorporation of companies. Undoubtedly, incorporating a new company creates great expectation for any investor and if the Peruvian notarial and/or public records system offered a solution of this type, it would be seen as an important contribution in today's world.

3.2

>> INCORPORATION OF REGULATED COMPANIES

3.

I. Incorporation of Companies Regulated by the SBS

In Peru, any person who seeks to perform activities limited by law, such as financial brokerage, as established in the Act on the Financial and Insurance Systems and the Internal Regulations of the Superintendency of Banking and Insurance - Law 26702 (the "Act") must first obtain the respective authorizations from the SBS for its organization and operation. The SBS is responsible for overseeing, regulating, and authorizing the incorporation and operation of companies in the financial and insurance system. These companies differ, among other things, in the minimum capital stock required to incorporate them and the activities in which they are permitted to engage.



A minimum capital stock is a requirement for financial companies regulated by the SBS. This amount is a constant value and is updated quarterly, based on the Wholesale Price Index published each month by the National Institute of Statistics and Information (INEI) for the entire country.

On October 4, 2023, SBS Rule G-221-2023 was issued, updating the regulatory share capital required for companies supervised by the SBS. Below are the different types of companies:



Minimum share capital required for companies supervised by the SBS

Type of Company	Company	Regulatory Share Capital (PEN)
A. Multi-Operations Companies	1. Banking companies	33,949,396
	2. Financial companies	17,072,581
	3. Municipal savings and loan bank	17,072,581
	4. Municipal personal loan bank	9,105,376
	5. Financing companies	1,543,361
	6. Savings and loan cooperatives authorized to capture resources from the public	1,543,361
	7. Rural savings and loan Banks	1,543,361
B. Specialized companies	1. Real estate capitalization companies	9,105,376
	2. Leasing companies	5,554,280
	3. Factoring companies	3,086,723
	4. Bonding and guarantee companies	3,086,723
	5. Trust service companies	3,086,723
	6. Mortgage administration companies	5,572,159
C. Investment Banks	1. Investment banks	33,949,396
D. Insurance Companies	1. Companies operating in a single line (property and casualty or life)	6,173,445
	2. Companies operating in both lines (property and casualty, and life)	8,486,211
	3. Insurance and reinsurance companies	21,604,782
	4. Reinsurance companies	13,118,571
E. Supplementary and Related Services Companies	1. Bonded warehousing	5,554,280
	2. Cash transport, custody, and management companies	15,934,409
	3. Electronic Money Issuing Companies	3,086,723
	4. Money transfer companies	1,543,361

3.

The Act

includes the activities in which said companies are permitted to engage. These include the following:

Banking Company

Its main business consists in receiving money from the public in deposit or under any contractual modality. Likewise, it uses said money, its own capital, and that obtained from other financing sources to extend credits in different modalities, or to apply them to transactions subject to market risks.

Financial Company

Captures resources from the public, specializing in the facilitation of primary security issue placements, transactions with paper securities, and providing advice of a financial nature.

Financing Company

Its main business consists of granting financing in different modalities, with resources from its own capital and from other sources that do not include deposits from the public.

Financial Leasing Company

It specializes in the acquisition of movable and immovable assets, to be assigned in use to an individual or a legal entity, in exchange for a periodic rent payment, with the option to purchase such asset for a predetermined value.

Factoring Companies under the Scope of the Act

It specializes in the acquisition of negotiable bills, trade acceptances, debt instruments and, in general, any paper debt securities that meet the minimum criteria established by the SBS.

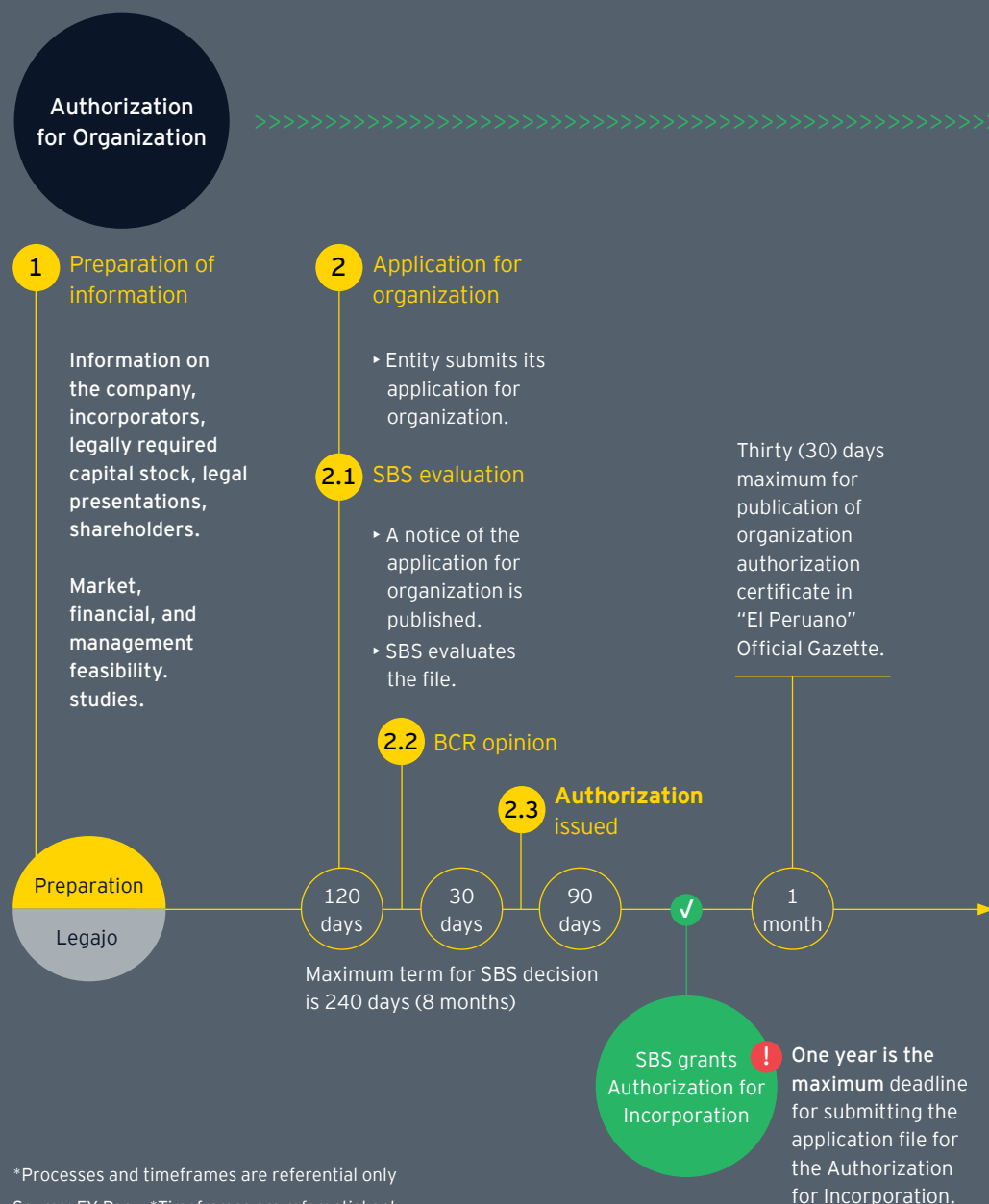
Trust Service Company

These companies specialize in acting as a trustee in the management of independent trust funds, or in the performance of fiduciary duties of any kind.

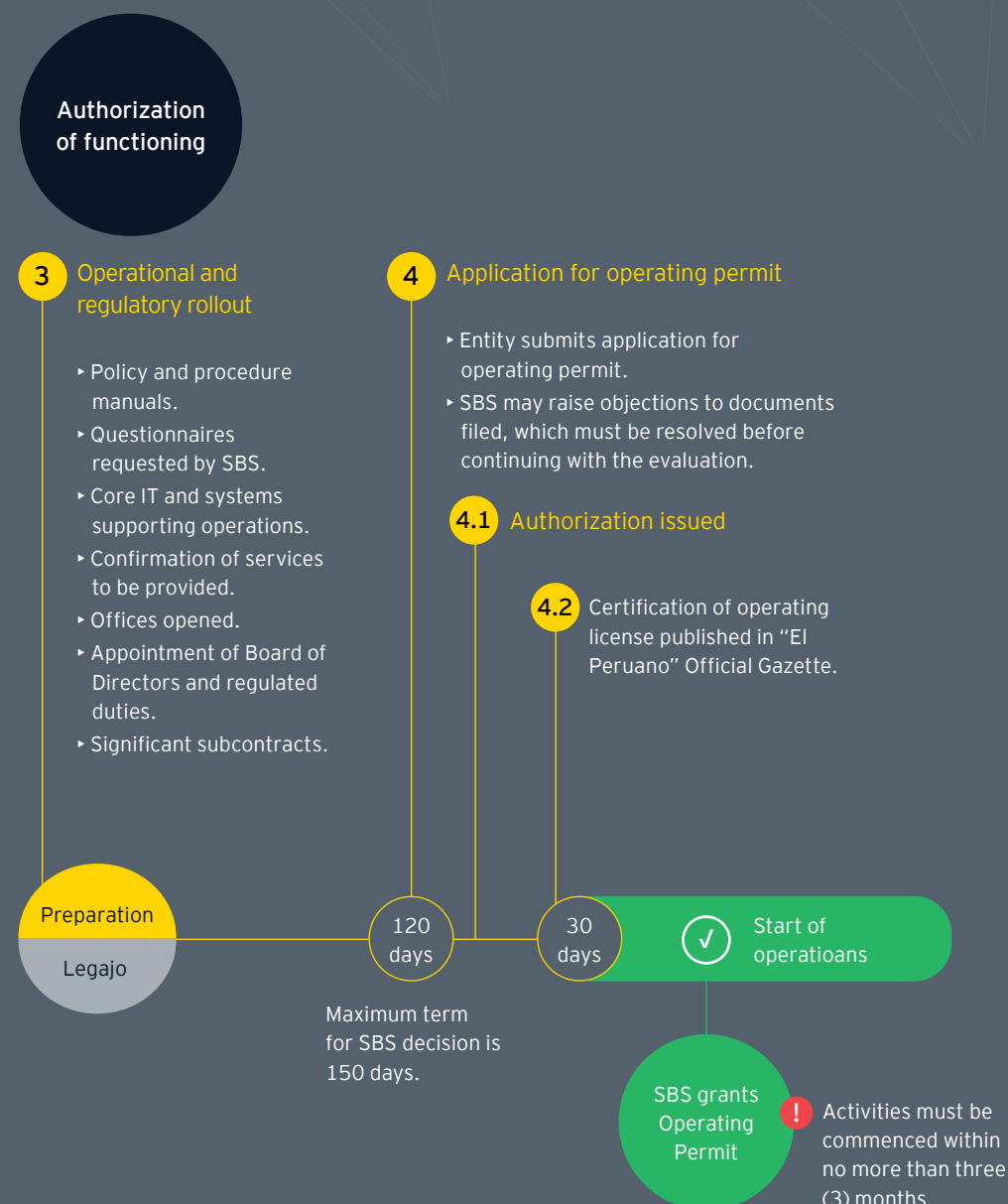
E-Money Issuing Company

The primary purpose of these companies is to issue e-cash. They do not grant loans against funds received, and may only perform other transactions related to their main purpose.

Procedure to incorporate a company regulated by the SBS



*Processes and timeframes are referential only
Source: EY Peru. *Timeframes are referential only.





Latest modifications:

By Legislative Order 1531, published on March 10, 2022, the name of Micro and Small Enterprise Development Entities ("EDPYME") was changed to Financing Companies, and with it all references contained in the legal framework.

This modification was made in order for the description to reflect more precisely the current operational nature of these companies, and to allow the inclusion of potential companies entering the financial system under the modality of multi-operations companies unauthorized to receive deposits from the public.

These companies had until April 30 of last year to carry out the corporate acts and public records procedures that are necessary in order to change their name.

3.

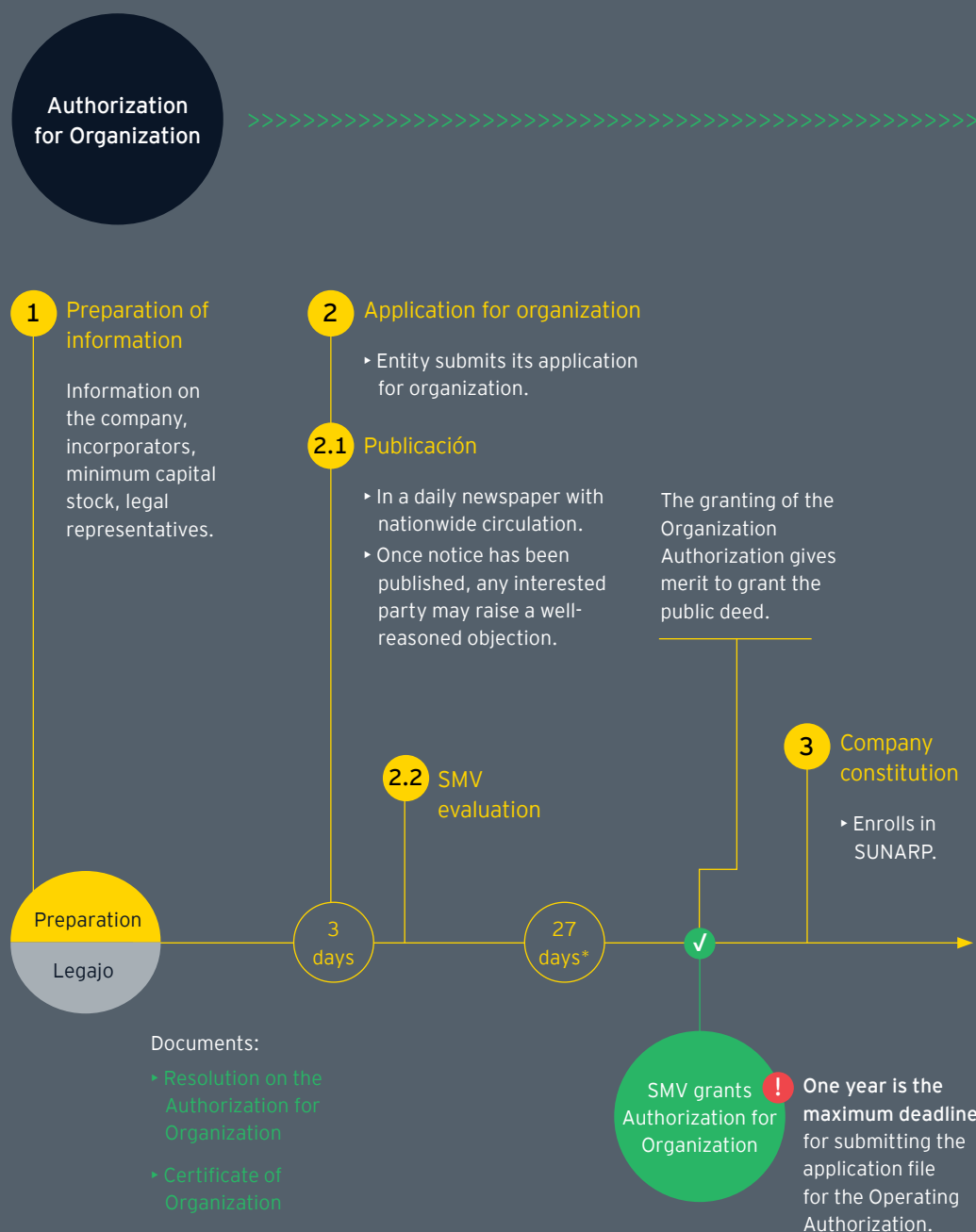
II. Incorporation of Crowdfunding Companies

As we will expand upon further below, crowdfunding platform management companies are regulated and supervised by the SMV. They must have a regulatory capital of PEN 300,000.00⁶, in accordance with the Regulation on Crowdfunding Activity, approved by Superintendent's Resolution 045-2021-SMV/02.

6. Said amount has a constant value and is updated annually, at the end of each year, based on the National Wholesale Price Index published periodically by INEI. For the year 2023, the restatement factor amounts to 2.465747.



Constitution of a FPF platform management company



*This period will be suspended for the number of days the incorporators take to respond to any objections or submit information requested by the SMV.

Source: EY Peru. *Timeframes are referential only.

Business Alliances

From a conceptual standpoint, one of the key factors in measuring the maturity and development of the FinTech ecosystem in a country is traditional actors' relationship with and openness to innovation and enterprise in the financial system. While there has already been a favorable trend underway for a few years now in terms of possible collaboration between traditional companies in the financial system and FinTech companies, 2021 saw an increase in strategic alliances.

From a regulatory standpoint, strategic alliances between financial system and FinTech companies are notable for having a proportional and balanced regulatory regime. While they do not require prior authorization from regulatory bodies, the regulatory framework in force establishes certain guidelines to take into account, depending on the scope of the collaboration and the conditions of each particular company:

- 1. New product:** It is crucial to perform a regulatory legal analysis on the financial service to be offered through the alliance to determine whether or not we are looking at a new product being launched for the first time by a company in the financial system or a change in an existing product that significantly changes its risk profile.

- 2. Third-party services (including subcontracting):** Let us recall here that goods and/or services provided by third parties to companies in the financial system are regulated and supervised by regulatory bodies. As a general rule, the financial company shall assume full responsibility for the results of the processes subcontracted out to third parties, and may be punished for any violation of the regulations.

- 3. Operational risk:** Traditional companies in the financial system are subject to operational risk management requirements, such as business continuity, data security, and cybersecurity, which must be guaranteed in a strategic alliance to reduce any regulatory contingencies.

- 4. Use of Application Programming Interfaces (APIs):** Companies in the financial system that use APIs to provide online services must implement the security measures required by the SBS.

- 5. Tax treatment:** The contractual legal relationship resulting from the strategic alliance may have tax implications. As such, it is recommended to prepare a tax strategy regarding income tax and VAT, as applicable, that will arise from the agreement between the parties.

Below are the most common business alliance structures, which will need to be assessed to determine which is the most recommendable in terms of the parties' interests:

A. Consortia⁷

a. Tax treatment for consortium's agreements without separate accounting

Income Tax

Our tax legislation establishes that income obtained by consortia that do not keep separate accounting, it will be attributed to the individuals or legal entities that integrate them or that are a contracting party to them.

For agreements with expiration terms of less than one year, each party may account for their operations or, if applicable, one of the parties may keep the accounting books. For this purpose, they must request authorization from the National Superintendency of Tax Administration (SUNAT) within five days following the date of execution of the agreement.

The party acting as operator and entrusted with keeping the accounting books shall also be a participant in the agreement, as a party thereto.

VAT

Superintendency Resolution 022-98-SUNAT issued by the Tax Administration regulates the characteristics and requirements of the documents used by taxpayers acting as de facto partnerships or business collaboration contracts that do not keep separate accounting, for the purposes of attributing the tax credit and/or the expense or cost for tax purposes.

Thus, the Attribution Form will be the one issued by the Operator so that the other members of the consortium that do not keep separate accounting can have evidence of their percentage of tax credit, expense or cost for tax purposes. Communication of the party designated as Operator must be made within ten days of signing the contract.

It should be noted that said attribution forms will only be submitted by the Operator when they are in charge of the exclusive awarding of assets obtained by the execution of the contract, or when they distribute income and expenses to the members. Only one attribution form may be submitted monthly per member.

7. Situation where, through an agreement, two or more people associate to participate actively and directly in a certain business or company with the purpose of obtaining an economic benefit, each maintaining their own autonomy.

b) Tax treatment for consortia with separate accounting

Income Tax

Consortia that keep separate accounting are considered legal entities and, therefore, are income taxpayers. Income tax regulations establish that business collaboration contracts will have to keep separate accounting when their expiration term is longer than one year.

In this modality, each company includes in its accounting a sub-account with all the transactions that, within the consortium's agreement, are its responsibility. Companies that operate under this modality must be registered with a Taxpayer ID Number ("RUC") at the Tax Administration.

Corporate regulations establish that the consortium's agreement must establish the scheme and system for each participant's profit sharing in the consortium. Otherwise, it will be assumed that profit sharing will be done in equal parts.

On the other hand, regarding the deductibility of financial expenses, the Tax Administration has indicated that the consortia that keep separate accounts must consider that the net worth is made up of the concepts that are included in the accounts of the "Equity" component of the Business General Accounting Plan, which come from the assets allocated by participants of the consortium and the profit resulted from the consortium's agreement with separate accounting itself, as well as the changes in equity.

VAT

VAT regulations consider business collaboration contracts that are required to keep separate accounting, affected by this tax.

For the purposes of this tax, contracts are considered as an autonomous entity separated from its participating parties, therefore, the transactions between the contract and its participants are considered transactions with third parties.

The transfers of assets destined to the execution of the consortium, entering accounting books, will be considered as contributions taxed with VAT. Likewise, the balances for tax credit upon the termination of the consortium may not be transferred to the members of the consortium.

B. Silent Partnership⁸

Tax Treatment

Income Tax

Tax Court issued Resolution 02398-11-2021 on April 2, 2021, establishing the following compulsory criterion regarding silent partnership agreements:

Criterion established in Tax Court
issued Resolution

02398-11-2021

The partner's share, for the purposes of income tax, qualifies as a dividend or other form of shared profit.

Depending on the status of the partner, it shall be subject to income tax as follows:

1. If the partner is a legal entity domiciled in Peru, such income is not subject to income tax.
2. If the partner is an individual or an entity other than a domiciled legal entity, such income will be subject to second-bracket income tax.

Legislative Order 1541 was published on March 26, 2022, with the purpose of amending the Income Tax Act, in order to improve the tax treatment applicable to silent partnerships. This instrument will enter into force as of January 1, 2023.

This legislation establishes that dividends and any other form of profit sharing will be considered Peruvian-source income when the company, partnership or general partner in a silent partnership that distributes, pays or credits the profit is domiciled in the country.

Along the same lines, a silent partner's participation in a silent partnership will be considered dividends and any other form of profit share.

Likewise, the order clarifies that the silent partner's contributions are taxed with income tax, in accordance with income tax regulation. Also, the silent partner's participation does not constitute a deductible cost or expense for the general partner.

In the middle of this year, the Tax Administration issued Report 000046-2022-SUNAT/7T0000 stating that in application of the criterion in the Resolution's comments, returns obtained by the silent partner in a silent partnership until December 31, 2022 will qualify, for income tax purposes, as dividend or another form of profit sharing, being that, in the event that the silent partner is a legal entity domiciled in the country, such amounts will not constitute taxable income with such tax.

8. Situation where, through an agreement, a person (called a partner) grants to one or more other persons (called associates), participation in the profits of one or several businesses or companies of the partner, in exchange for a specific contribution. The joint-venture association has no name or corporate name.

If the partner is an individual or an entity other than a domiciled legal entity, such amount will be subject to second-bracket income tax.

Finally, if the general partner pays the silent partner's share in the framework of a silent partnership, it does not constitute a deductible expense for the partner for income tax purposes.

VAT

VAT regulations establish that joint ownership, consortia, joint ventures or other forms of business collaboration contracts will be considered taxpayers for this tax. However, silent partnerships are not considered as business collaboration contracts, and therefore they will not be taxpayers of the tax.



3.

3.3

>> REGULATION APPLICABLE TO FINTECH COMPANIES

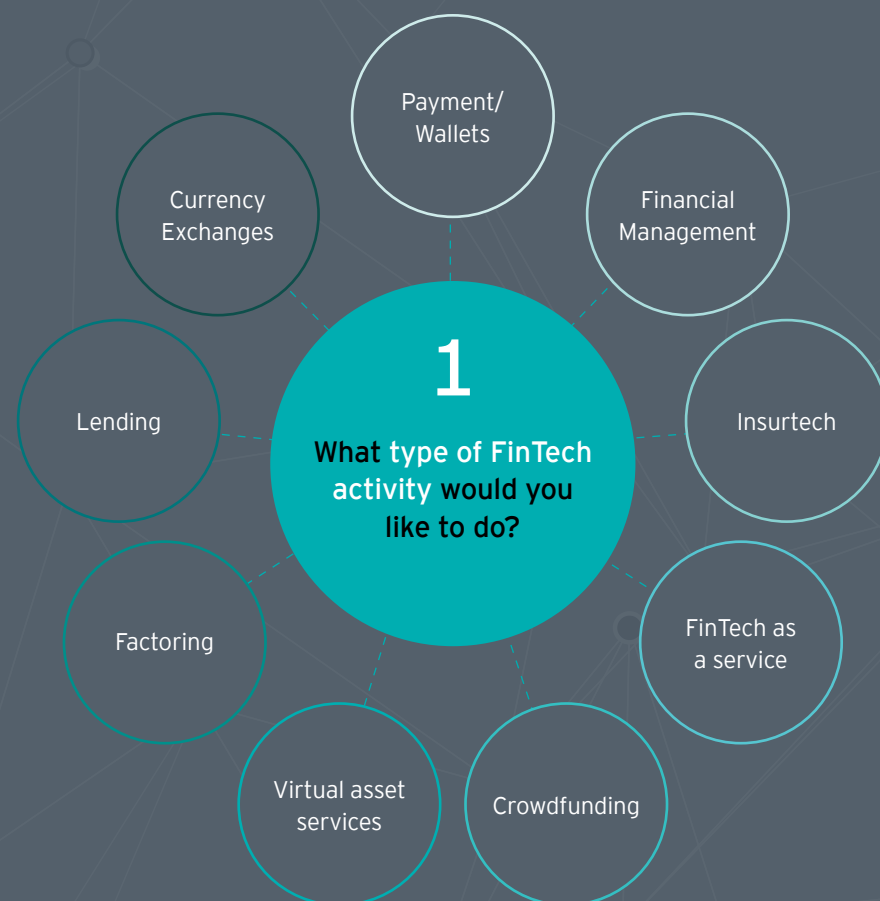
In Latin America, legislative initiatives and regulation focused on one or more FinTech verticals are varied. While some countries have sought to regulate the FinTech sector in general-such as Mexico and Chile-others have opted for regulation focused on certain verticals (e.g. Colombia and Peru).

The Inter-American Development Bank prepared the Latin America and the Caribbean Fintech Regulation Map (FintechRegMap) here: <https://www.iadb.org/es/sectores/iniciativas/digital-finance-innovation/fintechregmap>



Main Activities and Regulations to Consider

The main authorities in Peru with powers to regulate various Fintech verticals are the SBS, the SMV, and the BCRP.



3

What regulations must be taken into account?

Lending

- Law 31143, Law that protects consumers of financial services from usury.
- Rule 0009-2021-BCRP, Interest Rates.
- SBS Resolution 789-2018, Rule for the prevention of money laundering and financing of terrorism applicable to regulated entities under supervision of the UIF Peru.
- SBS Resolution 6338-2012, Regulation for the companies and persons registration that carry out financial or foreign exchange operations.

Currency Exchangest

- SBS Resolution 789-2018, Rule for the prevention of money laundering and financing of terrorism applicable to regulated entities under the UIF Peru supervision.
- SBS Resolution 6338-2012, Regulation for the companies and persons registration that carry out financial or foreign exchange operations.

Payment/ Wallets

- Law 29985, Electronic Money Law.
- Supreme Decree 090-2013-EF, regulation of Law 29985.
- SBS Resolution 6284-2013, Regulation of Electronic Money Companies.
- SBS Resolution 1025-2055, Regulation of funds transfer companies.
- Rule 003-2020-BCRP, Regulation for the payment service with quick response codes.
- Rule 024-2022-BCRP, Interoperability Regulations for payment services provided by providers, agreements and payment systems
- Rule 027-2022-BCRP, Card payment agreements regulations.

Factoring

- Law 30308, Law that amends various regulations to promote financing through factoring and discounting.
- SBS Resolution 4358-2015, Regulation of Factoring, Discounting and Factoring Companies.

Virtual asset services

- Supreme Decree 006-2023-JUS, Supreme Decree that expands the list of parties obliged to provide information to the - subjects obliged to provide information to the UIF Peru.

Crowdfunding

- Emergency Decree 013-2020, Emergency Decree that promotes the financing of MSMEs, entrepreneurship and startups.
- Superintendence Resolution 0045-2021-SMV/02, Regulation of the participatory financing activity and its management companies.
- CONASEV Resolution 033-2011, Rules for the prevention of money laundering and financing of terrorism.

FinTech as a service

- SBS Resolution 504-2021, Regulation for the information security and cyber security management.

Financial Management

- TUO of the Law of Investment Funds and their management companies.
- Superintendence Resolution 00029-2014-SMV/01, Regulation of Investment Funds and their management companies.

Insurtech

- Law 29946, Insurance Contract Law.
- SBS Resolution 1121-2021, Regulation for the commercialization of insurance products.
- SBS Resolution 809-2019, Regulation for the supervision and control of brokers and auxiliary brokers.

* By way of summary, and in a limited list, we present the main legal regulations applicable to each type of business. Accordingly, we do not express a legal or any other opinion on the regulation applicable to any specific business model.

3.4

>> OPEN BANKING AND OPEN FINANCE

3.

In recent years, Open Banking has been expanding as a financial policy to more markets. Its purpose is for banks to share customer data, with prior authorization from clients, with third parties (developers and FinTech startups) in order to create faster, simpler and more competitive applications and services, as well as to have more opportunities for financial transparency.

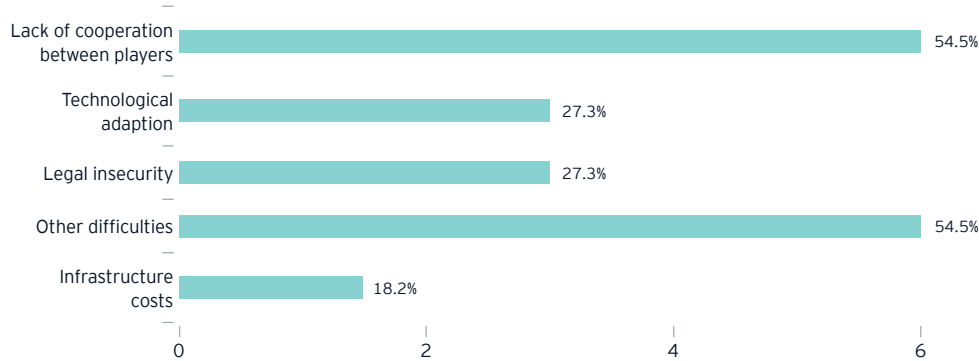
Thus, Open Banking allows users to decide with which organizations their data can be shared and how this serves to better manage the services they receive, such as faster credit evaluation, or receiving payments in a more expeditious and efficient manner.



On the other hand, there are other types of data sharing policies similar to Open Banking that have been implemented in different jurisdictions in recent years. One of these policies is Open Finance, which is a broader policy as it aims to allow consumer data access and sharing with a wider range of organizations (for example, insurance companies or investment management

companies). However, Open Finance may experience certain obstacles at the time of its implementation; (i) the lack of cooperation between institutions (54.5%) would be the main challenge to overcome, together with, (ii) legal uncertainty (27.3%), (iii) the complications of technological adaptations (27.3%), and (iv) infrastructure costs (18.2%).

Difficulties to implementing Open Finance



Source: Inter-American Development Bank. Open Financing in Latin America and the Caribbean: Great Opportunities, Great Challenges. June 2023. Page 47.

In this way, the services that can be included in Open Finance are loans, consumer loans, investments and pension funds.

Finally, Open Data is another widely used data exchange policy not only at a private level but also at a public level. This information exchange model allows the free use, reuse and redistribution of information, with the sole condition of citing the source. According to the Open Knowledge Foundation, open data requires the following characteristics:

- Availability and Access: The data must be available as a whole and at no more than a reasonable reproduction cost.
- Reuse and Redistribution: The data must be provided under terms that permit reuse and redistribution including the intermixing with other datasets.
- Universal Participation: Everyone must be able to use, reuse and redistribute—there should be no discrimination against fields of endeavor or against persons or groups.

Thus, in the current context of an increasingly digital world, the concept of Open Banking has been expanding towards Open Finance.

Notwithstanding, hereinafter, the term “Open Banking” will be used to refer to either Open Banking or Open Finance. Both follow the basic principles of promoting competition, the search for efficiency and proportionality, and promoting innovation i.e., creating new technological solutions for clients.

Open Finance Use Cases

Data	Payments	Embedded Finance
Aggregation of Financial Information	Payment Initiation	Marketplace / SuperApp
<ul style="list-style-type: none">▶ Bank account, investment and Insurance aggregator▶ Utilities bill aggregator▶ Personal Finance Management (PFM) and Business Finance Management (BFM)▶ Behavioral savings and group savings▶ Payment marketing▶ Cross-selling of micro-insurance▶ Carbon Footprint	<ul style="list-style-type: none">▶ Account-to-account direct payments e.g., P2P▶ Automated payment initiation (fixed/variable)<ul style="list-style-type: none">- Wealth management products- Subscriptions- Bills- Mortgage- Rent- Donations▶ Post-dated payment initiation▶ Professional associations or licensures▶ Invoices, with a payment link included▶ Payment of taxes and fees▶ Online shopping▶ Cross-border payments	<ul style="list-style-type: none">▶ Financial Marketplace▶ SuperApp
Aggregation of Non-Financial Information		API Market
<ul style="list-style-type: none">▶ Tax and social security data▶ Valuation of properties, guarantees and vehicles▶ ID Wallet		<ul style="list-style-type: none">▶ Confirmation of funds▶ Identity verification of natural or legal persons▶ Account number▶ Location of offices and ATMs▶ Product information▶ Exchange rate▶ Integrated FX position management▶ Business collections▶ QR pay ▶ Authenticity of documents▶ Warning lists
Onboarding and Risks	Business Management	Banking as a Service
<ul style="list-style-type: none">▶ Express onboarding▶ Scoring for lending and tenants	<ul style="list-style-type: none">▶ Collection tracking	<ul style="list-style-type: none">▶ BaaS - Embedded finance▶ BNPL▶ Broker as a service
Business Management		
<ul style="list-style-type: none">▶ General ledger reconciliation		

Source: Pacific Alliance. Open Finance Standards as a Regional Conversion Lever. May 2023. Page 13.

Some of the products that can be offered with Open Banking include:

- ✓ Personal financial management tools that show where expenses and income come from
- ✓ Viewing of accounts in all banks or financial institutions that have adopted Open Banking
- ✓ Debt and account management tools
- ✓ Tools for small businesses to help manage cash flow and/or obtain better financing conditions.
- ✓ Tailored credit score by leveraging consumer transaction history.
- ✓ The most appropriate credit cards for every type of consumer, according to their specific profile.



A. Advantages of Open Banking

The application of an Open Banking policy may create benefits for the financial system's ecosystem in different ways:

1.

Traditional financial institutions can reach a new sector of users by making indirect use of data sources that were not traditionally available, allowing them to better evaluate the feasibility of providing services to clients. For example, the interaction and analysis of third-party data obtained through e-commerce activity may be used as an input for a credit evaluation that allows institutions to grant loans under more favorable conditions.
2.

Institutions can offer tailored services to users, after obtaining data provided by third parties, thus making for an improved experience thanks to the available technology.
3.

Non-financial third parties who work with companies in the financial system will be able to serve a greater number of users and expand their services.
4.

More complete knowledge of user data may help expand the range of services offered to them, or to which they have access, thus contributing to financial inclusion.
5.

Open banking policies can help facilitate the creation of new products by online banks and companies interested in the application of digital transformation.
6.

Facilitate the creation of new products by digital banks and companies interested in the application of digital transformation.
7.

Enable the collaboration of supervised entities and FinTech.
8.

Expand the financial services offer and generate more competition.
9.

Guarantee greater security to companies and users when they have access to services.

B. How does it work?

APIs, or application programming interfaces, allow computer programs to communicate with one another and share information without human intervention.

Thus, in order for Open Banking to work, it is first necessary to obtain the prior consent of the client so that the financial institution can share their data with third parties. Then, the third parties will be able to access the bank's user interface and extract large volumes of data at multiple intervals. While the security systems of the bank or financial institution may react, these institutions do not typically deny access to third parties when there is proof that the client has given their consent for access to such data.

While APIs are not a new creation - they have a long history of use in software applications for communication via the internet - the creation and maintenance of public APIs may be long and costly for banks (especially when implemented bilaterally between individual banks and third parties).

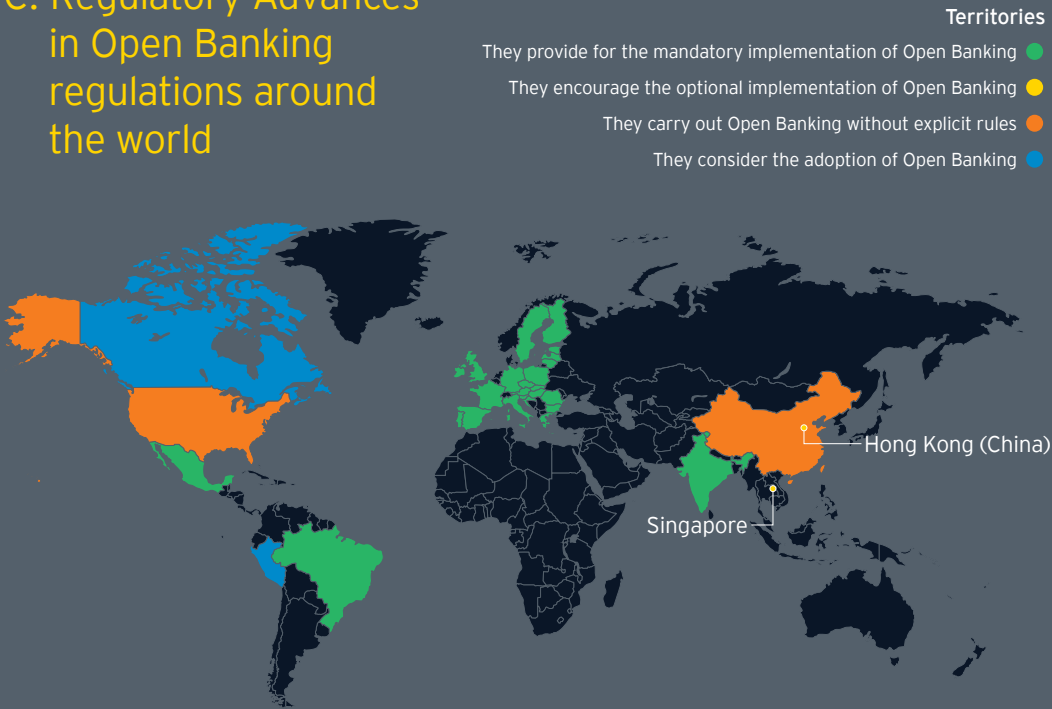


Future potential of the Use of APIs in Open Banking

According to the BIS, the sector is adopting different combinations of open APIs (interfaces based on public standards) partner APIs (based on standards designed by strategic partners) and closed APIs (based on the bank's private standard) to provide services using Open Banking, such as payment, investment, loan, and account services, among others.

It is important to bear in mind, however, that the impact of bank APIs on banks' business models will probably depend on the scope and ways in which data is shared, the emergence of new technologies, information-sharing capacity, the appearance of new financial service providers, the evolution of market share, and the speed of these changes.

C. Regulatory Advances in Open Banking regulations around the world



United Kingdom

The UK has institutions responsible for defining Open Banking standards: (i) the Open Banking Implementation Entity (OBIE); and (ii) the body in charge of the Competition and Markets Authority (CMA) in which the country's biggest banks participated. The rules are compiled in the Open Banking Standards document.

On May 27, 2022, the report entitled "Lessons Learned: Review into Open Banking" was published, identifying lessons for the CMA's approach to designing, implementation and monitoring solutions in its market research, regarding Open Banking.

By 2023, Open Banking services reached 7 million users according to reports from Open Banking Limited, which is a positive sign of the potential of Open Banking.

Finally, on April 17, the Joint Regulatory Oversight Committee, made up of the Financial Conduct Authority and Payment Systems Regulator, published the "Recommendations for the next phase of Open Banking in the United Kingdom," which establishes a sustainable and competitive foundation for the continued development of the Open Banking ecosystem so that it can grow beyond current functionalities to adopt a scalable model for future data sharing propositions.

Europe

In 2018, the European Union enacted the Payment Services Directive (PSD2) to improve innovative payment services, such as online and mobile payments. PSD2 requires banks to offer more information on payment services than they did previously, and has opened the door to the creation of new payment providers aside from banks.

It also allowed account owners to ask banks, free of charge, to share their financial data digitally with third parties, and even to authorize these third parties to initiate payments from their bank account.

On the other hand, in 2018, the General Data Protection Regulation ("GDPR") came into force, which protects and restricts data sharing by requiring prior consent by the data owner.

In 2023, the European Commission published the Payment Services Directive 3 ("PSD3"), the Regulation for Payment Services and Digital Euro, and its proposed new Regulation on a Framework for Financial Data Access, also known as the Open Finance Framework with the aim of promoting Open Finance.

India

The unified payments interface (UPI) facilitates transactions through standardized APIs and allows real-time payments. There is also an account aggregator system (NBFC-AA) used to transfer the data of clients who have granted their consent to any bank or FinTech company.

Brazil

Brazil has begun Phase 4 of Open Banking implementation in December 2021. This last phase marks the start of Open Finance, which will allow the exchange of investment, pension funds and foreign exchange services data.

The Central Bank of Brazil has defined the main rules for Open Banking. To monitor and comply with these policies, a governance structure has been created, which brings together the most representative class entities of the data-sharing institutions and services from the initial scope of Open Banking, including segments such as banks, credit unions, financial and payment institutions. The Central Bank supervises the work of the technical groups and councils of the government structure, in order to verify compliance with the standards.

Pix (Brazilian instant payments) was launched in 2020 (in phase 3 of the implementation of Open Banking) by the Central Bank of Brazil as a payment method available 24/7 in order to promote financial inclusion and payments' transition to virtuality, positively impacting the Brazilian economy. With Pix, user funds are instantly transferred between accounts. Since its launch, Pix has surpassed 30 billion transactions with more than 141 million users.

Mexico

In March of 2018, Mexico approved a package of financial reforms known as the “FinTech Act” (“Ley FinTech”) which includes a requirement for Mexico to develop its own Open Banking standard to ensure that greater availability of information leads to improved opportunities and innovative solutions for consumers.

Two years later, the Bank of Mexico issued Rule 2/2020 which sets forth the first secondary rules of the Open Banking model, leaving pending the development of standards that cover more open, aggregated and transactional financial data.

That said, secondary regulations are still pending. These are expected to be announced by the National Banking and Securities Commission in 2023. These regulations will address the exchange of customer transactional data, subject to the customer's authorization.

Hong Kong and Singapore

Both jurisdictions issued recommendations on open API designs and technical specifications, aimed at facilitating the adoption of Open Banking practices.

For example, in Singapore, the Monetary Authority of Singapore (MAS) and the Association of Banks published a document that summarizes API standards for information exchange and incentivizes more banks to participate in the open banking initiative.

Colombia

In 2022, the Ministry of Finance issued Order 1297 which expands the Colombian Open Finance regulation. The Order seeks to promote the creation and innovation of new financial products and services, as well as to provide protection to financial consumers. Likewise, this approach focuses on promoting competition on equal terms for FinTech companies and financial institutions, supporting the development of the e-payment industry by regulating payment initiation activity.

The Congress of the Republic approved the National Development Plan for 2023, which includes the open data scheme for financial inclusion and the right to financial portability, which refers to the use of Open Finance.

China

In China, entities can share their clients' information with their prior consent.

The existing major FinTech platforms are currently developing Open Banking services in this relatively unregulated environment. For example, the Chinese companies Alipay and WeChat Pay have leveraged their huge social media and gaming platforms and their customer base to offer other services. The fact that citizens are willing to share their data has helped drive this trend, as well.

United States of America

U.S. regulatory agencies have opted to let the market drive the development of Open Banking.

However, it is important to note that some agencies, such as the US Department of the Treasury, the Consumer Financial Protection Bureau (CFPB) the National Automated Clearing House Association (NACHA) and others, have made efforts to stimulate the adoption of Open Banking by publishing non-binding directives, model data access agreements, and API standards that can help financial entities implement Open Banking.

The federal government asked the CFPB to speed up the design of an Open Banking framework, and companies in the FinTech sector are also requesting the implementation of regulations on this matter. However, the CFPB is analyzing how to ensure users' privacy and data protection. At the end of this year, the CFPB held a small review panel, made up of small business owners to discuss how this proposal could affect them. However, the CFPB is still working on a report that includes the feedback received with the goal of the regulation entering into force in 2024.

Canada

Canada is currently evaluating and considering adopting Open Banking. In 2019, the government issued a report titled “Open Banking: What It Means for You,” which includes recommendations intended to lay the foundation for the launch of Open Banking in the country. In November 2020, Phase 2 of consultations began with Open Banking stakeholders, in order to provide better protection to consumer data.

In March 2022, Phase 3 began. This phase seeks to manage the development of a framework for Open Banking. For this, there is a plan to carry out consultations with the sector, regulators and consumer representatives. The goal of these consultations is to design and apply the key elements of an Open Banking framework.

Peru

In Peru, we do not yet have regulations on Open Banking, nor standards or models that can be used by companies in the Peruvian financial system. However, our current laws provide a basic framework for their implementation in the future. For example:

- Report 00002-2022-SAR: the SBS issued a favorable opinion about Bill 1584/2021-CR, “Law that declares that the implementation of a public policy that promotes the massification of Open Banking is of national interest and a public need.” In this regard, it stated that the Bill should incorporate the following aspects: (i) an Open Finance approach, instead of Open Banking; (ii) the inclusion of the BCRP and the Ministry of Economy and Finance as responsables, together with the SBS, for designing strategies for the implementation of the Open Finance model; and (iii) granting the bodies responsible for formulating the strategy with the power to call for the participation of other government authorities or entities.

- ▶ Fintech Ecosystem - SBS: the SBS presented a report on the ecosystem necessary for the development of Fintech companies, highlighting the Open Banking system as a platform so that using enabling technologies can bring a greater flow of transactions and information sharing. In this regard, the SBS explains the risks that must be considered, such as the misuse of customer information, cyber risk and the lack of standards, prior to designing a regulatory framework.
- ▶ Legislative Decree 1531: Article 27 of Law 26702, General Law of the Financial System, was amended, eliminating the need for financial institutions to have a physical office to permanently display the authorization resolution. Currently, it allows it to be published on a website, so that it is accessible to the public. This overcomes the risk of having a physical office for the provision of financial services.
- ▶ Executive Order 085-2023-PCM approved the 2030 National Digital Transformation Policy, establishing digital inclusion as a priority objective, considered from a digital economy perspective that allows people to be part of digital productive processes. This public policy seeks to increase access and the use of financial services, in order to contribute to the economic development and financial stability of the population, the promotion of competitiveness and productivity, and the reduction of poverty and inequality.

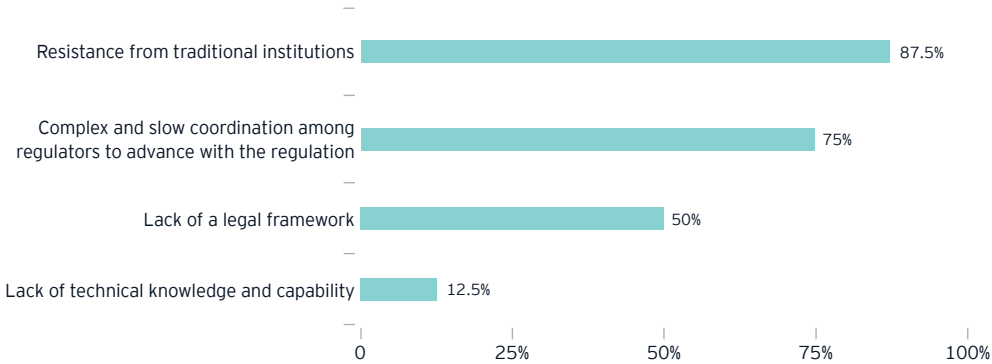
Although different Latin American countries have regulatory instruments that directly or indirectly regulate Open Banking, this does not limit other organizations such as FinTech Associations from Mexico, Peru, Chile and Colombia from presenting proposals and initiatives such as the "Open Finance Standards as Leverage for Regional Conversion," which proposes creating homogeneous processes for member financial systems through mandatory interoperability. Some of these Open Finance standards proposed for consumers and the financial system of member countries are financial inclusion, the homogenization of information, the improvement of financial information security for the benefit of consumers, as well as the promotion of competition among financial service providers.

D. Challenges to Consider for the Development of Open Banking

Based on experiences in other countries, some conclusions to consider are:

- ▶ In an interview given to the Microfinanzas website, the Superintendent of the SBS, Jorge Mogrovejo Gonzáles, stated that the model that Peru will adopt to develop Open Banking has not yet been decided. He also added that prior to any regulation on the subject, solid cybersecurity foundations would be necessary since Open Banking is carried out using technologies such as APIs.
- ▶ The BCRP published a report highlighting the importance of designing and adopting an Open Banking model that allows maximizing the potential benefit of financial inclusion. To this end, it considered five fundamental design elements: (i) the greater the number of participants who can share data, the greater the diversity of new services, causing greater competition and easier access to financial services; (ii) the greater the variety of eligible data types, the greater the likelihood that appropriate products will be developed for each need; (iii) the greater the number of financial services and sectors covered, the greater the possibility that people with limited data will be able to access new digital financial services; and, (iv) a third-party payment initiation service that provides less expensive alternatives for money transfer should be included.
- ▶ There is no single model for the implementation of Open Banking. Variations in the regulatory framework of different countries reflect unique regulatory cultures, policy objectives, and levels of financial development. Therefore, these differences must be taken into account when addressing technical and regulatory challenges, and the path that best suits their legal and economic environments must be chosen.
- ▶ It should be noted that technology is an evolutionary process and that Open Banking architectures built today will influence the innovation phase in the future. Thus, Open Banking models must be flexible so as not to hinder future innovation, while being solid enough to protect the interests of the consumer.
- ▶ A report by the IDB stated that the main challenges to be overcome by the FinTech sector are: (i) resistance by traditional financial institutions to share their financial data (87.5%), and (ii) the slow-paced coordination among regulators to develop regulatory framework (75%) compared to (iii) the lack of a legal framework (50%), and (iv) of technical knowledge (12.5%).

Challenges to Open Finance perceived by Fintech associations



Source: Inter-American Development Bank. Open Financing in Latin America and the Caribbean: Great Opportunities, Great Challenges. June 2023. Page 50.

Additionally, INDECOPI published a Preliminary Market Research of the FinTech Sector in March 2023, identifying certain challenges that must be taken on for the progressive and correct implementation of Open Banking in Peru. INDECOPI has identified the following main threats to competition:

- Lack of protection for companies that use digital platforms to offer financial services. In its research, INDECOPI mentions that companies have reported that banking institutions, have on occasions, restricted the opening of accounts or have closed them, alleging ML/TF risks, which has complicated their usual operations.

- INDECOPI states that some FinTech companies have reported that financial institutions used the justification of “lack of transparency” by FinTech companies to notify the closure of accounts; however, these financial institutions would not expressly provide the reasons why they considered that there was a lack of transparency.

In this regard, while it is true that financial institutions can establish their own internal policies and individual evaluation criteria to determine the non-initiation or termination of business relationships with FinTech companies, from a free competition point of view; the situation described could end up excluding FinTech companies from banking services, leaving them incapable of adopting proper measures to correct the situation, which could restrict competition in the market, beyond a reasonable and objective ML/TF risk management, as detailed in the report.

Because of this, INDECOPI recommends the SBS to, within the scope of its powers, promote a work agenda with key milestones for the progressive implementation of Open Banking or Open Finance. This implementation needs coordinated action by the BCRP, ANPDP and INDECOPI to develop standards that protect customer information and their explicit consent, and that create adequate mechanisms for addressing queries and for solving user disputes, as well as a clear delimitation of liabilities in the event of erroneous or fraudulent transactions.

The great challenge that regulators face is finding a balance that facilitates financial services data sharing without compromising the solidity and stability of the financial system as a whole. In other words, the regulator's purpose should be to neutralize the externalities of Open Banking in the financial system.

The use of APIs to share information can expose the traditional financial sector to a wide range of new operational risks, such as cybersecurity incidents, as well as reputational ones. The regulator must avoid having this negative impact through Open Banking. Therefore, prioritizing the appropriate management of these risks is key to safeguard the stability of the financial system and protect its clients, even if restricting data sharing is necessary in some cases.

Along these lines, experience in other countries is proof of the opportunities and benefits mentioned, as well as how creating and maintaining APIs can be a long and expensive process for both companies in the financial system and FinTech companies. The experience of the United Kingdom shows that the process of adopting Open Banking can take longer than expected, as nearly 1.5 years additional to the expected period were necessary for banks to adapt to the required standards. Therefore, Open Banking regulations should consider a reasonable time for companies in the financial system to adapt to it.



3.5

>> FINTECH INVESTMENTS: VENTURE CAPITAL

3.

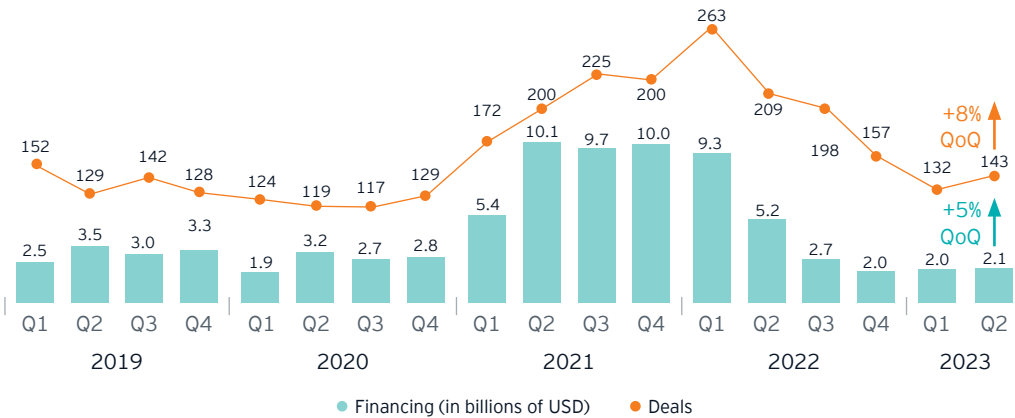
The venture capital industry and investment in startups - FinTech companies among them - has been one of the most resilient areas during the difficult circumstances imposed by the pandemic around the world. Venture capital is a driver of economic growth and sustainable development. It helps prototype and bring to market business models that solve socioeconomic and environmental problems in Peru, the Region, and the world.

Investment in innovative businesses has become increasingly important around the world, with numbers in the Latin America region recently setting records while exhibiting significant sustained growth.



B. Venture Capital Investment in the FinTech Sector - Latin America

Venture Capital Investment Latin America



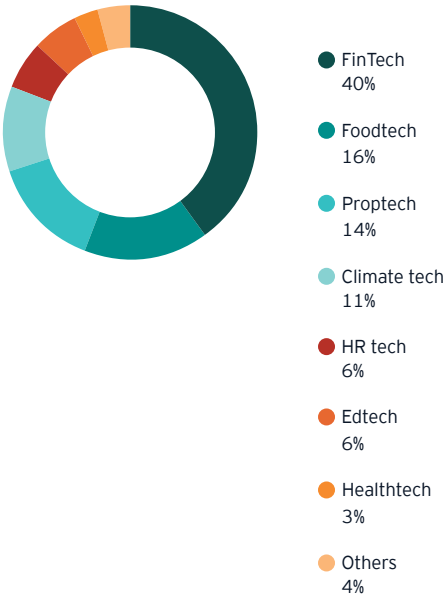
Fuente: CBIINSIGHTS. State of CVC Q2'23 Report. 2023

C. Venture Capital - Peru

The Venture Capital ecosystem in Peru has also boomed significantly. The quality of Peruvian startups and the critical mass of talent has increased substantially. This ecosystem has been experiencing a rapid increase in its enabling resources, taking advantage of the learning curve of similar countries and recognizing its great potential, making use of a vast entrepreneurial culture and an active participation of both actors and the environment and, increasingly, from private actors (Corporate Venture Capital). However, it is still a young and limited ecosystem, with some market failures; for example, that of a limited supply of capital for startups.

According to the PECAP, the amount invested in Peru during 2022 was USD 87 million, making 2021 the most successful year in Peruvian venture capital investments to date.

Distribution of the Venture Capital Market in Peru by Sectors (2022)



Source: PECAP. 2022 Venture Capital Investment Report in Peru. 2023.

On the other hand, the same entity reported a total investment of USD 87 million in 41 startups during 2022, 84% of which came from a foreign source. Furthermore, the FinTech sector is in the lead with 40% of allocated investments, followed by Foodtech (16%), Proptech (14%), Climate tech (11%), HR tech (6%), Edtech (6%), Healthtech (3%) and others (4%).

The 2022 Venture Capital Investment in Peru Report by PECAP identified that 48.4% of the Peruvian venture capital market corresponds to venture capital investment funds, 8.7% to angel investors, 1.5% to corporate investors, 2.4% to family offices and 1.8% to development finance institutions. Highlighting the increase in investment by angel investors despite the international situation and the political and social crisis in the country.

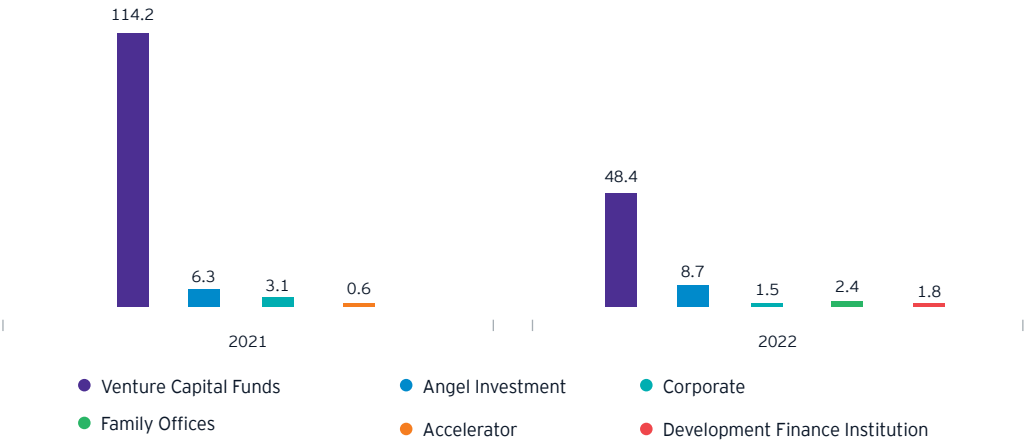
D. FinTech Investment - Peru

As already mentioned, according to PECAP figures, the FinTech sector received 40% of the USD 87 million invested in the Peruvian venture capital market during 2022. According to the 2023 Financial Stability Report by the BCRP:

The most dominant FinTech business segments in the Peruvian market are: FinTech lending to individuals and micro and small enterprises (MSEs), FinTech MSEs-oriented factoring, and FinTech for currency exchange and digital investment platforms.

3.

Distribution by Types of Investors in the Peruvian Venture Capital Market



Note: Debt is not included.
Source: PECAP. 2022 Venture Capital Investment Report. 2023.



Rextie, “the online currency exchange,” has more than 12,000 companies and 170,000 people registered.

This investment makes Rextie the first FX fintech in Latin America to receive an investment from one of the largest banks in the world.

At the beginning of second quarter of 2023, “Citi made a strategic investment in Rextie,” a Peruvian currency exchange FinTech. With this, Citi currency exchange technology (solutions such as CitiFX Pulse and Instant Payments) integrated with Rextie services so that FinTech users can enjoy a service that stands out because of its automation, real-time payments, greater liquidity and highly competitive exchange rates. Citi's integration with this Peruvian FinTech projects that, by the end of 2024, currency exchange transactions will exceed USD 7 billion, i.e. an increase of around USD 2.5 billion.

3.

Investing in Peruvian FinTechs



Prestamype connects micro and small entrepreneurs who need a loan for their business with investors seeking a higher return on their

savings. It is registered as a lending company and as a factoring company with the SBS.

Deal:

Prestamype raises USD 5 million in a Pre-Series A round in exchange for a minority stake. This is an amount never before raised by a FinTech in Peru for a Pre-Series A, and is also the highest equity round so far this year for this sector. The round was led by Acumen Latam Impact Venture (ALIVE) and Ojkocredit, two international Venture Capital funds focused on social impact. Salkantay Venture, Inca Ventures, AVP and other angel investors also participated in the round.



Rextie is a FinTech mainly dedicated to foreign exchange, as well as invoice factoring and pay-in and pay-out payment processing for

companies; registered with the SBS.

Deal:

Citi makes a strategic investment in Rextie. This investment highlights Rextie as the first FX FinTech in Latin America to receive an investment from a bank of Citi's magnitude. Citi's advanced FX technology will be integrated into Rextie's services, which will benefit users with a more robust and efficient platform.

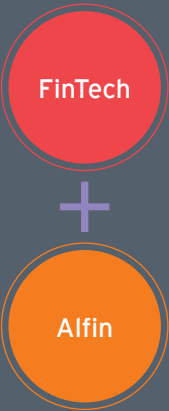



"The Bank of the People"

Services through APIS to FinTechs, to create financial products or means of payment that banks offer, from their own applications or digital platforms, as well as the option to evaluate funding options or collaborative work.

Savings accounts	Payment methods	Transfers
Trust Funds	Debit cards	Funding

Alliance between the FinTech Association and Banco Alfin





FIN
TECH
4

FINTECH
ECOSYSTEM
IN PERU

4.1

>> PAYMENT SOLUTIONS

There is a clear worldwide trend toward the adoption of digital payment solutions. One of the main reasons for this trend over the course of the last year has undoubtedly been the COVID-19 pandemic. The lockdown and preventive measures needed to reduce the spread of the virus made the acceptance of digital payments unavoidable.

However, the use of digital payments does not stem exclusively from efforts to fight COVID-19. In fact, the adoption of digital payments is viewed as helping to achieve the Sustainable Development Goals (SDGs) promoted by the United Nations.



This would allow for greater financial inclusion and a digital payments ecosystem that aligns with the interests of retailers. This is the right time for Peru to adopt digital payments, since more than 50% of the adult population is unbanked, that means that there is a greater predominance of the use of cash.

However, in recent years the Peruvian government has implemented policies that aim to materialize the transition from cash to digital payments.

Facts

- ▶ Between 2014 and 2017, the use of digital payments increased by 30% in Peru, going from 5.4 million users to 8.7 million.
- ▶ According to the BCRP, in first quarter of 2023, the average number of transactions per month through digital payments was 397 million, which represents an increase of 76% compared to the first quarter of 2022.
- ▶ According to a report by the Better Than Cash Alliance and the Inter-American Development Bank (IDB), the Government of Peru could save 96 million dollars if it changed all government payments for digital options that are already available in the market.

The COVID-19 pandemic has made it a necessity to adopt new ways of carrying out daily transactions, but also to improve the payment system as a whole, with efficiency, immediacy and ease. Regulations on payment systems around the world are constantly being assessed. Next, innovations in digital payments will be addressed, together with the challenges they bring.

A. Payment solutions

1. Payments with Digital Wallets

A Digital Wallet is a mobile application that allows you to initiate a funds transfer directly from your cell phone. It can be linked to bank accounts, whereby a transfer initiated from a Digital Wallet would result in the transfer of funds from the bank account associated with the mobile application. It is also possible to find Digital Wallets consisting of e-money accounts.

Digital wallets played an important role in allowing the government to distribute multiple assistance packages to the population, both banked and unbanked. Between November and December 2022, 137 thousand payments were made to clients who had digital wallets prior to the payment date.

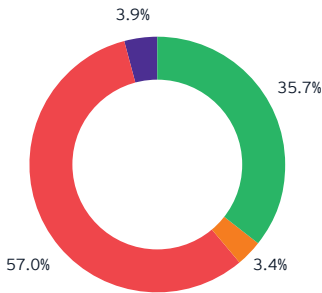
The May 2023 Financial Stability Report by the BCRP indicates that the progress in the digitalization of payments continues, as a result of the increase in the use of instant transfers, as well as the improvement in user experience. Digital wallets have become the main retail payment method by number of operations, going from non-significant in 2019 to 52.3% of the total number of transfers in March 2023.

Along the same lines, the BCRP reports that the use of bank digital wallets has increased rapidly, both in value and number, where in March 2022, digital wallets represented 39.6% of intrabank transfers, and as of March 2023, they reached 63%.

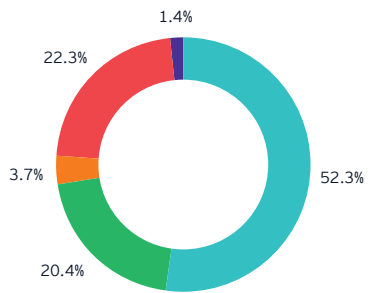


Use of digital wallets in the number of retail payments

► To March 2019

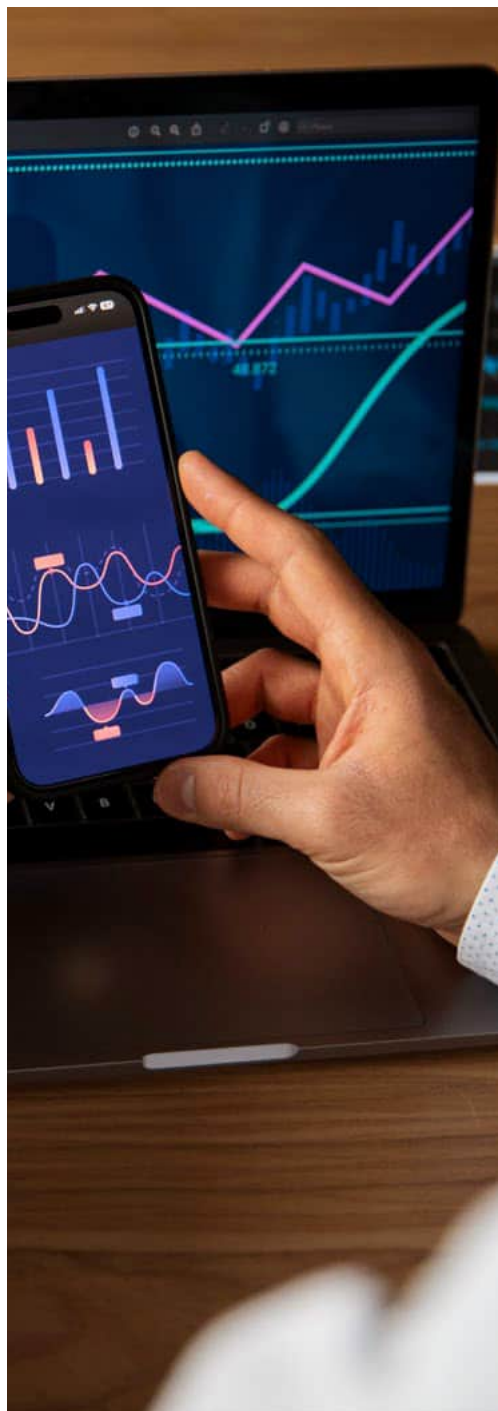


► To March 2023



- Transfers via digital wallets
- Tr. Intra. via other channels
- ECC system tranf.
- Payment cards
- Other

Source: BCRP. May 2023 Financial Stability Report. Page 72.



It should be noted that the growing trend of digital payments in recent months is mainly due to retail payments since, as the BCRP points out, although people make daily purchases in cash from small merchants in markets, bakeries, street stalls, newsstands, etc., they have recently starting using digital wallets. In this regard, the Peruvian Institute of Economics ("IPE") stated that, as of July 2023, more than 50% of adults in Lima and Arequipa use digital wallets, while at least 11% of the population in any region accesses a digital wallet.

Notwithstanding, their use is still limited in the most remote places of the country. In fact, the president of the Peruvian Association of Mom-And-Pop Store Owners, Andrés Choy Li, reported that, although 60% of the more than half a million mom-and-pop stores in Peru use digital wallets for sales because of their safety and ease, there are factors—such as the lack of Internet—that limit their growth, especially in rural areas. In September 2023, the total number of transfers made using digital wallets increased by 143.7% compared to the same period of the previous year. In this regard, the BCRP has stated that for said period, low-value payments grew by 78%, which implies a rapid growth of this type of transactions, reflecting the population's preference for payments using digital wallets.

Regardless of this, this participation is expected to increase with the consolidation of phase 2 of interoperability, which will include all entities that offer the service of instant transfers within the interoperable ecosystem and will also establish the interoperability of QR codes.

2. Payments with QR Code

The QR code (quick response code) is a method of data representation and storage in a points matrix, whose information is arranged in an orderly manner following an international standard that regulates its generation and format. The international standard used for generating and reading the QR code is the EMV® QR Code Specification for Payment Systems (EMV QRCPs).

The use of QR facilitates transactions due to its real-time payment system and ease of use. In this regard, the BCRP has stated that the benefits for businesses are efficiency (it only requires displaying the QR code), lower costs (it does not need a POS device), more sales (it facilitates payments with the customer's cell phone), immediacy (it receives confirmation of the transaction almost instantly), security (it does not accumulate cash in the cash register) and promotion of inclusion (digital payment services can be accessed by all large and small businesses). The same benefits apply to customers, in addition to data protection (no need to present an ID or PIN number), and immediacy (confirmation of the transaction is received almost instantly).

Along these same lines, international B2B payments have allowed currency conversion to be more efficient and, therefore, reduce the costs associated with cross-border payments. In addition, when these payments are digital, they require a two-factor authentication, and data encryption, among other technologies that make it a reliable and secure B2B payment method.

3. Card Payments

In Peru, the payment processing business began as a brand affiliation model; that means that payment processing companies oversaw affiliating businesses to the brands. As INDECOPI points out in its 2021 Market Research, under a brand affiliation model, a business that wanted to accept transactions from multiple card brands needed to sign contracts with the payment processing company of each brand, causing high transaction costs for participants in the economic circuit.

However, at the end of 2019, the brand affiliation model shifted to a multi-brand one; therefore, during 2020, the value of transactions received by payment processing companies reached approximately PEN 54 billion, with debit cards representing 58% of the total. The 2021 INDECOPI Market Research identified five companies involved in the operation of electronic payment methods: Procesos MC Peru, Visanet, Compañía Peruana de Medios de Pago, Compañía de Servicios Conexos Expressnet and Diners Club Peru.

4. Other Payment Solutions

Push and Account-to-Account Payments

Push payments are payments where debtors themselves, usually clients, have to actively pay the debt to the creditor. Payment methods usually used for this are cash, checks and bank transfers. Additionally, in 2019, a platform was implemented in the country that allows payments to be made instantly from one account to another, using a QR code, making Peru the first country in Latin America to implement this new technology, better known as push payments, to pay for products and services, positioning it alongside China, Singapore and Bangladesh.

For their part, account-to-account payments (A2A) are payments that can be made, without an intermediary, from account to account; that is, without the intervention of any financial institution. The platforms that allow these transactions are Venmo, CashAPP and Zelle. This payment method is commonly used between individuals (P2P), companies (B2B) and governments (P2G, G2P). The countries that are already using this A2A payment solution are Brazil (through PIX), the Netherlands (IDEAL), and Poland (BLIK). The expectation for this sector, according to the 2023 Global Payments Report, is that A2A payments will grow at a CAGR of 13% until 2026.

B2B and Commercial Payments

Business to Business (B2B) payments are payments made based on business relationships between companies; that is, for the products or services offered and purchased between organizations. Shifting to digital B2B payments has reduced the administrative burden, reducing processing costs. In turn, the automation of digital B2B payments has allowed automatic payments to be configured and made on due dates, permitting companies to meet their obligations in a timely manner.

Along these same lines, international B2B payments have allowed currency conversion to be more efficient and, therefore, reduce the costs associated with cross-border payments. In addition, when these payments are digital, they require a two-factor authentication, and data encryption, among other technologies that make it a reliable and secure B2B payment method.

B. Regulatory Framework in Peru

a) Regulation for Card Payment Agreements

The BCRP issued Circular 027-2022, which aims to strengthen the security, efficiency and transparency of card payment agreements by regulating participants (issuing companies and payment processing companies), payment facilitators part of the agreements, and guidelines for the card payment networks that administer said agreements.

On August 11, 2023, the Registry of Card Payment Agreement was created, which has registered 4 card payment networks, 40 issuing companies (banks, financial institutions, municipal savings entities and

others), 7 payment processing companies, and 20 payment facilitators. The BCRP has provided the corresponding channels for those entities that are not yet registered.

Along these lines, the May 2023 Financial Stability Report mentioned the progress in the implementation of the Regulation for Card Payment Agreements, highlighting that there were 63 entities registered and the importance of identifying entities that participate in different payment agreements to understand participants, as well as the roles they play and services they provide in the payment card market.

Number of entities registered by APT

Entity's role	Card Payment Network			
	Visa	Mastercard	American Express	Diners
Issuers	37	21	2	1
Acquirers	5	5	1	1
Payment Facilitators	17	17	13	13
Total	59	43	16	15

Source: BCRP. Financial Stability Report. May 2023.



b) Interoperability in Payment Solutions

The concept of interoperability is understood as allowing transactions to be carried out between users regardless of the financial service provider. In other words, it means that users of a given Digital Wallet can carry out transactions directly with users of other Digital Wallets.

Although we are in a context of growing number of e-money account holders, having to contract with several providers is seen as an inefficient burden for the user and the market. Thus, e-money accounts should be opened with the various providers selected, rather than being able to make transfers between them.

It is in this context of necessity and openness that various regulatory instruments have been issued to propose and regulate the entry of different actors into the payment system ecosystem.

1. Problem regarding the need for interoperability

As of March 2023, it has been identified that the interconnection among entities in the financial system is still low, limiting the growth of payment systems, since people are limited to carrying out their transactions with specific economic agents.

The following table shows the interconnection ratio of payment systems, the e-money payment agreement, and digital wallet schemes. The interconnection ratio in the LBTR system is 100%. The CCE follows in importance, with an interconnection of 76%. The Bim e-money payment agreement and the ecosystems developed by digital wallets have interconnection levels below 50%.

Interconnection indicator (to March 2023)

Participants	Payment Systems		Payment Agreement	Digital Wallets	
	LBTR	CCE	Bim	Yape	Plin
Banks	18	18	7	3	4
Financial	10	6	5	0	0
Municipal funds	12	10	9	6	3
Rural saving banks	6	1	2	0	0
Total	46	35	23	9	7
Interconnection ratio*	100%	76%	50%	20%	15%

Source: BCRP. May 2023 Financial Stability Report. Page 80.

The digital wallet sector represents 65% of the total transfers from both intrabank and bank-to-bank transactions in the whole economy. However, due to the lack of interconnection, there are more intrabank than bank-to-bank transactions. Bank-to-bank transactions in digital wallets account for only 33%. Therefore, the expectation is that with interoperability, these figures will increase. Likewise, the BCRP identified that e-money accounts are not interoperable with deposit accounts, which represents a problem in the digital payment system. Indeed, in Peru a payments ecosystem that

allows users to carry out their transactions without distinction of economic agents has not yet been established, making cash still the most used payment method.

2. The Interoperability Regulations for Payment Services

On October 7, 2022, the Interoperability Regulations for Payment Services provided by Providers, Agreements and Payment Systems (hereinafter, the “Regulation”) was published.

This Regulation seeks to establish the conditions and opportunities for the interoperability of payment services provided by Regulated Entities (listed in Annex 1 of the Regulation and which include, among others, banks, financial companies, and municipal savings and loan entities).

According to the Regulation, regulated entities refers to those that provide any of the following services: (i) digital wallets, (ii) real-time payment functionalities in mobile banking apps, (iii) real-time transfer services in mobile banking apps, or (iv) others determined by the BCRP.

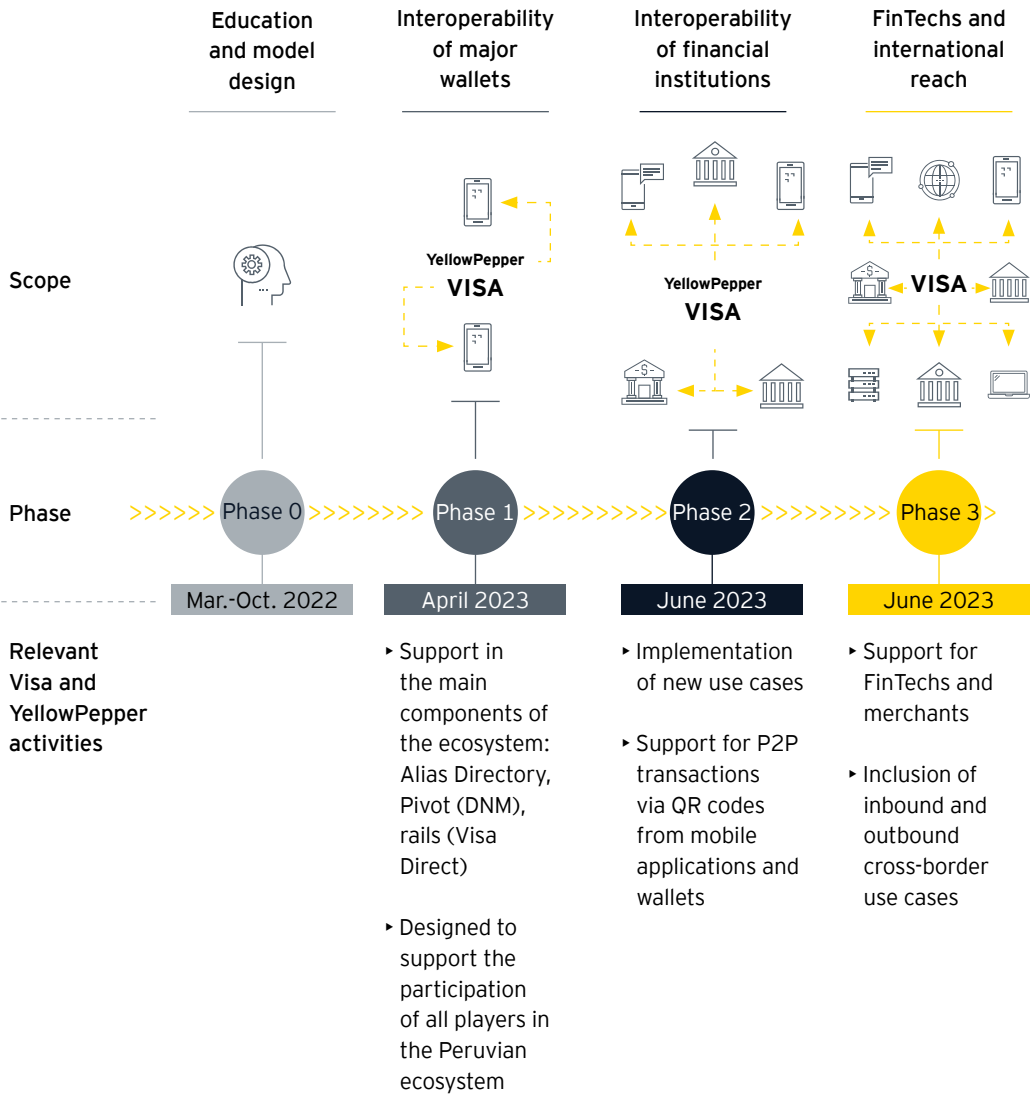
The Interoperability Regulations for Payment Services	Obligations for Regulated Entities
	a. Establish information security and cybersecurity policies and guidelines.
	b. Ensure minimum user experience guidelines, such as: (i) have a single, non-differentiated access in the case of digital wallets that have the option of transferring funds with aliases, (ii) show the list of contacts with which interoperable fund transfers can be made, (iii) make it easy to select the Regulated Entity to which the beneficiary belongs, (iv) make it easy to select the Regulated Entity to which the beneficiary belongs, (v) make it easy to select the regulated entity to which the beneficiary belongs, and (vi) make it easy to select the regulated entity to which the beneficiary belongs.
	c. Reporting of information to the BCRP.

For the purposes of its implementation, two phases have been determined according to the type of regulated entity, as follows:

► **Phase 1:** applies to the administrators of the Yape Payment Agreement (Banco de Crédito del Perú) and the Plin Payment Agreement (BBVA Banco Continental, Scotiabank and Interbank). For this phase, interoperable payment services must be enabled no later than March 31, 2023.

► **Phase 2:** applies to all other regulated entities that provide one or more of the payment services described in articles 4 and 11 of the Regulation (including digital wallets and payment services with QR codes). The interoperable payment services of this phase became effective on September 13, 2023.

Phases and scope of interoperability of Visa and YellowPepper in Peru



Source: Gilberto Chaparro and Serge Elkiner (Revista La Moneda). Fast and furious: the accelerated growth of person-to-person payments in Peru in times of interoperability. <https://www.bcrp.gob.pe/docs/Publicaciones/Revista-Moneda/moneda-194/moneda-194.pdf>



Phase 1	As can be seen in the table, this is the implementation plan for interoperability in Peru. The deployment of phase 1, which consisted of yape-plin interoperability) began in the last week of March and has been implemented progressively.
Phase 2	The start of phase 2 consists of the interoperability of digital payment services in the local market, through banks, municipal savings banks, financial institutions, registered in the QR registry, among other financial institutions. By Circular 0013-2023-BCRP, the BCRP postponed the implementation of this phase until 13 September 2023.
Following Phases and Next steps	In the coming months, for the BCRP, the steps in the interoperability strategy include monitoring compliance with the obligation to interoperate by the Phase 2 regulated entities; the implementation of dashboards monitoring of interoperability-related operations and incidents; Like this such as expanding the scope of regulation to incorporate new actors to the payments ecosystem, such as e-money issuing companies (EEDÉ), FinTech and Bigtechs. In this regard, the BCRP has been preparing the regulation to proceed with Phase 3 of Interoperability: e-money and bank accounts. It is also expected that a future Phase 4 regulation includes FinTech and Bigtechs.

Facts

One of the pillars of the 2023-2024 BCRP Strategic Plan proposes to monitor and analyze how the entry of FinTech companies in retail financial services can affect the stability and competition in the financial system. This incorporation of FinTech companies into the payments ecosystem is part of the interoperability strategy, for which meetings have already been held between FinTech companies and the BCRP, in the first quarter of this year to assess the problems of the sector and analyze the next steps to achieve access to payment infrastructures.

Regulation for QR Codes in Peru

In February 2020, the BCRP issued Circular 003-2020-BCRP, which regulates payment services with QR codes and establishes their guidelines.

In September 2023, the BCRP reported that the Registry of Payment Services with QR Code includes four QR code providers (Niubiz, Vendemás, YellowPepper, Izipay), four digital wallet providers (Ligo, OH, IzipayYA, Prexpe) and four QR code and digital wallet providers (Yape, Wayki, Bim, Kontigo and W).

QR code payment service registration

Type of registration	Entity
As a QR Code provider	Niubiz Vendemás YellowPepper Izipay
As a Digital Wallet	TPP (Ligo) Financiera Oh
As a QR code and Digital Wallet provider	Falabella (FPay) BCP (Yape) Interbank (Tuki) Caja Cusco (Wayki) APDE Bim (Bim) GMoney (Kontigo y W)

Source: BCRP. Financial Stability Report. May 2023.

In line with that, the BCRP issued Circular 0024-2022-BCRP, which establishes complementary guidelines for QR Codes, in order to specify interoperability. Below are some of the most important measures:

The BCRP reported that between January and March 2023, four work groups were created to focus on the implementation of QR codes in the payment system. Tables

1 and 2 (payment processing companies and wallets) had the objective of integrating payment processing companies with wallets that were not in their ecosystem up to that moment; Table 3 (QR code providers) aimed to discuss the standardization of QR codes in the QR payment market; and table 4 (digital wallets and providers) aimed to determine the integration model of the wallets that provide QR code services.



Interview with Milton Vega Central Reserve Bank of Peru



Milton Vega
Deputy Manager
of Payments and
Infrastructures BCRP

The opinions of the author do not necessarily coincide with those of the Central Reserve Bank of Peru and its directors.

What are the main challenges for the development of digital payment instruments in Peru?

Like other countries in Latin America and the Caribbean, Peru is transitioning from a cash-based economy to one oriented toward retail digital payments. In this regard, the adoption of digital payment methods increased from 29 digital payments per adult in 2015 to 152 in 2022, due to improvements in payment infrastructure, such as 24/7/365 instant transfers, payments with QR codes, and payments with digital wallets, as well as to changes in people's payment habits during the COVID-19 pandemic. However, the number of transactions carried out with these instruments is still low in Peru, compared to other countries in the region. This is mainly due to low financial inclusion that confines a significant part of the population to a cash-based ecosystem. Although financial inclusion (account ownership) increased from 35 percent in 2015 to around 52 percent of the adult population in 2022, a large part of the population has no other option than cash as payment method.

An important barrier to the development of digital payments has been the low level of interoperability in the digital payments ecosystem, due to the existence of closed schemes. In order to change this, the BCRP has been promoting interoperability in payment services, ensuring that as of April 2023, users of Yape and Plin (digital wallets) can transfer money between them and that starting September 13, wallets interoperate with

participants in instant transfers, as well as different payment services with QR codes.

What other actions will the BCRP carry out, within its powers, in order to face the challenges to the National Payment System?

To promote the access and use of digital payments, the BCRP is working to achieve a National Payment System that effectively satisfies the payment needs of people, companies and the government, through innovative and interoperable payment services and instruments, supported by secure, efficient and accessible infrastructure, promoting the adoption of digital payments. In this context, the BCRP has developed actions in the following areas.

- Strengthening the regulation for payment systems.
- Promoting greater interoperability.
- Modernizing and developing payment infrastructure.
- Evaluating the issuance of a CBDC.
- Evaluating the implementation of Open Banking.
- Strengthening coordination and dissemination with actors in the market.

What is the importance of the implementation of the Central Bank Digital Coin (CBDC)? What would be the impact of its design in relation to digital payment systems, financial inclusion and monetary policy?

In March 2023, the BCRP published the document CBDC: Promoting Digital Payments in Peru, with the objective of analyzing the need, appropriate design and the opportunity for the BCRP to decide on the issuance of a CBDC, that is, digital currency issued by a central bank. This document presents

the results of the first stage of research carried out by the BCRP with the technical assistance of the International Monetary Fund, covering topics related to the current situation of the payment market in Peru, the possible use cases of a CBDC for unbanked people and the aspects to consider for the design and implementation of a CBDC. The assessment of the implementation of a CBDC is a topic of great interest for central banks around the world, including the BCRP. The implementation of a CBDC would complement the existing payment methods and would bring benefits such as:

- Being an effective tool to promote access and the use of digital payments in the unbanked population. Digital payments are the entry point to digital financial services, and access to a transactional account is the first step towards greater financial inclusion.
- Generating significant efficiency gains in the Peruvian payment market by facilitating interoperability and encouraging greater adoption of digital payments and reduced use of cash. Unlike other digital payment alternatives that use bank accounts or electronic money accounts, a CBDC is a direct liability of the central bank, so it could generate greater trust as payment method, which in turn would encourage greater adoption, thereby increasing social well-being by reducing the costs and risks of using cash.
- Strengthening the effectiveness of monetary policy by promoting financial inclusion. If banking penetration increases by facilitating greater financial inclusion, the financial system could expand consequently, the transmission mechanism of monetary policy would be more powerful by expanding the influence of the central bank's interest rate to a greater number of financial products and services.

- ▶ Contributing to preserving the achievements of lower dollarization in payments. A CBDC would maintain the national currency's ability to compete by providing low-value digital payments efficiently, at a low cost and with a wide reach.
- ▶ Promoting financial innovation in a regulated environment by facilitating the operations of new actors in the market. A CBDC could reduce the risk of managing the public's funds faced by companies offering innovative financial services. This, in turn, would facilitate the financial inclusion process and the entry of new actors into the market.
- ▶ Promoting the introduction of programmable payments that can customize the use of money, which would allow conditioned fund transfers to be used for a preselected set of goods and services, increasing the efficiency of government policies.

What is the BCRP strategy in the event of the possible implementation of the CBDC?

If issuing a CBDC is considered desirable, it would be necessary to disseminate and expand its use gradually, evaluating its benefits, costs and potential risks at each stage. Initially, the issuance of a CBDC would be aimed mainly at the unbanked population of the main cities, would use an intuitive and friendly interface on smart and low-end phones, and would be accessible at zero or very low cost. Also, it would be aimed at use cases relevant to said population (payments between people, between people and businesses and with the government, among others).

The implementation strategy would be gradual and in stages:

- i) Initial analysis of potential use cases for the CBDC, and initial and end-of-stage feasibility assessment.
- ii) Testing of assumptions raised during the first stage, which involves innovative activities with market actors.
- iii) Design of a prototype.
- iv) Design and implementation of a pilot.
- v) Reduction readiness.

These stages are sequential and constantly feed each other since the implementation of a CBDC requires a continuous analysis of its risks and benefits. Thus, at any point in the process it would be possible to return to the previous stages in search of solutions. If a prototype is approved, the project would advance to a pilot phase, in which a production situation would be simulated with a small group of the population. Finally, the approved pilot would advance to the production phase.

In September 2022, the BCRP launched a short and medium-term strategy focused on the interoperability of payment services. Specifically, the second stage of this strategy includes the incorporation of new actors into the payment ecosystem, including FinTech companies, e-money issuing companies, big tech companies, etc. In this regard, what are the actions that the BCRP has carried out to begin this second stage?

On October 7, 2022, the BCRP published the Regulation for the Interoperability of Payment Services provided by Providers, Agreements and Payment Systems, with the purpose of establishing the conditions

and opportunities for interoperability and the consequent improvement in the efficiency of the digital payment market in Peru. The transition to the production of Phase 1 interoperable payment services began in the last week of March 2023 and was progressively deployed until May. Phase 2 was achieved in mid-September, when all financial institutions that offer the instant transfer service through the electronic clearing house were interconnected with digital wallets. The interoperability of QR codes was also achieved, with developments that will accelerate greater use of digital payments due to the better user experience offered by interoperable digital payments.

The BCRP has advanced to Phase 3, through Circular 0010-2023-BCRP of June 27, 2023, which authorizes EEDE access to the LBTR System and the limited access to the clearing services of the Electronic Clearing House. This will promote the interoperability of bank and e-money accounts.

Furthermore, the need to issue additional user experience guidelines for interoperability is being assessed, as well as information security and cybersecurity guidelines, in collaboration with the SBS to control the risks of possible fraud and malicious use of customer information and data, such as name, cell phone number and wallet they have. To this end, regulated entities will be convened to jointly identify potential risks and propose risk mitigation mechanisms.

In Peru, card payments represent an important proportion of digital retail payments in Peru. It was in this context that the Regulation for Card Payment Agreements was issued, coming into force on January 1, 2023. What are the

advances in the registration of entities that participate in the payment card market?

In November 2022, the BCRP published the Card Payment Agreement (“APT”), Circular 027-2022-BCRP, which came into force on January 1, 2023, to strengthen security and efficiency and promote the transparency of APTs. This standard establishes the principles and standards that govern them, the responsibilities and obligations of the administrator, the payment processing companies and payment facilitators. One of these obligations is the dissemination of exchange rates and discount rates on their websites. It also points out that card payment networks, issuing companies, payment processing companies and payment facilitators must register with the BCRP. With this, the aim is to increase transparency in the market, to promote a more competitive environment in the payment card market. To date, the REGISTRY OF CARD PAYMENT AGREEMENTS published on the BCRP portal (bcrp.gob.pe) shows the following:

Registration of Card Payment Agreements (APT)

Role of the entity	Card payment network			
	Visa	MasterCard	American Express	Diners
Emitters	37	22	2	1
Acquirers	5	5	1	1
Payment Facilitators	20	19	15	15
Total	62	46	18	17

Source: EY creation.

It should be noted that the same entity can be registered with different roles and in different APTs.

4.2

>> FOREIGN EXCHANGE

The foreign exchange market is a decentralized and global market, with an annual turnover of approximately USD 6 trillion. The Peruvian foreign exchange market is characterized by high liquidity, transparency, dynamism and low commercial cost; and it is estimated to have a monthly turnover of around USD 25 billion monthly, which would amount to USD 300 billion annually.

Traditionally, foreign exchange transactions were carried out face-to-face. Before the COVID-19 pandemic, it was common to exchange currency at currency exchanges located in commercial areas, and it was not very difficult to find an exchange business in public spaces.



However, in recent years, platforms that offer completely virtual foreign exchange services have emerged, which has been possible thanks to the high rate of smartphone use in Peru, as well as the digital advancement of banking and financial entities.

A. Digital Foreign Exchange Platforms

Digital foreign exchange platforms represent one of the most successful FinTech innovations in Peru, with a steady growth in recent years. An example of this is that it is estimated that the number of companies in this vertical has around 30 FinTech companies in operation.

This growth is largely attributable to the digital infrastructure of the Peruvian financial system, as nearly all banking and financial institutions provide offer online banking or mobile banking, thereby facilitating fund transfers between users and digital currency exchange for buying and selling currencies. Moreover, this sector boasts competitive prices and lower exchange spreads compared to other entities in the financial system.



Digital exchange platforms have a series of benefits compared to traditional options in commercial establishments. Some of these advantages include:

1. Exchanging currencies at any day and time of the week, as well as anywhere.
2. Speed and good user experience.
3. Competitive prices.
4. Safer transactions, since carrying cash is not necessary.
5. Access to special offers and preferential exchange rates, depending on the platform's terms and conditions.

Furthermore, at least three (3) business models have been identified concerning digital foreign exchange platforms: (i) digital exchanges; (ii) foreign exchange markets; and (iii) foreign exchange auctions.

The first model consists of traditional exchange businesses offering their services through a digital platform. Much like with physical exchange businesses, the company behind the platform will be the one that carries out foreign exchange transactions with its own resources.

Basically, the only thing that changes is the venue from a physical establishment to a virtual platform, while maintaining all of the advantages. Examples of this model are Kambista and Rextie.

The second model is more innovative and is based on the collaborative economy scheme used by many digital services, such as Uber or Airbnb. What the digital platform does, in this case, is to connect two users interested in exchanging currencies. Thus, if two platform users reach an agreement regarding foreign currency trading, the exchange is made via e-transfers, fast and easy. An example of this model is Betriax.

The third one is an auction model. Basically, the digital platform works as a market in which different financial system entities offer an exchange rate. In this way, users will have several alternatives to choose from and go through with the foreign exchange with the lowest exchange rate offered. In this model, the platform does not carry out foreign exchange trading transactions directly, but it rather connects a user with the financial entity, both of whom will carry out the foreign exchange transaction. This is a fairly competitive option. An example of this model is Firbid.

In addition, the three cities with the highest number of transactions are: Lima (79%), Arequipa (4%) and La Libertad (3%), and the districts are: Santiago de Surco (14%), Miraflores, La Molina and San Isidro (7% each).

B. Foreign Exchange and the Pandemic

With the declaration of the state of emergency and the lockdown measures adopted as a response to the COVID-19 pandemic, traditional currency exchanges that operated in commercial establishments were unable to continue offering their services.

In this context, digital exchanges emerged as the natural alternative for consumers who needed to continue carrying out foreign exchange transactions in the middle of the lockdown. Thus, foreign exchange trading operations increased through digital means, which mainly benefited foreign exchange platforms that had already been operating for some years, and allowed the emergence of more companies engaged in the provision of digital financial services.

Even the largest banks joined the trend of offering currency trading transactions through their internet banking or mobile banking services, offering more competitive exchange rates concerning the service offered in person at banking agencies.

C. Foreign Exchange and Financial Inclusion

One of the characteristics of foreign exchange platforms is that registered users are usually required to be bank account holders in order to send and receive funds. Thus, it is necessary to use bank accounts, as well as internet banking or mobile banking to access the digital currency trading service.

It should be noted that this requirement has led to a growth in the level of use of banking services, which has contributed to financial inclusion in the country. This is an indirect effect of the proliferation of digital foreign exchange platforms.

Even FinTech companies and entities of the financial system have seen the opportunity to establish partnerships to offer better financial products to their customers. This is the case with Kambista and Interbank, which have joined forces to facilitate the access of consumers to banking services. In this way, it is now possible to open 100% digital bank accounts from the Kambista platform.

D. Foreign Exchange and Regulation

Currency exchange and/or individuals engaged in the trade of foreign currency as a regular or business activity must register in the registry of companies and individuals who carry out foreign exchange transactions of the SBS. Registration is valid for seven years, counted from the date of issuance of the SBS resolution authorizing registration. Registration is also mandatory for companies that offer foreign exchange services through digital platforms.

4.





SPLAFT

In addition to registration, foreign exchange businesses must comply with the obligations related to the system for the prevention of money laundering and terrorist financing (SPLAFT) which is governed by the Regulations approved by SBS Resolution 789-2018. The following are some of the obligations that must be fulfilled:

1. Appointing a compliance officer, who will oversee the SPLAFT.
2. Carrying out due diligence concerning knowing their customers.
3. Approving a manual with procedures and mechanisms to manage and mitigate money laundering and terrorist financing risks, as well as a code of conduct.
4. Carrying out training in the prevention of money laundering and terrorist financing for company employees.
5. Reporting suspicious transactions to the Financial Intelligence Unit (UIF-Perú).

Currency exchange, whether physical or virtual, are not considered companies in the financial system nor are they under rigorous supervision by the SBS. Nevertheless, these entities are supervised by the SBS through supervision visits to the entity and the review of the information obtained as part of inspection activities.

Along the same lines, the regulation that applies to them is focused on the prevention of money laundering and the financing of terrorism. Currency exchange may also be responsible for executing administrative freezing measures.





Interview
with Claudia
Quintanilla
(Rextie)



Claudia Quintanilla
Chief Operating
Officer (COO) &
Co-Founder of Rextie

Much has been said about the great change that occurred in the currency exchange vertical after the pandemic. What do you consider to be its strengths—despite the context—in becoming a leading platform in currency exchange and what do you think the market will be like in the next few years?

All businesses were impacted by the pandemic, in some cases negatively because the business model had to be rethought due to the reduction in their sales and, in other cases, it gave them the capability to scale quickly, due to a greater demand for their products or services. Rextie's first response, as a FinTech company, was to stay very close to its clients, identifying those who had been negatively or positively impacted, and seeing the financing need that many corporate clients had, we made the factoring service available to them.

Data analysis and the identification of clients' real needs is one of Rextie's main strengths, which has allowed us to constantly innovate our service, from being the first currency exchange app for USD dollars in the country, to offering factoring, making an alliance with Visa to pay debit cards, allowing the payment of credit cards, obtaining dollar reports, and ensuring to always be within reach, making the app available on a smart watch, and

adding information security features. We never lose sight of our three pillars that lead us to constantly innovate: Maintaining the value promise to our client; offering them a good exchange rate.

You were recently recognized as a “Leading service exporter company in gender equality policy,” what do you consider to be your distinctive element—compared with other FinTech companies—that made you obtain this recognition? And, what do you think that you contribute to the FinTech community as one of the main currency exchange platforms?

This has been an objective of the company since its foundation, with the aim of involving more women in the FinTech sector, and (to this end) we drew up a plan that is embedded in the processes of recruitment, selection, and training of leaders.

We must remember that Rextie was founded in 2016 by Mateu Batle (CEO), Claudia Quintanilla (COO) and Matías Maciel (CFO), and it should be noted that the participation of a woman as a co-founder has been key to incorporating this issue into the company's strategy.

Claudia Quintanilla has also been a member of the Science and Technology Committee at CONCYTEC during 2022 and Vice President of Allies and Guilds of the FinTech Association of Peru in 2020, therefore, her perseverance to promote the participation of women in science and technology, as well as the growth of FinTech companies in the country, has made it possible not only to attract female

talent to a technology company that provides financial services, but also to genuinely get involved with said work within the country.

What benefits does Citigroup's new capital injection bring to Rextie and what are your projections for the coming months taking into account that you plan to expand your operations to Canada?

The main benefit of Citi's recent investment is better service, thanks to the fact that we will integrate Citi's cutting-edge technology into Rextie's solution, this will positively impact exchange rate information and bring greater speed to exchange operations. Rextie customers will experience a service renowned for its automation, real-time payments, increased liquidity and highly competitive exchange rates.

4.3

>> FACTORING

Factoring is a transaction whereby the factoring company acquires, for valuable consideration, credit instruments such as commercial invoices, negotiable invoices, trade acceptances and, in general, any debt security from a person (the client). In some cases, additional services may be provided, such as commercial research and information services, management and collection, accounting services, market studies, comprehensive advisory and similar.

This financing alternative is characterized by being a transaction where the factor (factoring companies) assumes the debtor's risk, unless it is a form of improper factoring.





In particular, this is a very useful tool for small and medium-sized enterprises (SMEs) as it allows them to obtain liquidity for their working capital. Thus, in the first half of this year, factoring financing reached PEN 17,276 million, 35% more than the same semester of the previous year. According to the Lima Stock Exchange, in these six months, 15,279 providers nationwide have also benefited, most of which were MSEs.

As indicated by CAVALI, the factoring market represented 3.5% of GDP in 2023, demonstrating the strength and dynamism of the factoring market in the country.

Fact: Out of the 119 financial institutions registered and operational in CAVALI that offer factoring, 69% are factoring companies, 18% are stock brokerage companies ("SAB"), investment fund managers ("SAFI") and issuing companies, while the remaining 13% correspond to companies in the financial system.

A. Some Peculiarities of Factoring

Who can perform factoring transactions?

Factoring transactions can be performed not only by SBS-supervised companies but also by other companies that do not fall within the scope of the Act. The main conditions and obligations to be complied with by these companies are detailed below:

Conditions and obligations of companies that carry out factoring

Type of Company	Conditions	Obligations
Factoring Companies under the scope of the Financial System Act	<ul style="list-style-type: none">▶ The accounting balance of factoring and/or invoice discounting transactions, must exceed PEN 800 million, either in an individual or consolidated basis, or its equivalent in foreign currency, for two consecutive quarters.▶ The factoring company must not belong to a financial or mixed conglomerate made up of, at least, a Multi-Operations Company, a Specialized Company, an Investment Bank or an Insurance Company.	<p>They must comply with the obligations required for any company supervised by the SBS, such as:</p> <ul style="list-style-type: none">▶ The incorporation procedure regulated by the SBS.▶ Regulatory share capital, which amounts to PEN 3,052,696 for a factoring company during the July-September 2023, in accordance with the provisions of SBS Rule G-220-2023.▶ They must comply with other provisions by the SBS, such as reporting for compliance with the Platform for the Prevention of Money Laundering and Terrorist financing ("PLAFT"), and risk prevention, among others.
Factoring Companies outside the Scope of the Financial System Act	<p>Companies that do not meet any of the two previously mentioned conditions.</p> <p>Factoring companies that become included in the scope of the Financial System Act must apply for the Adaptation Authorization within 180 calendar days after any of the abovementioned conditions is satisfied.</p>	<p>They are subject to a flexible scheme where they do not have the same obligations as factoring companies supervised by the SBS. The obligations that must be fulfilled are:</p> <ol style="list-style-type: none">1. Registration in the Registry of Factoring Companies Outside of the Scope of the Financial System Act.2. Quarterly presentation of information on (i) book balances of transactions, and (ii) changes of ownership above 3%.3. Semi-annual presentation of Financial Statements.

Considerations regarding credit instruments:

- ▶ The credit instruments that are being financed must not have originated in financing transactions entered into with supervised companies.
- ▶ Credits must not be overdue. On the contrary, the client of the factoring operation must guarantee the existence, enforceability and validity of the credit instruments, at the time of factoring.
- ▶ Factoring transactions do not require the participation of the debtor but must be carried out with the debtor's knowledge; except when the nature of the credit instrument makes it unnecessary.
- ▶ The transfer of credit instruments is made by endorsement, book entry, or by any other means that allow ownership transfer to the factor.
- ▶ For credit instrument transfers by book entry, Cavali's Factrack platform will be used. This system allows you to register invoices and validate their information with the SUNAT.

B. Benefits

For the factor	For the client
<ul style="list-style-type: none">▶ In the case of a financial system company, it may expand its services if it opts for this type of transactions.▶ It may obtain a higher return on commissions and interest.	<ul style="list-style-type: none">▶ Increased liquidity due to the advance payment of funds.▶ Possibility of obtaining working capital in an innovative manner and, in some cases, via online and in the short term.▶ Savings in collection procedures.

4.



C. Types of factoring

By assumption of risk

a. "Recourse" factoring:

The client takes on the risk for the debtor's failure to pay. The factoring company (factor) does not guarantee the risk for the insolvency of the assigned debtor.

b. "Non-recourse" factoring:

This is a typical form of factoring where the factoring company does guarantee the risk for the debtor's insolvency.

By its form of execution

a. Factoring "with notice":

The client must notify the assigned debtor that the invoices containing its debt have been transferred to the factor and that the factor will be the only party authorized to collect them.

b. Factoring "without notice":

The client does not notify its debtors that the receivables have been transferred; therefore, the client will continue to be the creditor. Payment shall be made to the client, who is in turn required to reimburse their amount to the factor within the term set in the agreement.

Other types of factoring:

Crowdfactoring:

It is a type of factoring managed through platforms, in which participating companies can collect their invoices in advance by investors acquiring certain portions of the invoice.

D. Application of VAT

On the one hand, the transfer of receivables to the factoring company is not a transaction subject to VAT. However, the financial service provided to the client will be subject to VAT, unless the service provider is a bank entity, a financial institution, a municipal savings and loan entity, a credit union, or any other SBS-supervised entity.

Additionally, the VAT will be levied on recourse factoring; hence, non-resource factoring is not subject to VAT.

On the other hand, the additional services provided by the factoring company will be subject to VAT and the tax base is represented by the total compensation paid for such services.

E. Factoring Promotion

The Peruvian government has enacted some rules aimed at promoting and strengthening factoring transactions as an instrument to fund micro, small and medium-sized enterprises (MSMEs):

Act 29623

“Act that Promotes Commercial Invoices Financing”

This regulation approves various legal provisions related to negotiable invoices, in order to promote factoring transactions.

Act 30308

“Act that Modifies Several Regulations to Promote Financing through Factoring and Invoice Discounting”

The Financial System Act is amended, the Registry of Factoring Companies Outside the Scope of the Financial System Act is created and Act 29623 is amended.

Resolution 4358-2015

This resolution repeals Resolution 1021-98 (former Factoring, Invoice Discounting and Factoring Companies Regulation) and approves a new regulation, whose purpose was to include the provisions of Act 30308.

Emergency Order (Decreto de Urgencia) 013-2020:

This Emergency Order establishes measures that facilitate invoice negotiations, such as:

- ▶ Reduction of the term to give conformity of the invoice and the transferee's obligation to register its conformity or non-conformity in SUNAT's platform. In the event of non-conformity, any of the following reasons must be considered: (i) agreed-upon payment date; (ii) net outstanding amount; and (iii) claim regarding the goods acquired or services rendered.
- ▶ Publication by the Ministry of Industries of the agreed-upon payment terms and payment defaults, according to the information received by SUNAT.

4.



Emergency Order (Decreto Supremo) 239-2021-EF:

Recently, the Regulations for Title I of Emergency Order 013-2020 were enacted on September 17, 2021. Such Regulations will apply to Electronic Invoices and Electronic Receipts for Professional Fees paid in full or in installments within the term agreed upon between the purchaser of the good or user of the service and the supplier or service provider. In this regard, this law regulates matters such as the additional information to be included in Electronic Invoices and Electronic Receipts for Professional Fees, the process to express conformity or non-conformity using SUNAT's platform and to make such documents available, the exercise of the right to tax credit or exporter's credit balances, or any other benefit related to VAT refund, among other provisions.

SUNAT's and CAVALI's platforms to be used for such purposes are now up and running.

Emergency Order (Decreto de Urgencia) 044-2020

During the COVID-19 pandemic, the resources of the "Crecer" (Grow) Fund were allocated to factoring companies for the sole purpose of financing factoring transactions and discounts of credit instruments and bills of exchange. Furthermore, such measures were extended to June 30, 2021 to continue supporting MSMEs. Nevertheless, to date, the validity of said provisions has not been extended.

4.





Interview with
Alejandro Niquén
(Asociación
Peruana de
Factoring -
APEFAC)



Alejandro Niquén
General Manager of
Genera and President of
the Peruvian Factoring
Association (“APEFAC”)

What do you consider to be the most viable solutions to address the challenges faced by the factoring industry in Peru, especially in the execution of factoring with state-owned companies and the participation of investment funds?

I think that the factoring industry has 5 challenges to develop the industry:

1. Free negotiation of factoring terms and conditions, and legal certainty in payments:
 - 1.1 Free negotiation of factoring terms and conditions. In relation to this point, a significant change occurred for this issue with Emergency Order 013-2020, which integrated SUNAT into the factoring process through its invoice compliance platform. Now, any company issuing an invoice with a deadline of more than 8 days must undergo this process. This process implies that the buyer has a period of 8 calendar days after receipt to review these payment receipts and confirm the conformity or nonconformity of the service or good received. In case, the company expresses a disagreement, it will not be able to use the corresponding tax credit. This modification was made with the purpose of preventing obstruction of the free flow of invoices.

1.2. Free negotiation of invoices and legal certainty of payments. Currently, the negotiable invoice execution process can take between 9 months and 3 years. A possible solution would be to develop a dedicated procedure for the enforcement of securities, with shorter deadlines that ensure faster return or legal action. Furthermore, electronic notifications to banking institutions from the courts or upon the creditor's order should be implemented to freeze accounts, along with notifications to SUNARP to secure seizures on real estate and personal property. These measures would streamline the process and facilitate the recovery of the corresponding credits.

2. Dissemination in the media about current factoring regulations

It is essential to disseminate Emergency Order 013-2020. All participants in the factoring ecosystem must contribute to its dissemination through digital or traditional media, so that providers and payment processing companies become aware of this new modality.

Regarding companies, it is important to raise awareness about the possible economic losses that could arise if they do not adapt their internal processes to the current regulations, since we are talking about securities.

Furthermore, it is fundamental to continue financially educating small and medium-sized businesses about the importance of factoring as a tool to improve their cash flow and gain immediate liquidity. Many times, these companies are unaware of the existence of factoring or do not understand how it works; therefore, it is necessary to carry out educational campaigns that promotes its use.

Additionally, it is important to decentralize and expand factoring to other regions of Peru. It is essential to invest in financial education and promote understanding of this financing mechanism. In order to inform companies about the benefits and possibilities that factoring offers, it is necessary to hold workshops and seminars in regions outside of Lima. The Ministry of Production ("PRODUCE") must continue carrying out awareness campaigns focused on MSEs.

3. Market transparency on payment behavior

Transparency in the factoring operation market is a key element for a more effective risk control. In an environment where information on company delinquencies is accessible, factoring companies can make more informed decisions about the risks associated with purchasing invoices from certain debtors. For this, APEFAC has collaborated with factoring companies to share data on the payment behavior of debtors. This has allowed factoring companies to evaluate debtors more accurately, thus minimizing the risk of non-payment and providing a safer business environment for the ecosystem.

4. Financing ecosystem and insurance coverage

Financing is essential for the growth and development of the factoring sector. Through financing mechanisms such as the one developed with Larrainvial for APEFAC, factoring companies can assume a greater volume of operations, facilitating the expansion of their client portfolio and strengthening the factoring instrument as a financing alternative. Furthermore, the creation of a secondary market for invoices will allow greater liquidity in the sector. This, in turn, will encourage healthy competition among factoring companies, resulting in better rates and terms for MSMEs.

In relation to coverage, it is important to highlight the need to have tools that promote this financing mechanism. In this sense, Ministerial Resolution 277-2022-EF/16 established insurance that covers 50% or 70% of the risk of non-payment in factoring operations.

This resolution is a continuation of Emergency Order 013-2020, which was issued during the pandemic to avoid the collapse of payments. Results have been very positive compared to the coverage provided by banks.

Considering that 83% of the total volume of factoring operations are carried out in Lima, what specific strategies do you consider necessary to decentralize and expand factoring to other regions of Peru? And what do you think will be the impact on the economic development of these regions?

To decentralize and expand factoring to other regions of Peru, it is essential to invest in financial education and promote understanding in this financing mechanism. In order to inform companies about the benefits and possibilities that factoring offers, it is necessary to hold workshops and seminars in regions outside of Lima. Furthermore, it is important that we work closely with local and regional governments to adapt regulations and facilitate factoring operations. This will foster financial inclusion and help local businesses grow and develop, which in turn will drive economic development across the region.



4.

4.4

>> LOANS

Within the FinTech industry in Peru, the financing vertical is one of the largest. The same is true for Latin America, given that one out of five FinTech companies operates in the lending vertical. For this reason, this is the sector with the strongest presence at a regional level, followed by the payment vertical.

Although the isolation generated by COVID-19 led to an increase in online lending, this situation had already been occurring for several years. As stated by IDB and Finnovista in a 2017 study, the financing segment recorded an annual average growth of 130% since 2013 in Latin America and the Caribbean.



This vertical is characterized by the use of digital platforms and other digital technologies for one or several stages of granting a loan. This vertical is carried out by both companies using their own resources and those that connect investors with people in need of financing.

Additionally, this business model also focuses on enhancing constant interaction with clients and managing large amounts of information about them. All of this allows them, in some cases, to provide ancillary and supplementary services to financing, which may not only be extremely useful to users, but are also encouraging the creation of new products and strategies for this vertical, as we will discuss further later on.

A. Current Situation of Credit in Peru

The BCRP reported that credit in the private sector registered an Year-Over-Year growth of 0.2% in July (1.0% in June). However, it is important to note that credit in the private sector has been slowing down since March 2022, and this phenomenon is explained by: (i) the advance of loan repayments associated with the program Reactiva Peru, (ii) factoring companies in aggregate supply and demand that explain the lower level of economic activity; and (iii) higher interest rates as a consequence of the monetary policy response to reduce inflation.

4.

Credit to the private sector. Annual variation rates (%)



Source: BCRP. Liquidity and Credit. July 2023.

In the segment of credit to individuals, credit growth remains dynamic, although it has been slightly slowing down, growing 9.9% in July 2023 (15.9% in 2022). This slight slowdown in credit to individuals is mainly due to the lower increase in consumer debt (13.4% in July 2023).

On the other hand, credit to companies shows a contraction primarily associated with repayments of the program Reactiva Peru and partially due to a drop in demand given the evolution of economic activity.



B. Types of Loans

The types of loans described below can vary according to the relationships established and, depending on this, such services may be provided by FinTech companies or by the traditional participants in the financial system.

1. Business to Consumer (B2C)

This type of loan may be granted by FinTech companies and by banks and other traditional entities that provide financing. Under this category, the financing is granted against the companies' own funds and companies assume the insolvency risk and the credit risk of clients.

In the case of banks, their incursion into this FinTech vertical has been taking place for some years since they began to incorporate the use of technologies for the provision of their financing services, just as FinTech companies do. For example, some entities have created their own online platforms to meet financing requests and have been using artificial intelligence and machine learning techniques in their processes.

2. Consumer to Consumer (C2C)


This type of financing is granted by FinTech companies and involves making available to requesting users an easy and fast loan application process that can be communicated to and known by investor users willing to lend their funds in exchange for a financial compensation. In this manner, the platform facilitates the matching between borrowers and investors or lenders. In addition, such activity may be carried out under two models:

2.1 Peer to Peer

This loan is between an individual user who applies for a loan and an individual user who is willing to take charge of the full investment.

2.2 Financial participatory financing or crowdlending

Through this modality, the loan requested by a user can be financed by various investors.

To learn more about the implications of this figure and the particularities it involves, go to Section 4.6  Crowdfunding.

Also, for the C2C model to be executed, the borrowers are required to submit to the platform the details of the project for which they are requesting financing so that, in most cases, FinTechs can conduct a prior evaluation before posting it on the portal to be chosen by the investor or investors.

Once the borrowing users have connected with the investors, the agreement is executed directly between them and, of course, it is the investor who takes on the financing risks and not the FinTech operator of the platform. Likewise, FinTech companies are in charge of managing the loan in exchange for periodic commissions, therefore acting as agents for investors. For example, the platform is in charge of keeping records of the transaction, collecting repayments from the borrower, distributing the money flows to investors and managing the recovery of defaulted obligations.

However, a more complex scheme of this model may include supplementary services offered by FinTechs, such as:

- **Borrower's credit report analysis and loan pricing:** In order to improve the information available to investors, FinTechs can conduct a credit evaluation of those requesting the loan, resulting in a credit score for investors, which may also serve to set an interest rate for the loan.
- **Partial protection against defaults:** Some platforms offer the service of partial protection in case of defaulted loans, keeping a contingency fund to complete payments to investors in case of default.

► **Provision of a secondary market:** In general, investments cannot be liquidated before their expiration, unless an investor finds another investor willing to take over the investment from which they need to withdraw their money early. In this context, some FinTechs contribute to this process by providing a secondary market in which investors can sell loans and credit rights can be transferred.

► **Buy Now Pay Later (BNPL):** With this model, consumers finance their online purchases with credit payments, mainly using credit cards. This model allows them to defer payment for the products and services purchased, so that the payment is divided into several interest-free installments, or, in some cases, with low interest rates.

Stakeholders involved in this model are:

- (i) The buyer i.e. the end user, who is interested in acquiring products or services;
- (ii) The loan provider in the BNPL model i.e. the entity that finances the purchase; and
- (iii) The allied commerce i.e. the place of business that sells or provides the service, which is sought to be financed.

This model has become very frequent when making small and medium purchases in products; for example, clothing or daily expenses, especially among the young or unbanked population, which reflects in higher sales in stores.

According to Americas Market Intelligence (AMI), the countries with the greatest potential for success if BNPL is applied are: Mexico, Colombia and Peru. This was determined through a data matrix where the percentage of credit card penetration in each country was crossed with the debt and equity coefficient that defines the average debt capacity of the consumer.

Another example is the case of Paypal in the US and Australia, who has opted for this innovative model, allowing consumers to make cross-border purchases in specific markets, with payment flexibility and without sacrificing consumer capital.



What are the main differences between this financing modality and bank loans?

The main difference lies in the risk taken on for this transaction. On the one hand, companies in the financial system usually take on the risk of default of a loan that they have granted, while in the C2C model, it is the investors who take on the risk for the financing granted.

Another difference is the way of generating income. Companies in the financial system usually obtain profit through the active interest rate of the loan, discounting the passive interest rate applicable to their transactions. For their part, under the C2C model, platforms operate as an agency, so their profitability depends on their success in attracting and retaining investors who generate income from paying commissions.

Characteristics of this vertical

a. For the users

► Immediacy:

The evaluation and processing time for their credit application also decreases considerably with FinTechs, since all procedures are simpler, using digital and automated tools and in much shorter time frames.

► Accessibility:

This model allows the inclusion of a public that has difficulties accessing traditional loan methods, that do not have a credit history or that tend to resort to informal borrowers; since it precisely use technologies that allow assessing other payment capacities of clients. In addition, FinTech companies usually adapt and understand the needs and difficulties of their target audience, for example, loans focused specifically on students, MSMEs, women, certain commercial or artisanal segments, among others.

► Evaluating more data:

A much larger set of customer data is often evaluated, which allows to better understand them and offer more financing possibilities for whom it is more difficult to obtain them.

In this case, non-traditional sources of information are also analyzed, such as information from social networks, internet buying behavior, users' other digital footprint and data that is not available to any provider, such as tax returns. Based on this, it is no longer surprising that a credit evaluation analyzes more than a thousand data items per borrower, as some FinTech platforms have announced. However, there are other companies that also manage important data for this sector, such as technology conglomerates, and online behavior and payment information.

Thus, the extensive handling of data contributes to improving practicality, lower transaction costs and better credit risk assessments.



b. For the companies carrying out this activity

► Cost reduction:

The extensive use of technologies means that internal processes can be simpler and automated, making it easier for faster responses. Consequently, FinTechs can be more efficient in regards to deadlines, and reduce costs when carrying out these activities.

► Possibility of providing supplementary services without taking on loan risks:

Peer-to-peer platforms work solely as agents for the investor, so it is the latter who takes on the risk linked to the loan, while the platform receives commissions for its work as an agent, as well as for other services it may offer.

► Clients are attracted fast:

Given that the dynamics of reviewing information and applying for the loan and, in general, the entire process is digital, clients can access the platforms according to their own availability with the advantage that they will be served quickly, increasing the size of the public that can be reached.

An example of this is Nubank (Brazil), which has a free credit card with few requirements that have made it one of the highly attractive products for young people and new cardholders, reaching more than 40 million clients.

C. Regulations to be considered

► **Civil Code:** For services provided by entities not belonging to the financial system, the maximum compensatory and default conventional interest rate set by the BCRP or, in its absence, the legal interest rate set by the same institution are to be considered. Likewise, the interest capitalization prohibition must be observed.

► **Act 31143 - Act Protecting Financial Services Consumers from Usury:** The financial system entities developing activities within this vertical must comply with the provisions of this Act, which primarily establishes that consumer debt, low consumer debt—equal to or less than two Tax Units ("UIT")—and MSEs loans are be subject to an interest rate cap set by the BCRP. Financial entities fixing a rate above the one set by the BCRP will be liable to be charged with the offense of usury.

Furthermore, if borrowers fail to make payment, the financial entity will be prohibited from charging a penalty, fee or expense or from capitalizing interest. Therefore, only the default interest rate may be applied.

► **FPF or Crowdfunding:** Crowdfunding activities must comply with provisions set forth in the recently enacted regulation on FPF matters. To learn more about its scope, go to the Crowdfunding Section.

► **Anti-Money Laundering and Countering Financing of Terrorism (PLAFT):** The performance of these activities grants the status of obliged party not only to the financial system companies developing them, but also to FinTech companies. In this regard, as obliged parties, they must have a compliance officer; report suspicious transactions; fulfill obligations related to having knowledge of certain parties with whom they interact such as clients, suppliers, workers, and correspondent banks, among other obligations.

► **Filing with the Registry:** SBS Resolution 1201-2018 established that lending companies falling outside the scope of the Act must necessarily file with the Registry of Companies and Individuals performing Financial or Currency Exchange Transactions.

► **Financing companies:** By means of Legislative Decree 1531, published on March 19, 2022, the name of the MSEs Development Entities was modified. The specialty of financing companies consists in granting financing in different modalities with resources from its own capital and from other sources that do not include public deposits. These companies may:

grant direct loans, with or without collateral, discount and grant advances on bills of exchange, promissory notes and other documents proving debt, grant endorsements, bonds and other guarantees, including in favor of other companies in the financial system, act in syndicate with other companies to grant credits and guarantees, under the responsibilities contemplated in the respective agreement, among others.

► **Exemption from the Value Added**

Tax (VAT): In accordance with our tax regulation, only the income from credits granted by SBS-supervised entities, such as Banks, Financial enterprises, Municipal Savings and Loan Entities, Municipal Popular Loan Entities, Micro- and Small Enterprise Development Entities (EDPYMEs), Credit Unions, among others, even when they are domiciled in the country, are exempted from VAT.

► **Regulation on Commissions and Expenses in the Financial System:**

This regulation applies to companies included in item A of article 16 of the Act (Banking Companies, Financial Companies, Municipal Savings and Loan Entity Municipal Popular Loan Entity, Municipal Popular Pledge Loan Entity, Financing Companies, Credit Unions authorized to receive resources from the public and Rural Savings and Loan Entity), Banco de la Nación and Banco Agropecuario and mortgage management companies. Through this regulation, the SBS establishes the names and categories of the commissions and expenses that companies may apply in their transactions. In addition, it establishes the procedure, term and requirements for companies to apply for approval of new types of commissions and expenses not be provided for in the regulation.

D. New Trends in the Sector

While we have already commented on the types of supplementary loans and services usually offered in this vertical, there are innovations in which the sector is making inroads, as it is considered that betting on a single product, such as financing, favors the sustainability of the company. Thus, some FinTech companies are proposing new models and products, such as:

► Transformation into digital banks:

To carry out this process, the first step proposed is to diversify the financing products offered to the market, shifting towards the transformation into a digital bank. Currently, with the publication of Legislative Decree 1531, which amended the General Law, our legislation already allows for the operation of 100% digital banks, without the need to have a physical office.

► Innovation with other players:

This is the case of Mexican FinTech company R2 Capital, which offers a lending solution integrated into payment processors, POS systems and POS terminals. This allows it to analyze business transactions and understand its operational flow to be able to provide credit solutions for each profile.

These alliances may be also designed to implement automatic payments or reimbursements at the time of collection. For instance, payment companies may take a percentage of the future payments received by the borrower. For example, payment companies will be able to take a percentage of future payments received by the borrower.

This is considered to be a trend that is here to stay and is already being done by other well-known players such as Mercado Pago.

► Loans through e-wallets:

E-wallets are currently offering a new mechanism aimed at the unbanked or those who do not have access to the financial system, granting them loans in very small amounts.

An example of this is Yape, the digital wallet with the most users in Peru, which in June 2022 announced its new function that allows granting microcredits between PEN 150 and PEN 200 with automatic disbursement at single installment to its users. They will be able to choose between four options for their date of payment (within 15, 20, 25 or 30 days).

By the end of 2022, the app made more than 130,000 loans through its digital wallet, and this year they plan to expand their offer with credit of up to 18 months.

► Virtual advisory services:

Banking entities will implement new virtual services through web platforms, mobile apps and self-services in order to advise users on more complex transactions or specialized advice according to their needs and characteristics.

For example, Scotiabank Colpatría (Colombia) launched its 100% virtual customer service model in 2022, which allows comprehensive advice on financing, investment and protection; access to a varied portfolio of products, services and financial solutions according to the particular needs of the user, in addition to the resolution of queries and requirements in real time.

► Advanced Functionality Self-Service Terminals:

These next-generation ATMs and Assisted Self-Services (a technology that includes new features combining human and digital touchpoints to offer fully digital, efficient, multinational, customer-oriented branches) are expected to provide multifunctional banking services (such as cash reception and recycling, advisory, product sales, and promotion of products) which will allow all transactions that can currently be carried out in a branch to be carried out 24/7.

► Sustainable loans:

Sustainable loans and emissions aimed at protecting the environment (compared to energy efficiency, transportation and sanitation) and social impact activities have grown significantly. Entities are now seeking to offer sustainable products and solutions that will differentiate them from the competition and benefit users and, above all, reflect their concern for creating a greener and more equitable world.

According to *Semana Económica* magazine, in 2022, greater interest was reflected in the evolution of the issuance of sustainable bonds and loans.

BBVA⁹, which was recognized by the International Financial Corporation (IFC) as the first 'Edge Champions'¹⁰ of Peruvian banking, is the bank with a sustainable mortgage product in private banking in the country. In addition, they announced their new program "Measure what matters", which seeks to promote the development of SMEs with a solid orientation towards sustainability and profitability.

9. In addition, it has also been recognized as the bank World leader in supporting society in the Magazine's 2023 Sustainable Finance Awards Global Finance.

10. This certification is granted to buildings that demonstrate a resource efficiency of at least 20% in energy, water and embodied energy in the materials



Interview with Laure Schlesinger (Prestamype)



Laure Schlesinger
Co-Founder of
Prestamype

Currently, they are one of the companies with the most experience in the MSEs loan vertical. What do you consider to be the main needs of the MSEs that you cover, and what makes you a good alternative?

MSEs represent 20% of the GDP and employs more than 60% of the economically active population, according to the report "2021 MIPYMES in numbers", prepared by the Ministry of Production. For this reason, they are considered the driving force of the economy, but despite their encouraging results, they face problems in obtaining financing, productivity difficulties and informality.

Given this scenario, Prestamype is a financial ally of underserved MSEs, as it offers products that are adapted to this segment, supported by automation and digitalization. We provide financing with more flexible conditions, the possibility of accessing higher amounts and even obtaining a loan without having a perfect credit history. Additionally, we seek to impact more entrepreneurs not only with our financing options (mortgage-secured loans and factoring), but also with additional services (currency exchange and electronic invoicing) that can improve the productivity of these companies. The purpose of Prestamype has always been and will be to promote the growth of MSEs.

4.

What are the main objectives that you will focus on next year to remain a leader in the lending vertical?

We plan to reinforce the expansion that we are already having within the country in the loan market. We currently have operations in Lima, Callao, Arequipa and Trujillo, and soon we will be in Piura, Huancayo, Chiclayo and Cusco; while our other digital products have already reached the entire country. We are also contemplating starting pilot operations in another Latin American country, such as Colombia or Mexico, since our products use technologies that are very adaptable to those markets, and this would facilitate our expansion.

Likewise, we will concentrate our efforts on a Series A funding round, in which we aim to raise close to US\$10 million, an amount that could increase depending on the opportunities that arise at the time.

Approximately a month ago, a funding round was closed in the midst of a slowdown in the market. In your opinion, how will said investment lead to an improvement in your current position in the market? And, in which services will you focus on?

The resources obtained through the investment of highly recognized international funds will be destined to strengthen all our financial services, covering mortgage-secured loans, factoring, currency exchange and e-billing, always seeking to generate a positive impact on society through our ecosystem of products.

From the beginning, our main objective has been to focus on the underserved and ever-growing MSEs segments, taking into account the difficulties they face in accessing funding. This is the main reason why more than 50% of MSEs fail in their first five years, which has direct consequences on the development of the country.

A short-term objective is to develop diversified sources to fund our lending and factoring portfolio. In this sense, Prestamype has a Private Investment Fund Managing Company that manages the assets of third parties (natural persons). The Fund structures aim to obtain a return associated with the level of risk in line with investment policies. These Funds are monitored by experts with extensive experience in capital markets and fund management, so that investors will not have to spend time managing their portfolio.

With the initiatives proposed for the short and medium term, we are sure that we will continue to be very relevant in the MSEs segment and a relevant actor in Latin America, through innovation and technology.

4.5

>> FINANCE MANAGEMENT

The FinTech segment of financial management refers to companies providing these services: digital solutions that seek to facilitate or improve the management of an individual's or company's money. Some modalities of finance management are enterprise financial management focused on providing financial management and advisory services to companies; and personal finance management focused on providing personal finance optimization services.



A. Modes of this Segment

a) Enterprise financial management

It is characterized by providing technological solutions aimed at e-billing, digital accounting, financial management, business intelligence and collections, which are part of the basic needs of a company. The IDB sees digital enterprise financial management solutions as of the utmost importance, not only because they are one of the main segments of the FinTech ecosystem, but also because the digitalization and technological sophistication of MSMEs represent a priority for the development of the region. Enterprise financial management solutions have the following subcategories: Accounts receivable and payments, enterprise resource planning with P2P process, functionality, e-billing, financial reporting, payroll and benefits, travel and expenses, administration and treasury.

It should be noted that, in the universe of enterprise financial management, there is a variety of business models such as web applications that optimize the electronic collection process from clients through the use of artificial intelligence and automated messaging, anticipating liquidity risks, or software that helps manage businesses by automatically synchronizing all the company's financial information and providing useful tools to automate its daily management. For example, there is software for the real estate sector that is dedicated to managing buildings and condominiums, providing their administrator with tools for payment and collection, common expenses notifications, and a generator of collection, income, and expenses reports, among others.

b) Personal finance management

It is a modality of the FinTech segment that helps manage money for people and provides its users with greater financial control, by providing intuitive user interfaces and insightful representations through platforms, so that its users can obtain a comprehensive understanding of their financial situation to make wise decisions. Some subcategories of personal finance management are Debt negotiation, financial planning and management, financial education, savings and purchase planning, and tax advice.

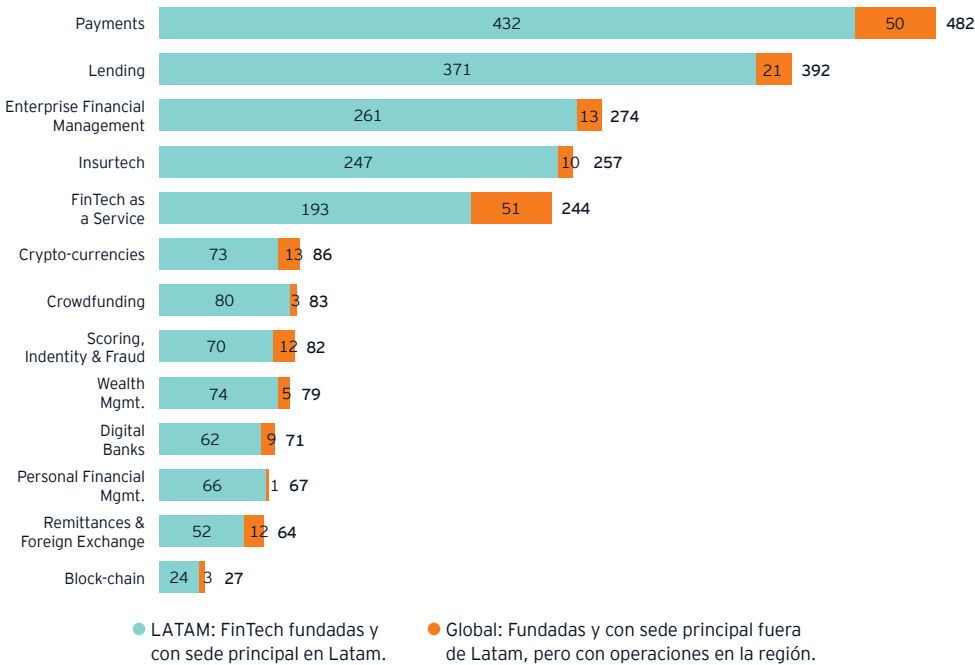
Personal finance management solutions allow users to categorize their spending and aggregate multiple accounts from multiple institutions in a single view, including data insights and visualizations of spending and cash flow trends, as well as net worth information. All this through apps where the user obtains automatic savings solutions from less than a dollar, according to their lifestyle, or through web platforms that allow parents to financially educate their children through educational online experiences teaching them to save for a goal, to generate their own money and to donate per project.

B. Data and Trends in Latin America/Peru

According to the "Q1 2023 FinTech Report" prepared by Dealroom, by the end of Q1 2023, financial management solutions were valued at USD 1.706 million with a worldwide growth trend. This is evident in the increased use of personal and corporate budget management apps. For reference, in 2021, the global budgeting apps market garnered a value of USD 190.62 million, which is expected to grow to USD 310.28 million by 2027.

According to the 2022 FinTech Report prepared by KoreFusion, as of 2023, there are 261 FinTech companies in the Latin American region focused on enterprise financial management, and 66 FinTech companies for personal finance management solutions. The evident growth is encouraging thanks to the interest of users in solutions that are part of this FinTech vertical.

Distribution Of 2,208 Active Local & Global Fintechs Across 13 Categories



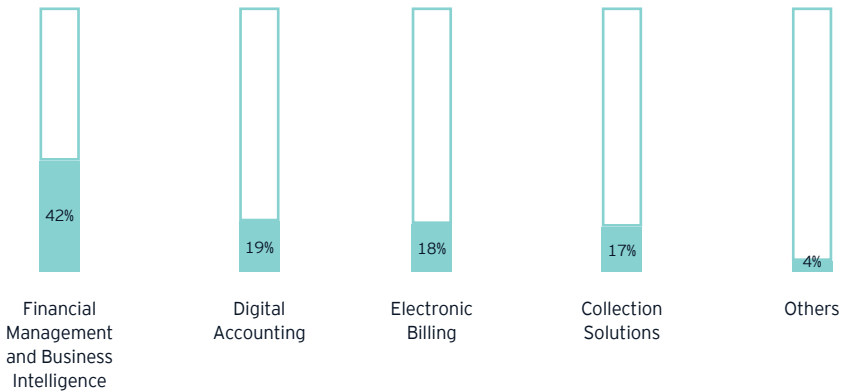
Source: Kore Fusion. 2022 LATAM FinTech Report. January 2023. Page 21. <https://korefusion.com/2022-korefusion-latam-fintech-report/>

Although enterprise financial management solutions are attractive for developing a more efficient culture in companies, the Latin American sector has not made radical advances in the market, remaining without significant changes in the last two years.

The IDB Report FinTech in Latin America and the Caribbean: A Consolidated Ecosystem for Recovery indicates that, some of the most popular types of digital business finance management solutions are: Financial Management and Business Intelligence (42%); Digital Accounting (19%); E-Billing (18%); Collection Solutions (17%); and Others (4%).

As shown, currently, financial management solutions are a great productivity and administration tool for both natural and legal persons, while there is still a large segment of the world's population that lacks the skills to manage their money and personal finance knowledge. Also, this vertical contributes to the financial inclusion of unbanked users by providing them with financial education tools or personalized financial assistance; and, certain lines of business can improve their finances with customized business solutions to manage accounting according to the characteristics of each.

Types of enterprise financial management solutions in Latin America



Source: Inter-American Development Bank. FinTech in Latin America and the Caribbean: A Consolidated Ecosystem for Recovery. April 2022. Page 38.



4.6

>> Crowdfunding

A. What is Crowdfunding?

Crowdfunding is a financing and investment method whereby, through a digital platform, a deficit agent—the recipient—who wishes to carry out a given project is contacted with investors seeking to obtain a financial return. These platforms are administered by joint stock corporations (sociedades anónimas) that are supervised and regulated by the Peruvian Superintendency of the Securities Market (SMV).



The regulatory scheme of financial crowdfunding or financial participatory financing (FPF) took on special relevance after the enactment of Emergency Order 013-2020 in January 2020, which promotes the financing of MSEs, ventures, and startups. This regulation establishes the modalities of financial crowdfunding that are regulated, as well as generalities regarding the obligations and requirements that financial crowdfunding platforms management companies (Management Companies) must comply with.

Subsequently, in late May 2021, the SMV published Superintendent Resolution 045-2021-SMV/02, which approved the Regulations on Crowdfunding and Management Companies (the Crowdfunding Regulations). Such new regulations establish, among others, the obligations of Management Companies as well as the requirements to obtain the Authorization to Organize and the Authorization to Operate from the SMV.

Recently, on June 23, 2022, the SMV published Superintendent's Resolution 061-2022-SMV/02 amending the Regulation on Sanction, approved by SMV Resolution 035-2018-SMV/01, with the purpose of predictability in the sanctioning administrative procedure in charge of the SMV regarding financial crowdfunding activities. For this, the regulation applicable to the disciplinary procedure of the matter, grounds for infractions and their respective sanctions are included in the Regulation on Sanctions.

To date, there are two Management Companies that have been authorized by the SMV for operations, as shown on its website.

B. What crowdfunding models are regulated?

In accordance with the Crowdfunding Regulations, crowdfunding activities may be carried out under the following models:

- **Securities crowdfunding:** Recipients obtain resources from investors in exchange for equity or debt securities.
- **Loan crowdfunding:** Recipients obtain a loan and are under the obligation to pay the principal and the financial return to investors. This can materialize through the issuance of a financial instrument or any other security.

The main differences between these types of financial crowdfunding are:

Characteristics	Crowdlending	Equity Crowdfunding
Transferable securities	No	Yes
Interest generated	Yes	Depending on value
Dividends earned	No	Depending on value
Political rights granted	No	Depending on value
Transfer method	Assignment of contractual position or assignment of rights	Assignment of rights or sale
Applicable Regulations	Securities Act and Peruvian Civil Code	Securities Act and Corporations Act

It should be mentioned that both types of crowdfunding have in common that investors expect to obtain a financial return.

Furthermore, it has been stated that the following types of crowdfunding are not comprised within the scope of the Crowdfunding Regulations:

- ▶ Those requiring funds for projects in which offeror of funds (investors) do not seek to obtain a financial return.
- ▶ Those in which a single fund seeker and a single offeror of funds (investor), who wants to obtain a financial return, are put in contact, or in which such financing is made with own resources of the entity managing the platform.
- ▶ Those involving factoring transactions in which investors acquire a portion of a credit right over an invoice payable to the recipient. This is also known as crowdfactoring.

C. Regulatory Capital and Net Stockholders' Equity

In accordance with the Regulations, Management Companies must meet the following requirements:

- ▶ They must have a regulatory capital equal to or greater than PEN 300,000, fully subscribed and paid-up in cash. This amount will be updated on an annual basis.
- ▶ During the first twelve (12) months, their net stockholders' equity may not be less than 70% of the regulatory capital required. In the second year, it may not be less than 80%. After such term, it must be equal to or greater than the regulatory capital required.

D. Regulatory Information

Management Companies must comply with the following provisions, among others:

- ▶ The maximum limits per project, per recipient and per non-institutional investor established in the Crowdfunding Regulations.
- ▶ Subject to prior notice to the SMV, certain additional services may be offered, such as:
 - Carry out the collection of the obligations undertaken by recipients.
 - Offer tools, applications or other utilities enabling the investor to pre-select from among the projects published those in which it will invest, based on objective criteria. This must be done before giving the investment instruction.
 - Provide training in matters related to the crowdfunding activity.
- ▶ Information on the projects published must be submitted to the SMV as well as periodical and occasional information, such as the unaudited individual interim financial statements and supplementary information, audited individual financial information as of the close of each year, and the Significant Events, until the day following the occurrence of the event.

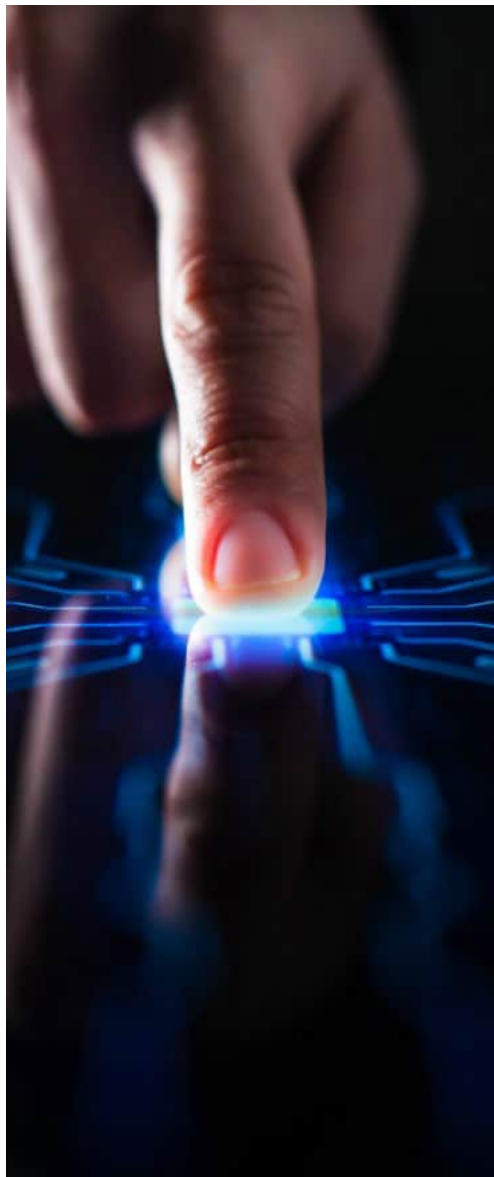
Significant Event means the situations, acts, facts, decisions, agreements or contingencies affecting or that may affect the development of the activities of the

Management Company or its Economic Group. It also includes the information to be provided to the SMV for supervision and control purposes.

- ▶ The Management Company's equity resources accounts must be segregated from those used to channel the recipients' and investors' funds. For this purpose, escrow bank accounts, trusts managed by SBS-supervised entities or e-money accounts may be used.



- ▶ Management Companies are prohibited from developing certain activities, such as the following:
 - ⊘ Administer investors' funds
 - ⊘ Grant credits or loans to recipients and/or investors
 - ⊘ Provide financial advisory and/or investment recommendations on the Projects published in their or third-party platforms
 - ⊘ Participate directly or indirectly as recipients or investors in the projects offered through the platform, except for those cases contemplated in subsection 36.6 of the Crowdfunding Regulations.
- ▶ Have, among others, the following manuals: (i) Manual on Organization and Duties; (ii) Operating Procedures; (iii) Collection Manual, if collection services are offered; (iv) Money Laundering and Terrorist Financing Manual; (v) Code of Conduct; (vi) a Business Continuity Management Document; and (vii) a Cybersecurity and Information Security Management Document.





Interview with the SMV Deputy Superintendency of Research, Development and Innovation



Based on SMV's experience, what are the main advances in crowdfunding in Peru?

SMV is committed to providing a flexible and adequate regulatory framework that allows for rapid responses to the changes brought about by innovation and technological advances. One of its strategic objectives is to work on new regulatory and supervisory proposals that adjust to said changes and allow the markets under their scope of action to remain aligned to international trends, protecting the investor throughout as a priority.

In this same context, at the beginning of 2020, SMV assumed the challenge of regulating and supervising crowdfunding activity, which was recognized in the legislation approved by the Executive Branch through Title IV of the Emergency Order 013-2020. Thus, SMV has made important progress such as the publication of SMV Resolution 005-2020 in April 2020, which allowed companies that, upon the entry into force of the aforementioned Title IV, were developing crowdfunding activities under the modality of loans to continue carrying out their operations as long as they communicated to SMV their intention to continue doing so until they request and are granted the respective Authorization to Operate as a crowdfunding platform managing company by SMV.

4.

Later, in May 2021, the Regulation for Crowdfunding Activity and its Managing Companies were approved, which is applicable to crowdfunding activity carried out in the national territory. It also sets forth the procedures and requirements required to establish and operate as a crowdfunding platform managing company, focusing on issuing safe but flexible regulations. And, to complement the regulatory framework of the activity, the SMV Sanctions Regulation was modified in July 2022 in order to classify administrative infractions and establish the respective sanctions for action or omission contrary to the regulation.

Additionally, to these important advances, SMV has been continuously monitoring the development of the industry, in order to respond quickly to the dynamics and needs of the market, and promote actions that lead to an orderly and sustainable growth of the industry.

Based on SMV's experience, after more than two (2) years of the regulation on crowdfunding activity coming into force, do you consider that the current regulation on the matter is adequate for the Peruvian market? What is the current scenario of this activity in Peru?

It is important to highlight that the regulatory framework governing crowdfunding activity has been developed under the best standards that regulate said activity at an international level and based on general principles that must be present in a regulation for this type of activity, such as flexibility and adaptability, considering the dynamism of technology-based innovation, but mainly recognizing the particularities and the degree of development of crowdfunding activities in the country.

Thus, we believe that this regulation has facilitated four crowdfunding platform managing companies to be currently in operations and one more to have been granted Authorization to Organize. This has led to the fact that since the first Authorization to Operate was granted in April 2022, more than 230 projects, both personal and business, have been funded through crowdfunding activity, for an amount greater than PEN 18.3 million.* We hope that this industry continues to develop, and that more participants become interested in entering the market.

In this regard, the design of the regulatory framework for the development of crowdfunding activity seeks to create a favorable regulatory environment that enables the orderly development of this novel funding and investment scheme, promoting competition and the development of this FinTech vertical based on a scheme of parameters and requirements that are more flexible than those of other industries supervised by SMV, but that are necessary in order to mitigate the risks inherent to the activity, and that also allow reaching an adequate standard of investor protection.

Without prejudice to this, it must be kept in mind that the evolution and dynamics that will be imprinted on this industry in the coming years will depend on the promotion and evaluation that the private sector makes of its potential and the opportunities it identifies for its development.

Is the SMV evaluating any regulatory reform to encourage participatory financial financing activity in Peru?

In recent years, SMV has placed a special interest in providing quick responses in terms of regulation and supervision to the needs of the market under its scope of action and to the accelerated progress in innovation in financial services, while always prioritizing protecting investors.

Along these lines, one strategic objective guiding SMV's actions is for initiatives implemented to be aligned with the needs of the market and with strengthening investor protection. Therefore, constant communication and openness to dialogue with actors is another priority for our actions.

* Data at the end of August 2023.

In this context, SMV continuously monitors the development of crowdfunding activities, and if the need for any adjustment is required or identified, its impact and viability will be assessed taking into consideration, among other aspects, casuistry generated, flexibility of the current regulatory framework and permanent contact with participants.

Thus, SMV, within the framework of its powers, considers it necessary to continue disseminating the benefits and risks of crowdfunding activities as an innovative funding and investment mechanism, and we are fully willing to listen to and support market participants if they identify any adjustment required to the regulation, without this affecting investor protection. We are aware that it is the industry itself who has the role of energizing it and promoting its growth.



4.7

>> SERVICES WITH VIRTUAL ASSETS

It has been just over ten (10) years since the appearance of the first cryptocurrency: Bitcoin. Several years afterwards, it was followed by the launch of Ethereum, proposing to create a decentralized ecosystem based on blockchain technology.

Since then, further innovations and use cases tied to cryptocurrencies and blockchain technology have increased at a dizzying speed, notable above all for their plurality, although without losing their essence: decentralization.

Currently, there are different forms of use of blockchain technology and crypto assets. They used in different industries, such as finance, health, entertainment, real estate, among many others. This has gone hand in hand with the increase in companies



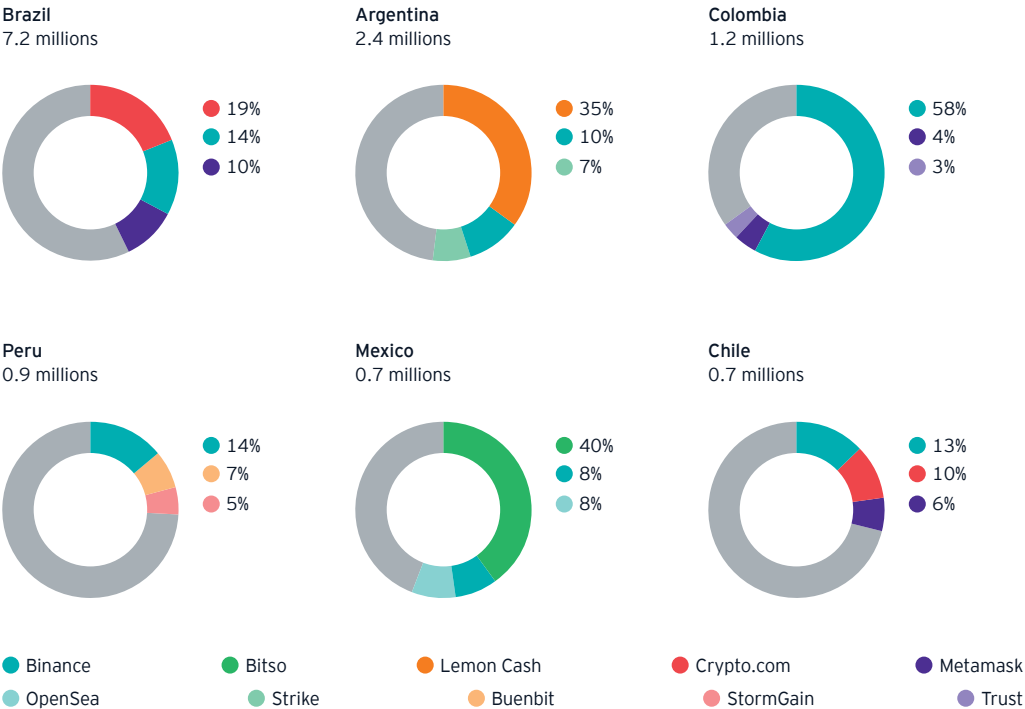
and entrepreneurs that have launched crypto assets for their business models and projects, with the number of crypto assets in circulation reaching around 9,000 the number of crypto assets in circulation in August 2023, according to data published by Statista.


In Latin America, the trend in the adoption of crypto assets by citizens of countries in the region continues to increase. According to Statista, they countries leading the crypto asset adoption ranking are: (1)

Argentina with 21%, (2) Brazil with 16%, (3) Colombia with 15%, (4) Chile with 14% and (5) Peru with 13%.

The countries that downloaded the most cryptocurrency apps in 2022: Brazil with 7.2 million downloads; Argentina with 2.4 million downloads; and Colombia with 1.2 million downloads. The following graph shows the three most downloaded cryptocurrency apps in Latin American countries (between January 1 and April 4, 2022), according to data published by Statista.

Cryptocurrency apps downloads



Source: Cited by Statista. Cryptocurrency in Latin America and the Caribbean - Statistical Data. 2023. 

A. Payments and Transfers

Bitcoin was created as a decentralized digital payment and transfer system. While the usefulness of cryptocurrencies as means of payment is currently up for debate due to their high volatility, more and more merchants are accepting them.

One of the innovations seen in recent years has been the appearance of stablecoins. The basic difference between stablecoins and traditional cryptocurrencies such as Bitcoin and Ethereum is that the value of stablecoins corresponds to that of other assets or currencies. For example, the stablecoin Tether has a unit value equal to the Dollar.



Currently, there are more than 87 stablecoins in use, according to data published by CoinGecko. The following table shows the five most important ones by market capitalization:

Top 5 stablecoins (as of September 12, 2023)		
No.	Currency	Capitalization (Billions of USD)
1	Tether (USDT)	82,835
2	USD Coin (USDC)	26,085
3	Dai (DAI)	3,822
4	True USD	3,150
5	Binance USD	2,515

Source: Prepared by EY with data from Coingecko. Stablecoins by Market Capitalization. Website, 2023.

According to data published by Chainalysis, one of the main uses of crypto assets in Latin America is remittances, in addition to being used as a store of value in countries such as Argentina and Venezuela¹¹, and to make investments, such as through the use of Decentralized Finance platforms¹².

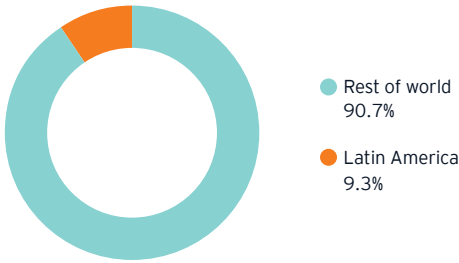
The total value sum of crypto assets received in Latin America is equivalent to USD 562 billion between July 2021 and June 2022, which represents a growth of 40% compared to the previous year.

11. According to Chainalysis, the citizens of these countries prefer the use of stable currencies.
12. According to Chainalysis, the five Latin American countries with the highest transaction volumes in Decentralized Finance (DeFi) are: (I) Chile, (II) Brazil, (III) Mexico, (IV) Peru and (V) Costa Rica.

Along these same lines, according to data published by Chainalysis, Brazil, Argentina and Mexico are in the 2023 Top 20 of Latin American countries that have adopted the greatest amount of cryptocurrencies.

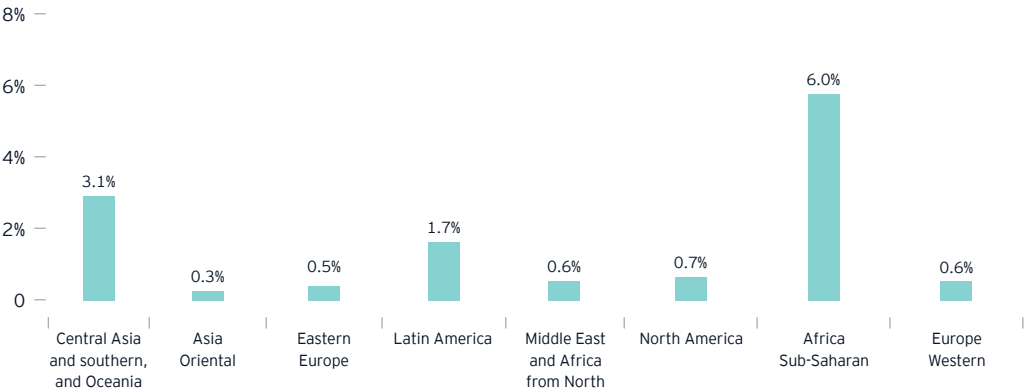
In regard to crypto assets transactions through the P2P modality¹³, Latin America stands out in the third position (1.7%) below Central and South Asia and Oceania (3.1%), and Sub-Saharan Africa (6%).

Cryptocurrency value received by Latin America compared to the rest of the world, July 2021 - June 2022



Source: Chainalysis - The 2022 Geography of Cryptocurrency Report.

P2P exchanges share of all cryptocurrency transaction volume by region, July 2021 - June 2022



Source: Chainalysis - The 2022 Geography of Cryptocurrency Report

13. A P2P (peer to peer) payment involves the direct transfer of cryptoassets between two users and is used to make payments, buy and sell and exchange cryptoassets. payments, trading and exchange of cryptoassets.

B. Banking and crypto assets

A few years ago, the big banks around the world were still suspicious that a virtual asset could have a real impact on the market and provide solutions to financial users; however, this has changed. Today it is indisputable that banks around the world are adopting crypto assets in one way or another, either through alliances with companies to provide services with crypto assets or by providing these services directly. Below, we highlight some relevant cases.

There are several banking entities around the world that have begun to venture into the crypto assets market, by providing services and investment options to their clients. One of the largest is Bank of New York Mellon (BNY Mellon), which currently holds the assets behind the issuance of the USDC stablecoin in safekeeping and has recently launched a digital custody platform for its clients' crypto assets.

In the northern hemisphere, banks such as SolarisBank (Germany), a provider of Banking-as-a-Service platforms, offers crypto asset custody and trading services through its subsidiary Solaris Digital Assets, as well as Crypto-as-a-Service solutions, so that more companies can include and offer solutions with crypto assets to their users.

On the other hand, cryptocurrency exchange companies are also beginning to look for the regulatory path to offer their services, providing better guarantees to their users and depending less on other financial entities. A notable example is Kraken Bank, a financial entity linked to Payward Inc—the company that owns the "Kraken" crypto asset platform—which in 2020 gained authorization to operate as a Special Purpose Depository Institution (SPDI) in the State of Wyoming, becoming the first company of its kind to obtain financial authorization in the US.

The Latin American Nubank has launched its "Nubank Crypto" solution through which it currently offers crypto asset purchase-sale services, such as BTC and ETH. Nubank also launched its own digital currency "Nucoin", which has the characteristics of a cryptocurrency. Likewise, in Panama, Towerbank announced in the middle of this year that the entity is "crypto-friendly", offering its clients the possibility of opening a savings account through which they can make payments or deposits related to crypto assets.

It is also important to highlight the sandbox¹⁴ in Colombia that, in 2021, allowed the creation of alliances between financial entities and crypto asset companies.

14. Sandboxes are controlled spaces in which companies can test products or services moved under more flexible regulation. more flexible regulation.

In 2022, the results of these pilot tests became to be seen. For example, the alliance formed by Bitso and Banco de Bogota offers its users the possibility of making deposits and withdrawals in Colombian pesos within the crypto asset exchange platform using Banco de Bogota accounts for this purpose.

The alliances formed are:

1. Banco de Bogotá with Buda
2. Banco de Bogotá with Bitso
3. Bancolombia with Gemini
4. Coltefinanciera with Obsidiam
5. Davivienda with Binance
6. Powwi with Binance
7. Coink with Banexcoin
8. Movii with Panda
9. Movii with Bitpoint

In Peru, there has also been a growing interest from banks in providing services based on blockchain technology or facilitating solutions with crypto assets; however, currently there is still no pilot or product of this nature on the market. It should be noted that Peru has regulations on testing environments for innovative models or regulatory sandboxes, which would make it possible to test new models and services in banking that involve the use of virtual assets or crypto assets.

C. DeFi

Decentralized finance (DeFi) is one of the latest trends in the cryptocurrency ecosystem. DeFi is a group of decentralized applications focused on providing financial services accessible to any user from anywhere in the world.

With DeFi tokens, it is not only possible to generate profit from the sale of cryptocurrency or trading transactions; but also different platforms built on blockchain now offer real financial products similar to those offered by traditional banks.

For example, it is now possible to hold savings in cryptocurrencies, accruing interest calculated annually based on the time you keep your cryptocurrencies locked up. It is also possible to grant and apply for loans in cryptocurrencies on a decentralized basis, without the need of a credit history. Normally, those taking out loans must leave collateral in cryptocurrency.

Examples of DeFi include Compound Finance and PoolTogether. The former is a platform that makes it possible to save cryptocurrencies while accruing interest, or to apply for loans in cryptocurrencies; while the latter is a no-loss lottery, in which you can obtain major earnings in each lottery on the platform just by locking up cryptocurrencies, which can be reused in each new lottery. Another example of a DeFi platform is Nexus Mutual, which provides coverage to protect its users against hacking or exploits of smart contracts, guaranteeing indemnity in crypto assets.

Below are the most prominent categories and use cases in the DeFi ecosystem:

- ▶ **Stablecoins:** DeFi stablecoins seek to mitigate the volatility risk of cryptocurrencies, for which these stablecoins maintain parity with other less volatile assets such as the Dollar. Stablecoins are a fundamental piece that makes it possible to access and use DeFi tokens.
- ▶ **Lending and borrowing:** Decentralized lending and borrowing allows users to use their crypto assets to obtain loans. It is also possible to participate by lending money and receiving interest in return.
- ▶ **Payments and transfers:** Users can make payments and transfers with cryptocurrencies in a decentralized manner; for example, to pay for the purchase of products and services
- ▶ **Derivatives:** A derivative is a contract whose value is derived from another underlying asset, such as shares, commodities, or interest rates. These are normally traded on centralized platforms, but now it can also be done in a decentralized manner with synthetic assets.
- ▶ **Fund Management:** It refers to the process by which crypto assets are managed in order to generate a return on investment, this management can be either active or passive.
- ▶ **Lottery:** Decentralized platforms that allow cryptocurrencies to be deposited in a mutual fund. The interest generated based on said fund will be distributed among the lottery winners each specific period, with no loss for any participant.
- ▶ **Insurance:** Insurance is offered to protect against possible financial and technical risks linked to crypto assets.
- ▶ **Governance:** It refers to the way that DeFi projects are organized, through the distribution of government tokens that grant voting power to users.

Increased by 26.82%

According to DappRadar, DeFi showed signs of recovery in Q1 '23, as the total value locked (TVL) increased by 26.82%, compared to the previous month.

D. NFT

One headline-grabbing trend during the early months of 2021 was the sale of completely digital works of art for millions of US Dollars. These digital works were sold as non-fungible tokens or NFTs. NFTs are tokens that are registered on blockchain and that certify the ownership of virtual assets, such as a digital piece of art, which can be verified by anyone.

Unlike traditional crypto assets, an NFT represents an asset with unique properties. In other words, while there may be many copies of this digital asset or good, the owner of the NFT is the only one who can prove who it belongs to or that someone is the owner of original.

This is possible thanks to blockchain, which is an immutable distributed ledger. Once ownership is registered, it cannot be changed unless the owner decides to transfer or sell the non-fungible token.

USD 2.9 mil millones

According to DappRadar, the NFT market recorded USD 2.9 billion in trading volume, and USD 18.6 million in sales in Q2 '23.

NFTs are not only used in the art industry. In fact, during 2021 and the first half of 2022 there has been an abundance of NFT use cases, involving both digital and physical assets. Here, we highlight a few:

- ▶ **Collectibles:** This has been the most extended use of NFTs, from the famous Cryptokitties to the Bored Ape Yacht Club collection. The use of collectible NFTs in the sports industry has also spread, for example, NBA Top Shot, which consists of a marketplace where fans can purchase NFTs representing video clips of NBA basketball plays.
- ▶ **Video games:** The use of NFTs in video games was popularized with the concept of play-to-earn, which consists of online games that give gamers the possibility of acquiring NFTs as a reward for each level finished or challenge passed, or also buying it directly at the marketplace. One of the first games in this category was Axie Infinity.
- ▶ **Artwork and music:** The emergence of NFTs has effected a beneficial change for artists and content creators, who today have the possibility of selling their products directly without any intermediaries. For example, Mike Shinoda, lead singer of Linkin Park, auctioned off a collection of 5,000 NFTs, each representing a special design and a music clip.
- ▶ **Metaverse:** Land parcels in the metaverse that are represented in NFTs, as the cases of Decentraland and The Sandbox.

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- **Utility:** Items represented in NFT that give access or benefits in a certain platform, application or event. This type of NFT has been made popular for the acquisition of tickets to sporting or cultural events.
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It should be noted that NFTs can not only represent digital or intangible assets, but also physical assets. There are numerous projects in the world focused on the tokenization of real estate. However, currently these projects are mostly focused on fractional ownership, which means that the acquisition of real estate is achieved through the tokenization of the shares of a project or of a company that owns the property, thus giving token holders a share in the income from the rental of the property or its subsequent sale.

E. DAO

Surely, we have all heard about the failed project of "The Dao" on the Ethereum blockchain, which consisted of a "virtual entity" managed by its users that was the object of an attack by a hacker in 2016; which led to the famous hard fork that gave rise to Ethereum Classic. A few years have passed since that incident and today there are different DAOs in operation and for various purposes.

DAO is the acronym for Decentralized Autonomous Organizations. A DAO consists of a form of organization that is self-managed by its members (token holders) and whose actions are executed through smart contracts.

In this sense, it differs from centralized organizations (e.g., a company) in that there is no barrier to access—anyone can acquire the DAO tokens and contribute to decision making—and all data is stored publicly on blockchain.

Currently, there are different types of DAOs, among which the following stand out¹⁵:

- **Investment DAOs:** They are seeking to finance specific projects, protocols or assets. For example, the ConstitutionDAO project whose purpose was to acquire the last original copy of the US Constitution stands out (it did not achieve its goal) or MetaCartel, a DAO that is dedicated to financing decentralized applications (Daaps) that contribute to the development of the Web3.
- **Protocol DAOs:** They manage or govern a decentralized protocol, such as a decentralized exchange (DEX) or a DeFi app. Two of the most prominent are MakerDAO, in charge of generating the DAI stablecoin, and also Uniswap, which is one of the most famous DEXs today.

15. There is still no consensus on all types of DAO. Those shown are some of the best known.

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- ▶ **Service DAOs:** A group of professionals gathered to share specialized knowledge and/or train new professionals. Prominent in this type is DeveloperDAO, which consists of a group of developers who share their knowledge of programming and Web3, as well as LexDAO, which acts as a guild of legal engineers.
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- ▶ **Philanthropy or Donations DAOs:** Their purpose is to donate funds to organizations or social causes. One of the most recent cases is UkraineDAO, which consists of a DAO that collects donations to send them to Ukrainian soldiers and organizations that support the country while at war with Russia.
-

Regarding the regulation of DAOs, currently some States legally recognize these forms of decentralized organization. For example, in the State of Wyoming in the United States of America, DAOs can have legal status as an LLC under Wyoming's Limited Liability Company Act. This means that the owners of the DAO LLC are protected from personal liability for their actions. As of March 2023, more than 800 companies containing "DAO" in their name have been registered as LLCs in Wyoming. Another State is Tennessee, which largely follows the Wyoming Act; and another one is Utah, which, in March 2023, approved the Utah Decentralized Autonomous Organization Act.

F. Cryptocurrency Regulation around the World

Around the world, there have been various initiatives to regulate the issuing of and performance of transactions with cryptocurrencies. One of the most important ones is the proposed Regulation of Markets in Crypto-Assets (MiCA) applicable to countries in the European Union, which proposes the regulation of different cryptocurrency-related services, as well as the categorization of different token types.

MiCA's final content was approved on April 20, 2023 coming into force on December 30, 2024, with the exception of Title III, that refers to assets, and Title I, that refers to e-money tokens, which will come into force as of June 3, 2024. This regulation will have an impact on crypto assets issuing companies and their service providers, since the MiCA Regulation seeks to harmonize the requirements required of agents in order to operate in the European Union, provide security to the crypto asset market, and establish mechanisms for the exercise of consumer rights.

In Mexico, on the other hand, the publication of the FinTech Act has recognized cryptocurrencies under the category of virtual assets, regulating transactions that may be carried out by financial technology entities and financing entities using these virtual assets. However, Banco de Mexico has stated that a healthy distance must be maintained between virtual assets and the financial system, thus recommending that financial institutions should not have a place in virtual assets, they cannot obtain them as collateral and they should not finance the public with said assets.

The situation is different in countries like El Salvador, with the issuance of the Bitcoin Act, through Order 57, to regulate bitcoins as legal tender. Adding to this, the opening of a new sector in the economy, led to the approval of the Digital Asset Issuance Act at the beginning of 2023. According to the Legislative Assembly, this law will allow public and private sector entities to issue public offers of digital assets. These events have, undoubtedly, been a fundamental milestone in the adoption of crypto assets in the world. In Panama, Bill 697 was drafted to regulate the Commercialization and Use of Virtual Assets and Virtual Asset Service Providers, with other provisions included. This bill intends to make the Republic of Panama compatible with the digital economy, blockchain, cryptoassets and the Internet.

The bill was approved by the Panamanian Congress in 2022 to regulate the use and commercialization of crypto assets, and to set forth the right to freely use crypto assets as a payment method for any type of transaction, including the payment of taxes and other types of obligations. However, in June 2022, the president of Panama partially vetoed the bill in order to modify certain provisions regarding money laundering. However, even after a third approval of the bill, the Executive Branch has indicated that the bill requires an adaptation of the regulations that govern the Panamanian financial system. Therefore, the bill has been escalated to the Supreme Court of Justice until a decision is reached on the matter.

G. Regulation in Peru

In Peru, there is still no regulation that specifically regulates operations with crypto assets; therefore, they are governed by general legislation (e.g., Civil Code). Notwithstanding, in 2023, Executive Order 006-2023-JUS was published in the Official Gazette El Peruano, which adds individuals and companies engaged in certain activities with virtual assets to the list of entities required to report suspicious activity to the FIU, which qualifies them as Virtual Asset Service Providers.

Anti-Money Laundering and Terrorist Financing Regulations



Due to the above, as of today, companies dedicated to providing services with crypto assets or cryptocurrencies in Peru are required to report suspicious operations to the FIU and to implement a ML/TF Prevention System.

On the other hand, the Congress has been developing since December 2021, the Framework Bill 1042-2021-CR, Framework Bill for the Commercialization of Cryptocurrencies ("PL 1042"). This sets forth the guidelines that must be followed by companies that provide the cryptocurrency exchange service through virtual platforms. It also establishes that the financial use of crypto assets is supervised by the FIU of the SBS and, as a requirement, entities that provide said service must be incorporated as a legal entity domiciled in Peruvian territory or as a branch of a foreign company and they must be duly registered in the SBS, in addition to being registered in the Single Registry of Cryptoactive Exchange Platforms ("RUPIC"). Finally, it proposes the creation of a Multisectoral Commission in charge of preparing the Regulations of the Bill, which would be chaired by the BCRP and in which the SBS, SMV, ONGEI and a representative of the private sector offering the service to be regulated would also participate.

However, Bill 1042 has not received favorable opinions from the most important regulators in financial matters in the country.

The SBS in Joint Report 24-2022-SBS commented on PL 1042 and issued an unfavorable opinion, due in part to the following key points:

- The regulation of digital assets must occur progressively and under an "updated regulation"¹⁶, approach, taking into account international experiences.
- The SBS does not govern companies outside the financial system and that carry out digital asset exchange activities. However, the Bill proposes functions that would be taken on by the FIU, such as supervising the use, rules and values that do not correspond to its nature, for the prevention of ML/FT.
- The Bill proposes classifying crypto assets as "digital money", requiring the opinion of the BCRP.
- As the acquisition of digital assets is a high-risk transaction, the recommendation is to request the opinion of the SMV.
- The SBS considers it important to regulate activities carried out with virtual assets regarding the prevention of ML/FT.

16. The updated regulatory approach refers to the modification of existing laws and regulations to include one or more activities with virtual assets.

Likewise, the BCRP also issued its opinion through Official Letter 0022-2022-BCRP, stating that cryptocurrencies do not constitute financial assets. Opinions serve to transmit monetary policy according to the constitutional purpose and functions of the BCRP. Therefore, the BCRP does not agree with the proposal to grant it regulatory powers or chair the Multisectoral Commission to draft the Regulations of the Bill.

Along the same lines, the MEF issued its opinion through Official Letter 1005-2023-EF/10.01, attaching Report 0067-2023-EF/65.02, stating that they believe that the market does not present a prevailing need to develop cryptocurrencies, it does not contain a framework that addresses possible consummate offenses, and it does not have a risk-based approach. Thus, the entity issued an unfavorable opinion against the bill.

SMV also issued an opinion in this regard, through Official Letter 96-2023-SMV/02, pointing out that the bill uses the terms cryptocurrencies and crypto assets interchangeably, making it necessary to delimitate each. It adds that it lacks a comparative law approach and recommendations from international organizations to support the regulatory proposal; that it assigns powers to entities when cryptocurrencies are outside their scope of supervision; and that the scope of RUPIC is not understood, among other aspects. Therefore, like other entities, SMV does not agree with the bill either.

Despite unfavorable opinions, in June 2023, the Congressional Economy and Finance Commission approved the bill, so it will soon advance to the Plenary Session of Congress for a vote.



H. Central Bank Digital Currency (“CBDC”)

Various governments around the world are initiating the debate on CBDCs, driven by the need to stay out of innovations in payment methods and retain control of the monetary system. Unlike cryptocurrencies, which are born as a decentralized system, the CBDC is simply a digital version of the money regulated by the monetary authority of each country.

Currently, the most advanced project is being prepared by the People's Bank of China, with pilot tests have already implemented.

In Peru, in November 2021, it was revealed that the BCRP was working on a design for a digital currency, and mentioned he considers that today payment systems are in constant evolution and therefore specific regulation would be required later.

Thus, in March 2023, the BCRP published its first report on the progress of the CBDC in phase 1, called “CBDC: Promoting Digital Payments in Peru.” This report states that its objective is to promote financial inclusion, efficiency and security in the domestic payment system. To this end, research has been carried out on its viability in other countries in Latin America and the Caribbean, and it has been identified that the sector that will benefit from the implementation of the CBDC will be the unbanked adult population that

carries out cash transactions. The report also covers the challenges of existing digital payment systems that limit interoperability, and of the National Payment System.

Likewise, the BCRP considers that an appropriate design of the CBDC would not only have a direct impact on the objectives of the payment system, but also a collateral effect on monetary policy.

In the region, the implementation of the CBDC seems to be a real possibility for Brazil, as the Central Bank of Brazil (“BCB”) will be releasing its digital currency called Drex. This project began in 2020, including a series of webinars held during 2021, in order to start a dialogue with society about the potential uses of the digital currency. Subsequently, this became a reality when the BCB, in alliance with Fenabac, issued the LIFT Challenge Real Digital analysis. Today, the BCB has set the guidelines for its pilot project, the Pilot Drex, which will end in last quarter of 2024, and has incorporated 16 participants in this pilot.



Interview with Alberto Rocca (Country Manager Peru, Buda.com)



Alberto Rocca
Country Manager Peru,
Buda.com

What is the current situation of the crypto asset market in Latin America? What are the most important uses of crypto assets today? How does the Latin American market compare to other regions?

The crypto asset market in Latin America is undergoing an interesting moment. Although it is a movement that began with people who believed in these decentralized protocols, today we are experiencing a dynamism driven largely by companies that have begun to integrate Bitcoin and other crypto assets into their financial balance sheets.

Renowned companies such as MicroStrategy Inc. see Bitcoin to provide the opportunity to achieve better returns and preserve the value of their capital in the long term, as opposed to holding only cash. People realized that, through cryptocurrencies, they look after their purchasing power, as opposed to the dollar and other fiat currencies, which began to lose that positioning.

The corporate adoption of Bitcoin is a testament to its value, not only as an investment asset, but also as a vehicle of innovation capable of enabling models of financial inclusion. In the Latin American context, this trend translates into a more accelerated adoption and a greater inclination towards the crypto world, surpassing other regions.

Recently, the fourth Annual Cryptocurrency Adoption Index of Chainalysis, one of the most important blockchain data platforms in this industry globally, was released to the public. This index sheds light on which nations are leading in the adoption of cryptocurrencies, placing special emphasis on those in which citizens invest a significant portion of their wealth in crypto assets. The results reveal that Low-and-Middle-Income (Income) (LMI) countries, which comprise 40% of the world's population, are leading the way. Countries such as India, Nigeria and Ukraine have shown notable growth, recovering greatly from 2020. Latin America represents 9.3% of all global crypto activity.

Venezuela and Argentina, facing high inflation rates, have found an escape route in cryptocurrencies. For its part, Mexico has received crypto remittances worth USD 1B in the first quarter of 2023 alone. In the case of Peru, Sherlock Communications sheds light on the growing crypto trend. According to the 2022 Crypto Adoption Index, Peru ranks 35 out of 154 countries and is in fourth position in Latin America. With over USD 20 billion in total crypto value received—approximately 30% coming from P2P transactions, the crypto ecosystem in the country is showing signs of maturity. Peru has 91 cryptocurrency-friendly businesses registered at Coinmap and 7 cryptocurrency ATMs, according to Coin ATM Radar.

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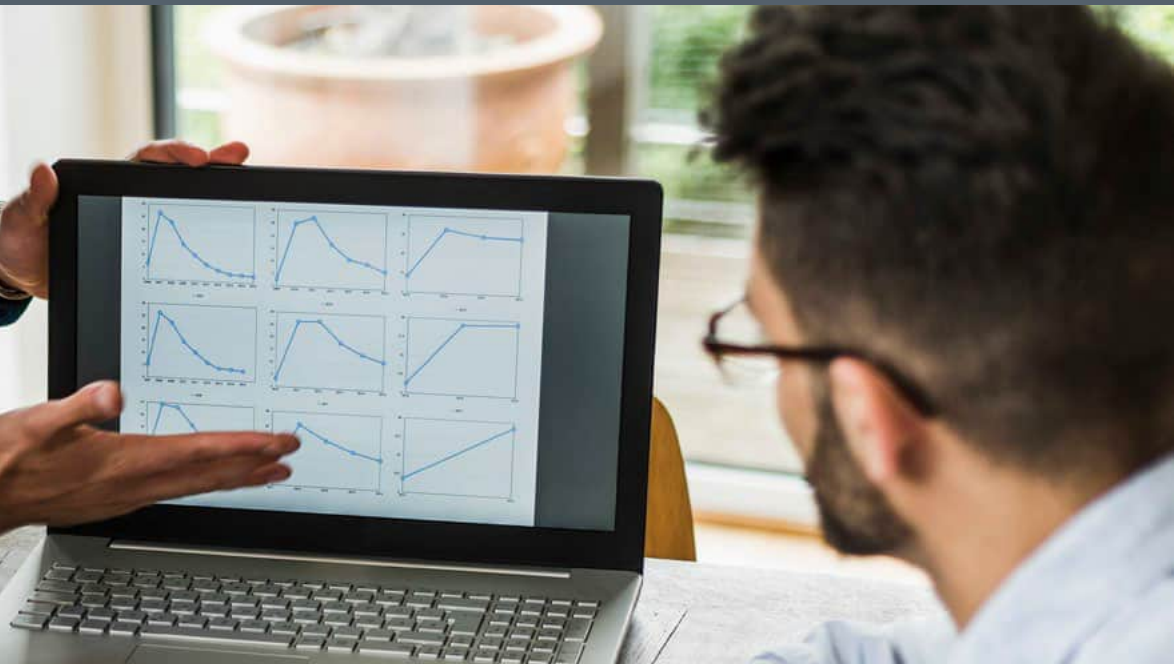
In the regulatory sphere, Chile and Colombia have taken the lead this year, followed by Peru, which is currently paving the way opening the dialogue between public and private organizations to develop healthy regulation for the benefit of users. However, political impasses have slowed progress on blockchain and cryptocurrency regulation.

Despite these challenges, it is estimated that more than 1.28 million Peruvians, or 3.83% of the population, already own cryptocurrencies. Facing an annual inflation of 8.45% and with economic tensions fueling protests, crypto is presented as an additional alternative that will contribute much more to the development of the financial system; more Peruvians are opting for crypto in an ecosystem that continues to grow.

For example, the Peruvian FinTech Association and the Peruvian Blockchain Association, to date, bring together more than 100 entrepreneurs, businessmen and businesswomen in the country. They use their specific verticals to promote the adoption of crypto and blockchain, working hand in hand with government entities and the private sector for proper regulation and use of these technologies in the country.

Likewise, in line with international movements such as the Playa Bitcoin project in El Salvador, the Peruvian NGO Motiv is putting effort into establishing Bitcoin-based circular economies in 16 Peruvian towns. Some of these are remote locations, and three of them are in Lima. This growth in the adoption of

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cryptocurrencies and blockchain reflects not only a response to Peru's current economic and political challenges, but also a futuristic vision towards financial innovation and modernization.

We are witnessing a metamorphosis in the financial sector. With the rise of the FinTech sector and growing tokenization, the lines between traditional and digital finance are blurring. As more entities join this revolution, innovation in the crypto space will intensify, presenting both challenges and opportunities. It is imperative that we remain at the forefront of these changes.

In your opinion, how important will the regulation of crypto asset operations be for the development of this ecosystem? Would you be in favor of a legal framework applicable to the crypto asset industry, or do you consider that the currently applicable regulation is sufficient?

If we analyze the nature of businesses in the crypto and blockchain world by their use cases and the risk factors to which their verticals are exposed, there is no doubt that there are areas that need regulation, as in other financial and tech business models where regulatory bodies must play a part. An example of this is the recent inclusion of platforms that commercialize virtual assets

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as entities required to report to the Financial Intelligence Unit of Peru, needing a regulation that has been repeatedly requested by the private sector to the first instance of authorities and those in turn to Congress.

However, producing good regulation to maximize the common good of the population is not an easy task, and the risk of starting to regulate without a good understanding of the potential of what is intended to be regulated can make the cure worse than the disease. In an unstable political context with weak institutions, this risk is high but manageable through open dialogue and objective communication with the public. Even so, given the great potential of technology, there are more uncertain areas, so a climate regulation approach, rather than control or prohibition, would be the alternative with

the greatest net positive effect. Otherwise, we run the risk of being left behind in the development and advantages of this technology. In this context, a legal framework that can incorporate principles of industry and technology promotion, transparency, and user protection as guidelines, to raise the tone and direct discussions towards the greatest common benefit is important.

Likewise, at the beginning of the crypto market in the region, due to the unknown diversity of use cases for the technology, it was not so clear what to regulate, but now, as more companies consider investing in digital assets, the need to have adequate regulation becomes evident, for example in tax matters, especially when it comes to integrating Bitcoin and other crypto assets into corporate balance sheets.

This is why at Buda.com, we firmly believe that a precise legal framework adapted to the reality of the crypto world is essential to support innovation and adequately protect users. And it is equally relevant that said framework is built through open dialogue between the public and the private sectors to avoid falling into an extreme where it becomes difficult to operate crypto or counterproductive to develop its ecosystem in favor of society. Peru has the opportunity to catch up on this matter and perhaps even be one of the leaders in the Latam region if the process leading to this new regulation is carried out appropriately.



In recent years, new blockchain-based solutions have been developed such as DeFi applications, NFTs, and the metaverse. In your opinion, which are the ones that have had the most impact on Latin American users? What are the biggest challenges to their take off?

The digital transformation of the financial world has led to the emergence of innovative blockchain-based solutions. Bitcoin has stood out not only as a digital asset, but also as a tool that can significantly improve a company's profitability and growth.

The use of Bitcoin, for example, as a means to advance efficiencies in payroll, supplier payments, business transactions, customer interactions, and cross-border transactions, is a clear testament to its potential.

At Buda.com, we work hard to educate and offer resources to our users about these advances, including the Bitcoin Lightning Network, a technology that provides faster and more efficient transactions, allowing businesses and general users to benefit from the advantages of the crypto world. The greatest challenge is associated with the fact that these technologies and their diversity of applications are advancing faster than education to the public and average participants in the financial industry. There is still a lot of work to do together with all the actors in the ecosystem.



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>> INSURTECH

The term InsurTech is used to refer to and explain the use of new technologies with innovation potential within the insurance sector, and their influence on the regulatory practices of insurance markets.

InsurTech activities mainly seek to apply technology in the insurance ecosystem, insurance company processes, and related activities, with the purpose of providing new solutions required by policyholders. These activities include, for example, the automation of records, automated sale of policies, risk analysis, and document filtering.



InsurTech activities are here to stay. Proof of this is that, in recent years, InsurTech financing has been increasing worldwide, raising a total of USD 15.8 billion in 2021. Notwithstanding this, financing for InsurTech companies in the first quarter of 2022 decreased by 57% compared to the last quarter of 2021, which had a record investment of USD 5.3 billion. However, in the second quarter of 2022 there was a small recovery with an increase of 8% compared to the previous quarter, thanks to a total of USD 2.41 billion in financing.

A. Types of InsurTech Activities

According to the Mexican InsurTech Association, the activities in which InsurTech companies engage to provide efficiency in the value chain of the insurance ecosystem can be classified as follows:

► Comparison Activities:

They aim at providing platforms where users can simultaneously compare the costs and coverage of multiple insurance companies, based on different products. This initiative is used for vehicle insurance, health insurance, and business insurance.

► Digital Sales:

These are focused on making the hiring process completely virtual from the offer of the product to the purchase thereof. The advantages offered by this type of InsurTech companies are reflected in the increase in customer satisfaction, given that they allow taking out insurance policies in a simple, fast, and transparent manner.

► Loss Prevention and Claim Management:

Their purpose is the application of technology to different processes of claim management, such as streamlining the claim registration process through digital tools.

► Other Processes in the Insurance Industry:

Other InsurTech activities are aimed at using technology in different parts of the insurance value chain, such as for fraud detection, using artificial intelligence, drones, or various tools for site inspection and other information that may allow for data collection and better risk assessment. Another aspect in which startups participate is the administration of individual insurance policies for small and medium-sized businesses, as well as for corporate clients, through platforms with interactive and easy-to-use interfaces.

► Development of New Products and Business Models:

Their objective is to introduce new risk schemes or new business models for insurance companies, providing support in the analysis of conditions to make the process easier and more efficient (e.g., using technologies that make it possible to identify risks other than those to which people and companies are normally exposed).

Notwithstanding the foregoing, other insurance business models are also emerging in the ecosystem, along with emerging technologies:

1. Peer-to-Peer (P2P) Insurance

This is a business model in which policyholders can pool their capital, self-organize, and self-manage their own insurance, which works by creating groups of people with the same insurance. This generates advantages such as a lower fraud level as incentives are aligned or the possibility of recovering part of the premium paid. This model can be enhanced with the use of technologies such as DTL (Distributed Ledger Technology) which allows the model to be implemented on a larger scale.

P2P insurance is particularly beneficial for inclusive insurance markets since it reflects the structures based on pooling risks in low-income communities.

2. Usage-based Insurance:

This business model was introduced by auto insurance companies and consists of analyzing driving behaviors and the actual distance driven to apply auto insurance rates.

3. On-demand Insurance:

This business model specializes in covering only the risks that users face at any given time, making use of technological tools such as digital tracking and location services (e.g., personal accident insurance that only becomes effective while traveling on public transportation).

B. How does an InsurTech company work with an insurer?

According to the Mexican InsurTech Association, insurers can work hand in hand with InsurTech companies to leverage their “agile pace of life” and InsurTech companies can participate in insurers’ processes to provide more efficient, safe, and personalized products to users.

This is because traditional insurers can be large companies with operational stability, but with complex internal processes to achieve rapid technology implementations. On the other hand, InsurTech companies are smaller companies and can more easily perform important experiments and validations in markedly shorter times, managing to develop processes and show results that are easy to replicate and escalate.

Moreover, the International Association of Insurance Supervisors has also identified some benefits that InsurTech companies bring to the insurance ecosystem.

The main pillars in which this value is observed are:

- **Deeper and more fluid relationship with customers:** InsurTech companies provide access to more communication channels than those previously available. In this way, insurers can communicate with customers through brokers, the web, apps, and other channels simultaneously.
- **Better risk assessment and monitoring:** An improved analysis of risk-related data and the availability thereof in large amounts allow insurers to make much more sophisticated decisions to select, manage and prevent risks.
- **Better administrative processes:** The use of Distributed Ledger Technology (DLT) can contribute to achieving more efficient internal processes of insurers by automating and reducing duplication of processes.

According to EY US, traditional insurance companies are increasingly willing to invest and partner with companies that can provide them with the support to bring innovative products to market quickly and efficiently. This is the case of integrated insurance that has been the cause of recent partnerships between insurance companies and InsurTech companies.

However, the increase in work with various technological tools and large volumes of data also requires the adoption of security and privacy measures, which are aspects related to Personal Data Protection and Cybersecurity. To learn more, go to the **Cross-Sector Regulation Section**.



Example of development:

- A survey conducted by EY Australia has revealed that 80% of insurers currently cooperate with an InsurTech company, mainly to obtain specific solutions within the business.

Likewise, Australian insurers, InsurTech companies, and insurance industry providers agree that they are ready to embrace digital innovation, working primarily on efficient administration, claims, pricing and underwriting agility, and the development of new products to offer differentiated proposals to the customers.

Notwithstanding the foregoing, the Australian ecosystem is still undergoing a transition period to reach the next stage of optimization, where the benefits of an InsurTech company will be fully taken advantage of.

To do this, it will be necessary to draw up a clear and organized roadmap that addresses problems not yet reviewed or addressed.

Likewise, InsurTech companies managed to raise a total of USD 15.4 million in financing in 2021, which represents almost double the amount in 2020.

C. Technologies used:

Phones and Applications (Apps)	Thanks to mobile networks, cellphones, and internet access, it is possible to send short messages, use applications, and make large data transfers, which is relevant for insurance to reach emerging markets where there is no established distribution network.
Artificial Intelligence (AI) and Machine Learning (ML)	The use of computer programs that can perform cognitive functions such as learning, problem solving, natural language processing, and the perception of movement and handling of objects allow various processes in the insurance industry to use data in real time and make a prediction of events possible (for example, vehicle thefts, health problems, and weather events). Other features include achieving better risk pricing, fraud prevention, claims management and resolution, or advice for prevention purposes.
Algorithms and Robo-advice	Algorithms, which are part of AI, have enabled large trading orders to be executed in the financial sector at speeds and frequencies that are not possible by human traders. Likewise, robo-advice or automated advice is used in the insurance sector for investment management, comparisons, and quotes. According to the Organization for Economic Cooperation and Development (OECD) this type of advice could benefit citizens that do not have access to human advisers; however, the structure and use of these technologies must be adequate so that they do not give rise to negative results in the advice that may go unnoticed.

Smart Contracts	<p>These are written as a programming code that can run by itself on a computer or a computer network, rather than in a traditional legal document stating the obligations, benefits, and penalties attributed to either party in various circumstances.</p> <p>These contracts are usually executed on blockchains or Distributed Ledger Technology (DLT) and allow people to sign contracts and execute business with strangers, usually over the internet, without the need for a centralized authority or intermediary. However, these contracts are limited because they cannot consider unforeseen circumstances, as the program does not know the actual events and only executes the actions of the contract.</p>
Big Data and Data Analytics	<p>The term big data refers to the storage of a large volume of data from different sources and at great speed. In addition, the term data analytics refers to the process of cleaning, inspecting, transforming, and modeling data to discover useful information, suggest and support decision-making.</p> <p>In the insurance ecosystem, both tools are used in various processes such as product offerings, risk selection, pricing, cross-selling, claims prediction and fraud detection, customized product offering, and automated underwriting.</p>

4.9

>> FINTECH AS A SERVICE

Currently, Banking as a Service (BaaS) is positively impacting the global banking sector because it provides an efficient and varied customer experience, contributing to the democratization of financial services.

BaaS is a technological solution and business model that allows authorized banks to incorporate their digital banking services directly into the products of non-banking companies using APIs and allowing them to access banking services such as account management, payments and loans, among others. The bank does not develop the product or distribute it, but rather offers its capabilities to another company to exploit. Through BaaS



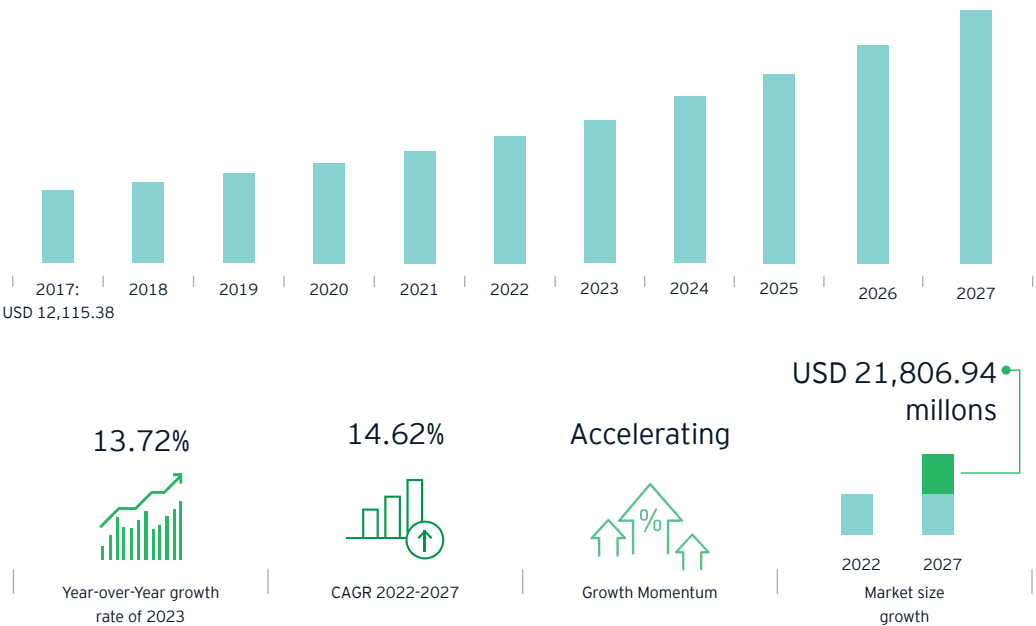
platforms, beneficiary companies can offer their clients financial services without having a banking license.

The 2023 Main Trends in Retail Banking Report indicates that 38% of banks have their own BaaS platform; 28% use a third-party BaaS platform; 16% have a BaaS platform under development; 9% have prepared a BaaS platform strategy; and 10% do not have a BaaS adoption plan. The Latin American

BaaS market is projected to register a CAGR of over 7% during the forecast period (2023-2028).

Globally, during 2017, the BaaS market was valued at around USD 12 billion 115 million 38 thousand and it is expected to grow by USD 21 billion 806 million 94 thousand during the period between 2022 - 2027, according to the BaaS Market Report.

Market Size Outlook (USD Million)



Source: Technavio. Banking as a Service Market 2023-2027. December 2022, page 6.

On the other hand, from the growth of BaaS, the FinTech as a Service (FaaS) business model has emerged in response to the demand for financial services through digital payment, digital loans, insurance, wealth management and automatic financial advice platforms; helping businesses save money and time by eliminating the need to develop and maintain their own financial infrastructure.

In the same way as BaaS, FaaS is a business model that fulfills the role of providing financial technology to other companies, being solely responsible for the development, maintenance, updating, compliance with security requirements, among others, of the platform. The main difference between FaaS and BaaS is that the FaaS provider is a tech company and not an authorized bank. FaaS are cloud-based, API-based and SaaS-based.

In the Latin American market, there are various FaaS, for example, those that, through their APIs, create bank accounts, pay bills, top up minutes on cell phones, and integrate financial services into their clients' platform regardless of whether they are an app, a website or something else; they even give you the option to launch your own digital wallet. Other FaaS provide tech solutions to MSMEs and corporations through a payment centralizer that integrates all payment methods, facilitating the growth of e-commerce. Thus, some solutions offered by FaaS include:

- Accepting payments
- House brand e-wallet platforms
- Financial management
- Personal loans and peer-to-peer lending (P2P)
- Card issuance
- Compliance - identity verification and anti-money laundering monitoring
- Insurance

The 2022-2032 FinTech as a Service Market Insights Report projects the demand for FaaS to grow at a CAGR of 17% between 2022 and 2032, reaching a total of approximately USD 1.3 trillion by 2032.

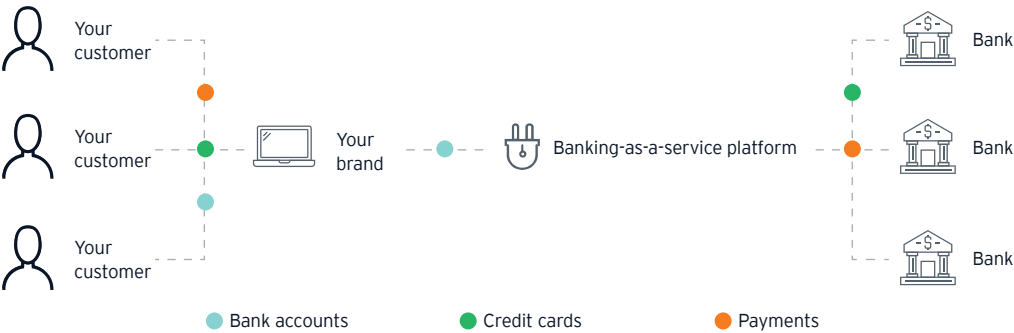
A. How do Banking as a Service (BaaS) and FinTech as a Service (FaaS) work?

BaaS as a business model allows banks to offer house brand banking functionalities through APIs to FinTechs and other companies that want to offer financial products with the bank's infrastructure in an outsourced scheme. Under this concept, the authorized bank will allow the FinTech venture to market its products under its own brand (FinTech or other companies).

The process begins with the client's interaction with the FinTech user interface (UI), where the client can manipulate their bank accounts and cards, among other products. The FinTech company is responsible for sending the client's instructions to its BaaS provider (partner bank), who executes them through an

API (application programming interface). APIs act as a shortcut to connect different programs, applications and financial solutions within a company's service portfolio, easily, quickly and with the great advantage that the integration is carried out in a matter of weeks.

Sample flow for Banking as a Service (BaaS)



Source: Unit. The ultimate guide to banking as a service (BaaS). August 2023.

Thanks to BaaS platforms, FinTech companies can offer commerce platforms that allow their clients to start, develop and manage their own online store; as well as paying contractors within 24 hours of completing a job, even on holidays and weekends; or provide hardware and software that helps restaurants receive payments from customers. BaaS platforms provide technological infrastructure and a banking license so that FinTech companies and other companies can offer solutions and

products such as digital bank accounts with identification services, as well as flexible financing options; and even integrate cryptocurrency services.

Like BaaS, FinTech as a Service allows companies to provide financial services to their customers, as well as identity verification solutions that require biometrics or others through a house brand API that can be customized with the brand and the characteristics desired by the company.

B. Advantages of Banking as a Service (BaaS):

- ▶ Provides greater operational efficiency and cost reduction unlike existing financial services that have traditional payment methods.
- ▶ FinTech companies and other companies can have personalized financial solutions that allow them to reduce intermediaries and increase points of contact and relationships with customers, putting greater focus on attraction, customer experience, retention and loyalty.
- ▶ Increase the portfolio of companies with financial services to attract new clients.
- ▶ Allows for a bank of their own to make payments to their employees, suppliers and/or channels.
- ▶ Increases turnover through the commercialization of financial products, etc.

C. Advantages of FinTech as a Service (FaaS):

- ▶ Adds new services and features to companies' financial operations, increasing their process efficiency and improving customer experience.
- ▶ Launches faster digital systems because it uses a third-party payment system to establish the flow of payments.
- ▶ FaaS are responsible for maintaining the platform.

D. Responsibilities of BaaS and FaaS Platform Providers

When a FinTech company or other company partners with a BaaS or FaaS provider to receive banking services at scale, the provider assumes most obligations. The obligations of BaaS providers include managing compliance with regulations and regulatory requirements on behalf of the FinTech company because they are the holders of the banking license. In the case of FinTech as a Service (FaaS) providers, they are usually responsible for the development, maintenance, updating, and compliance with security requirements of the technological infrastructure.

By outsourcing or subcontracting services, the BaaS and/or FaaS provider assumes, at its own expense and risk, the development of the specialized activity, which includes having its own financial, technical or material resources.

Without a doubt, Banking as a Service (BaaS) and FinTech as a Service (FaaS) as business models continue to grow in the region, satisfying the new needs of the market i.e. facilitating or allowing the offer of integrated financial services without having a banking license and/or technological infrastructure.

E. Development of FinTech as a Service (FaaS) platforms in Peru

In the country, some cases have recently been announced in the development of platforms with technological solutions for FinTech companies such as the case of Alfintech, “The Bank for FinTech companies”. Alfintech positions itself as a hub for innovation and creation of financial products and services with FinTech, launched by Banco Alfin in August of this year in order to promote FinTech in the Peruvian market and promote financial inclusion.

Alfintech offers services, through APIs to FinTech companies, to create financial products or payment methods offered by banks, with the support and technology offered by banks through apps or digital platforms. Some solutions and product customization they offer are: (i) financial products (e.g., opening savings accounts, with the option of making instant or deferred

transfers between own accounts and third parties); (ii) payment methods (e.g., debit cards associated with an account and supported by Alfintech banking licenses); and (iii) service solutions such as sending and receiving cross-border remittances, trusts and funding.

Another example of FaaS platforms are those dedicated to developing and issuing e-wallets through APIs with a house brand option, if as they do not have their own app, for FinTech companies, Neobanks and projects aimed at payment methods. Some features offered are: QR payments, service payments, transfers between wallets, top ups via gateway, issuance of both virtual and physical cards, among others.



4.10

>> WEALTH MANAGEMENT

Wealth management consists of a financial service that encompasses all the procedures necessary to carry out the design, development, control and preservation of a family or individual legacy. This requires high-quality financial, tax, legal and investment planning.

Although it may seem that this service is mainly aimed at individuals or families with abundant resources, wealth management also aims to encourage building wealth in the first instance. Consequently, wealth managers work with both types of profiles, whether they are individuals with already established wealth or those looking to generate one by improving investments from their disposable income. This encompasses a set of financial strategies and benefits designed



to assist both individuals and entities in managing and multiplying their financial resources.

As the digitalization of financial services progresses, FinTech companies have taken on a critical role in the transformation of wealth management. In this context, it is key to understand the legal framework that regulates these operations, especially in emerging economies such as Peru's.

FinTech companies specialized in these matters leverage technology to provide innovative and adapted financial services, such as investment and crowdfunding platforms, among others.

A. Components in Wealth Management

1. Financial Planning:

Financial planning is the pillar on which all wealth management is built. This includes aspects such as analyzing income and expenses and defining short and long-term financial goals. Some of the most common instruments are: cash flow analyses, projections of future scenarios and the estimation of market volatility for each type of asset.

Within the framework of financial planning, income and expense analysis acts as an initial review of the financial status of an individual or entity. This analysis extends beyond

simple accounting, incorporating statistical methods to project future trends. The inclusion of macroeconomic variables such as interest rates and inflation provide a more comprehensive picture and allows for greater accuracy in projections.

2. Investment Management

Investment management involves careful selection of financial instruments, such as stocks, bonds, real estate or mutual funds. These are selected based on the client's risk profile, financial objectives and time horizon. A periodic rebalancing process is also used to adjust the portfolio according to market fluctuations and changing client needs. This process seeks to maximize risk-adjusted performance, aligning the portfolio with predefined financial goals.

3. Tax Planning

One of the most complex challenges in wealth management is tax optimization. Here, the goal is to use various financial strategies and vehicles to minimize the tax burden on the client's wealth, which often involves structuring trusts, companies and other legal instruments.

Tax planning focuses on aspects such as minimizing exposure to income taxes, capital gains taxes, and other wealth-related levies. This is not isolated but is strongly intertwined with other components of wealth management, especially financial planning and investment management.

4. Risk Management

Risk management is achieved through a combination of insurance and asset diversification. Potential risks, such as market volatility, inflation and risks associated with changes in interest rates, are carefully assessed to effectively mitigate them, which involves the identification, evaluation and mitigation of factors that could negatively impact the value of the assets of an individual or entity. While asset diversification focuses on reducing the volatility of the investment portfolio, the incorporation of insurance products aims to provide a financial cushion against unforeseen events that could affect other aspects of wealth, such as real estate or business assets.

A common practice in risk management is the use of financial derivatives, such as F&O, to hedge positions and limit potential losses. These instruments allow investors to protect themselves against adverse price movements of underlying assets, such as interest rates or exchange rates.

Furthermore, the analysis of systemic and diversifiable risks is essential. Systemic risks, such as economic shocks, affect the entire market and cannot be eliminated through diversification. Diversifiable risks, related to a specific asset or sector, can be mitigated through adequate diversification.

5. Liquidity Strategies

Since wealth does not always translate into liquidity, it is crucial to plan the conversion of assets into cash for emerging investment opportunities or immediate cash needs.

Although an individual may have considerable wealth, if a significant portion of that wealth is tied up in material assets, such as real estate or business interests, challenges could arise when facing immediate cash needs.

To address this situation, liquidity strategies focus on establishing cash reserves, lines of credit, or investment in liquid financial instruments such as money market funds. These strategies also take into account future obligations, such as taxes or debt payments, to ensure that there are sufficient funds available when required.

B. The Impact of FinTech on Wealth Management

Currently, FinTech companies on the asset and wealth management industry are having a significant impact, since they have introduced innovative solutions that are allowing the following benefits:

1. Accessibility and Automation

FinTech companies have revolutionized accessibility to wealth management services that were historically reserved for wealthy groups. Through the use of digital platforms and mobile apps, these technological innovations have expanded financial and investment planning services to a broader audience. Instead of relying on traditional financial advisors, which are often expensive, it is now possible for investors to access financial tools and resources through mobile apps and online platforms.

2. Reduced Cost

One of the most tangible benefits is the reduction in the cost of services. Automation eliminates the need for middlemen, resulting in lower management fees.

3. Self-Investing

The possibility of self-managing investments or self-investing has expanded considerably thanks to the various tools and platforms that are now available to the retail investor. This phenomenon has simplified the investment process to the point where, with basic knowledge, any individual can use these resources independently or collectively to manage their capital at their own discretion.

4. Digital Experience

Matters such as finding a suitable financial advisor can be a long and tedious process often involving an extensive search and introductory consultations. In this context, FinTech companies have revolutionized the experience by developing apps for wealth management that can completely dispense with human advisors. Opening an account on these platforms typically takes less than five minutes, and users can start investing almost immediately after becoming familiar with the interface. Additionally, these apps often include a lot of educational and informative content to keep users informed.

C. Legal Implications in Peru

Technology has democratized wealth management services. Wealth management platforms for small investors, such as Hapi, Tyba, and international brokers such as eToro, allow individual investors to invest their capital. These technological tools have diversified and accelerated services that were previously exclusive, opening opportunities for a broader audience in Peru.

Although currently, specific regulations for such services have not been approved in the country, managing companies of said investment platforms must take into account the cross-sector regulations applicable to the Peruvian securities market, such as the Securities Market Act, Legislative Order 861, and the Regulation on Intermediation, SMV Resolution 034-2015- SMV-01 (hereinafter, the "RAI"). These standards establish a regulatory framework that regulates the operation of intermediaries in Peruvian territory, including with regard to the intermediation of financial instruments issued and negotiated abroad.

Thus, in accordance with articles 63 and 65 of the RAI, for an intermediary to operate under this modality, they must comply, among others, with the following conditions and requirements:

- Include a specific section in the Client Policy and in the Manual of Procedures on this type of services.
- Sign contracts with each foreign intermediary and client involved.

D. Conclusion

Wealth management is a multifaceted field that has undergone significant change with the advent of FinTech. These new technologies offer opportunities for democratization and efficiency in asset management, but also pose regulatory and legal challenges that must be carefully addressed, especially in emerging markets like Peru's.

The continued evolution of technology and regulation in this area requires constant monitoring and adaptation by all stakeholders to ensure that opportunities are maximized, while risks and challenges are effectively mitigated.

FIN TECH 5

TRANSVERSE REGULATION



5.1

>> TAX REGIMEN

At present, there is no specific tax regulation on FinTech products or transactions.

A. General Aspects

1. Tax Regimen

► Corporate Income Tax

Companies domiciled (incorporated) in Peru are subject to Income Tax on their worldwide source income.

The tax year ends on December 31, without any exception. In general terms, income tax returns for companies, branches, and individuals must be submitted by March 31 of the following tax year, according to the due date of each taxpayer.



The income tax rate for companies is 29.5% unless a special regime applies, and it is levied on net income, which is determined by deducting the expenses incurred in generating income or maintaining the source. Certain types of income, however, must be assessed in the manner specified by law, and some expenses are not fully deductible for tax purposes. Additionally, profit sharing in favor of individuals and nondomiciled taxpayers by domiciled companies and branches, permanent establishments, and agencies of foreign companies is taxed at a rate of 5%.

► **Non-domiciled taxpayers, branches, agencies, and other permanent non-domiciled establishments**

Non-domiciled companies, branches established in Peru and permanent establishments are only subject to tax on their Peruvian source income.

► **Advance payments**

Every month, companies and branches of foreign companies must make advance payments of the income tax they must pay at the end of the year. These payments are determined as an estimate of the net monthly accrued income of the company.

2. Deductions Accepted

► **Expenses**

In general terms, all corporate expenses for the generation of income or maintenance of the income source are accepted as deductions for the purpose of determining the corporate income tax. This rule is subject to certain exceptions and limitations expressly established in the Income Tax Act.

In this regard, below we will list some limitations that may be of interest to FinTech companies or their customers.

► **Interest**

As a general rule, interest on debts and expenses arising from the incorporation, renewal, or cancellation thereof are deductible provided that they have been incurred to acquire goods or services related to the obtaining or production of taxable income in the country or to maintain their source.

The interest referred to in the previous paragraph is only deductible to the extent that it exceeds the amount of income obtained from exempt and non-taxable interests. For this purpose, the exempt or non-taxable interest generated by securities acquired in compliance with legal provisions or regulations issued by the BCRP will not be taken into account, nor those generated by securities that yield an interest rate,

in national currency, not higher than 50% of the monthly Average Lending Rate in Domestic Currency (TAMN) published by the SBS.

In the case of banks, financial companies, and factoring companies, for the purposes of deducting interest, the existing proportion between taxed financial income and exempt and non-taxable financial income must be established, and charges will only be deducted as expenses in the proportion established for the taxable income.

The interest on installment plans granted per the Tax Code will also be deductible.

► EBITDA

Net interest will be deductible up to 30% of the tax EBITDA for the previous year.

It is possible to carry forward the net interest that has not been deducted as per the limit set for up to the four (4) immediately subsequent tax years.

The EBITDA tax limit will not be applicable to companies in the financial and insurance system, factoring companies, or to other taxpayers based on their income level, the development of certain projects, or certain indebtedness through the stock market.

► Organizational and Pre-operating Expenses

Organizational expenses, initial pre-operating expenses, pre-operating expenses originated by the expansion of the company's activities, and interest accrued during the preoperating period may be deducted, at the taxpayer's choice, in the first fiscal year or amortized proportionally in a maximum term of ten (10) years.

► Expenses Common to Taxable and Non-taxable Income

When the expenses necessary to produce the income and maintain the source jointly affect taxable, exempt, or nontaxable income, and are not directly attributable to one or the other, the deduction will be made in proportion to the direct expense attributable to the taxed income.

In cases where it is not possible to establish the indicated proportionality, the amount resulting from applying the percentage obtained by dividing the taxable gross income by the total taxable, exempt and non-taxable gross income.

3. Exchange Difference

Exchange differences originated from transactions that were the usual object of the taxable activity, as well as those that occur due to the credits obtained to finance them, constitute eligible earnings to assess net income.

To assess income tax for transactions in foreign currency, the following rules will apply:

- ▶ Transactions in a foreign currency will be recorded at the exchange rate in effect as of the transaction date
- ▶ Exchange differences resulting from the exchange of foreign currency into domestic currency will be considered as profit or loss for the year in which the exchange was made
- ▶ Exchange differences resulting from payments or collections for transactions agreed upon in foreign currency but recorded in local currency that occur during the year will be considered as profit or loss for said year
- ▶ Exchange differences resulting from expressing foreign currency balances corresponding to assets and liabilities in local currency must be included in the assessment of the taxable amount of the period in which the exchange rate fluctuates, considering it as profit or loss.

- ▶ Permanent investments in securities in a foreign currency will be recorded and maintained at the exchange rate in effect on the date of their acquisition when they qualify as nonmonetary item

4. Employee profit-sharing

Financial companies are obligated to pay their employees a 5% share in the profits, calculated on the net taxable and deductible income for purposes of determining the tax. In case of tax loss, profit sharing is not applicable.

The total sum of this participation, per employee, cannot exceed the maximum of 18 monthly salaries. In the event of resulting excess, this should be allocated to a special fund for works.

5. Market Value Rules

In the case of sales, contributions of goods and other transfers of property, provision of services, and any other type of transaction of any sort, the value assigned to the goods, services, and other benefits will be the market value for income tax purposes.

If the assigned value differs from that of the market, either due to overvaluation or undervaluation, the National Superintendency of Customs and Tax Administration (SUNAT) will proceed to adjust it for both the acquirer and the transferor.

6. Transfer Pricing

Transfer pricing rules are based on the principle of free competition (“arm’s length”) as interpreted by the Organization for Economic Cooperation and Development (OECD).

In addition, depending on the amount of the transactions carried out with related parties and/or with non-cooperative territories, it will be mandatory to submit reports and tax returns as required by SUNAT

7. Credit on Account of Income Tax Paid Abroad

Income tax paid abroad on foreign source income under the Income Tax Act may be deducted from the tax payable provided that certain rules established by the Peruvian legislation are met.

In certain cases, corporate income tax paid by a subsidiary abroad may be applied (indirect tax credit system).

The credit amount that remains unused in the taxable year may not under any circumstances be offset in other years or be claimed for a refund.

8. Controls on the Exchange Rate and the Remittance of Profits Abroad

According to the Peruvian Constitution, it is an essential principle to ensure a favorable legal framework for the development of private and foreign investment, as well as for the free possession and disposal of foreign currency.

Under this parameter, by means of

Legislative Orders 662 and 757:

Various benefits were established for private and foreign investment, including, but not limited to, the following guarantees:

- ▶ The possibility of freely making international remittances of profits or dividends abroad after paying the corresponding taxes.
- ▶ The right to use the most favorable exchange rate in the market for the type of exchange operation in question.

9. Temporary Tax on Net Assets (ITAN)

The ITAN is equivalent to 0.4% of the total value of assets in excess of PEN 1 million and is determined as of December 31 of the previous year. Companies in the pre-operating stage are excluded from this tax. The ITAN constitutes a credit against income tax, and its refund can be requested if it has not been fully used by the end of the fiscal year.

However, to avoid double taxation issues, subsidiaries and branches of foreign companies may choose to pay the ITAN with the income tax credit paid in Peru. In this way, taxpayers can claim the income tax paid in Peru as a foreign tax credit in their countries of origin, instead of a tax levied on assets.

10. Tax on Financial Transactions (ITF) and Payment Methods

A 0.005% tax is generally levied on deposits and withdrawals to and from accounts held with Peruvian financial institutions. Any payment in excess of PEN 3,500 or USD 1,000 must be made using the so-called “payment methods,” which include bank deposits, drafts, transfer of funds, payment orders, debit or credit cards issued in Peru, and “non-negotiable checks.”

If said payment methods are not used, the cost or expense associated with said payment may not be recognized for income tax purposes. Additionally, the value-added tax paid for the purchase of goods or services involved may not be claimed as a tax credit.

11. Indirect Taxes

Value Added Tax (VAT)

The VAT is levied at a rate of 18% on the payment received for the following transactions:

- Sale of goods in the country
- Provision and/or use of services in the country
- Construction agreements implemented in the country
- First sale of real properties made by the construction company
- Import of goods.

The Value Added Tax (VAT) Act uses the debit/credit system, under which the VAT paid on sales is offset against the VAT paid on purchases. Any VAT that is not used as credit in a particular month may be applied in the following months until it is used up.

It should be noted that credit services are not levied with the VAT, which must be understood as applicable only to the income received by banking and financial companies, municipal savings and credit unions, municipal popular credit unions, development institutions for micro and small businesses (EDPYME), savings and credit unions, and rural savings and credit unions, whether domiciled or not in Peru, as capital gains from the purchase and sale of bills of exchange, promissory notes, commercial invoices, and other commercial instruments, as well as for fees and interest accrued from the transactions carried out by these companies.

Fees, interest, and other income from direct and indirect credits granted by other entities that are supervised by the SBS engaged exclusively in operating in favor of micro and small businesses are also included as concepts not levied with the VAT.

12. Withholdings on Peruvian Source Income

When income is obtained by non-domiciled subjects, a withholding rate will be applied depending on the type of income, according to the following table:

Income	Rate
Interest paid abroad by banks as a result of the use in the country of proceeds from credit facilities granted abroad	4.99%
Interest paid to non-domiciled legal entities provided that certain requirements are met	4.99%
Interest paid to foreign-related companies	30%
Dividends and other forms of profit-sharing, as well as the remittance of branch profits, when they are paid to individuals or non-domiciled subjects	5%
Capital gains from the disposal of securities within the Lima Stock Exchange (BVL) which must meet the requirements for exemption	0%
Capital gains from the disposal of marketable securities (shares, debentures, or securities issued by companies incorporated in Peru) within the Lima Stock Exchange	5%
Capital gains from the disposal of marketable securities (shares, debentures, or securities issued by companies incorporated in Peru) outside the Lima Stock Exchange	30%
Technical support services	15%
Digital services	30%
Royalties	30%
Services rendered in Peru	30%

13. International Treaties

Currently, Peru has entered into double taxation avoidance agreements (DTAA) with the following countries:

- Canada
- Chile
- Brazil
- Mexico
- Switzerland
- South Korea
- Portugal
- Japan

These DTAA's are based on the treatment of income and capital in the Model Agreement of the Organization for Economic Cooperation and Development (OECD).

Furthermore, Decision 578 of the Andean Community has been signed, which is applicable to the following jurisdictions:

- Colombia
- Ecuador
- Bolivia

14. Act 31828, Young Entrepreneurs Act

Through the application of Law 31828¹⁷ taxpayers subject to the General Income Tax Regime or the MSEs Tax Regime who hire one or more new workers, aged between 18 and 29 years old at the time of their hiring, can apply an additional deduction equivalent to 50% of the basic remuneration paid to the new worker, for purposes of the

determination of the Income Tax for the years 2024 and 2025, regardless of their working hours and the type of employment agreement, as long as they comply with certain requirements.

In addition to this, you will be able to access the VAT refund for export operations of goods and services, in accordance with the provisions of applicable legislation.

15. Frequent transactions in FinTech companies

No specific tax treatment applicable to the FinTech industry has been provided for under the Peruvian tax regulatory framework; thus, tax implications will be determined by each legal relationship produced between the participants.



17. As of August 2023, Law 31828 is pending regulation.

B. Tax Treatment of FinTech Companies

1. Factoring

The transfer of accounts receivable made through factoring or discount transactions whereby the company acquires credit instruments from an individual, company, or entity for a good and valuable consideration have, among others, the following effects in connection with income tax:

In “non-recourse” factoring, transfer of accounts receivable in which the acquirer assumes the debtor’s credit risk:

► **For the factor or acquirer of accounts receivable (FinTech company):**

The difference between the face value of the accounts receivable and the transfer value constitutes income from services and is levied with income tax.

► **For the customer or transferor of accounts receivable:**

The transfer of accounts receivable generates a deductible expense, determined by the difference between the face value of the accounts receivable and the transfer value.

In “recourse” factoring, this means the transfer of accounts receivable in which the acquirer does not assume the debtor’s credit risk:

► **For the acquirer of accounts receivable (FinTech company):**

The difference between the face value of the accounts receivable and the transfer value will constitute interest arising from the financing service.

► **For the customer or transferor of accounts receivable:**

The difference between the face value of the accounts receivable and the transfer value will constitute a deductible expense on account of interest arising from the financing service.

The regulation also establishes that, for income tax purposes, the transfer of accounts receivable must be duly supported by the corresponding agreement.

Current tax regulations do not establish a special tax regime applicable to FinTech companies regarding factoring transactions with or without recourse. Thus, factoring companies not included in the scope of Law 26702, as is the case with FinTech companies, must apply the same tax treatment mentioned above.

Value Added Tax (VAT)

In case the factor acquires accounts receivable from the customer assuming the debtor's credit risk (i.e., factoring "without recourse") said transfer will not constitute a sale of goods or provision of services, provided that the factor (FinTech company) is authorized to act as such.

On the other hand, if the debtor's credit risk is not transferred upon carrying out a transfer of accounts receivable (i.e., factoring "with recourse"), it is considered that the acquirer (FinTech company) provides a service levied with the VAT. In this case, the provision of credit services will take place from the moment in which the account receivable is returned to the transferor or the transferor buys it back from the acquirer. Thus, the taxable base is the difference between the transfer value of the accounts receivable and their face value.

Likewise, in any case, the interests accrued from the transfer of accounts receivable that were not invoiced and previously included in said transfer are considered as income received by the factor and are levied with the VAT.

In the case of additional services, the taxable base will consist of the total consideration received for said services, except when the factor or acquirer cannot specifically determine the part corresponding to the consideration for the provision thereof, in which case the taxable base will be the total amount of the difference between the transfer value of the accounts receivable and its face value.

It should be noted that the company transferring the accounts receivable must issue a document stating the total amount of the accounts receivable transferred on the date that said transfer occurs.

2. Financial Leasing

Income Tax Treatment

In general terms, the most relevant tax aspects of leasing in terms of Income Tax are the following: i) accelerated depreciation regime, ii) compensation associated with the destruction of the leased asset, iii) increase in financed capital and iv) modification of the term of the contract.

► Accelerated Depreciation:

The lessee may choose to depreciate the assets under lease according to the lease term, provided that the following requirements are met:

- The exclusive purpose of the agreement consists in assigning the use of the asset, which must be considered as costs or expenses for purposes of the Income Tax Act.
- The asset is exclusively used to carry out the respective business activities.
- The lease term is not less than two or five years for movable and immovable assets, respectively.
- The purchase option may only be exercised upon termination of the agreement.

Non-compliance with any of the above requirements during the lease term will have the following effect:

- ▶ The lessee must rectify their Income Tax returns and refund the respective tax together with interest.
- ▶ This rule does not apply if the agreement is terminated due to payment default.
- ▶ **Compensation received by the Lessor in the event of a loss:**

The compensation payable to the lessor (in this case, the FinTech) to replace, fully or partially, the asset under lease may generate:

Taxable Income	When te compensation exceeds the acquisition value of the asset.
Non-Taxable Income	<div>When the compensation exceeds the acquisition value of the asset, provided that the following requirements are met:</div> <ul style="list-style-type: none">▶ The asset is acquired within six months following receipt of the compensation.▶ The asset is returned to the lessee within a term that does not exceed eighteen months after the compensation is received, except in extraordinary cases.

Now then, if the above conditions are not met, the compensation that exceeds the outstanding amount of the financed capital will constitute taxable income.

Moreover, if the replacement of the asset implies an increase in the financed capital, the increase will constitute taxable income for the year.

The lessee may only increase the cost basis of the asset replaced if the financed capital is increased.

If the asset is not replaced and the leasing agreement is rendered ineffective, such part of the compensation that exceeds the outstanding amount of the financed capital will constitute taxable income.

▶ **Increase of the Financed Capital**

The agreement must establish the financed capital as well as the value of the purchase option and the agreed installments, specifying principal and interest. Such rule also applies whenever the agreement is amended.

The lessee will register the property as an asset for the amount of the financed capital. If the amount of the financed capital is higher than the acquisition value, the difference will constitute taxable income for the lessor in the year in which the agreement is entered into.

Furthermore, any subsequent increase in the amount of the financed capital will constitute taxable income for the lessor at the time the appropriate notarially recorded instrument is signed, except for such portion of the increase corresponding to the value of:

- The permanent improvements introduced by the lessor.
- The capitalization of accrued interest pending payment.
- The capitalization of VAT transferred to the accrued installments pending payment.

▸ **Modification of the Lease Term**

In the event that the lease term is modified, the lessee must take the following into consideration:

- If the lessee depreciated the assets according to Income Tax regulations, they must continue to depreciate them in the same manner.
- If the lessee applied the special accelerated depreciation regime, the annual maximum depreciation rate will be recalculated on a straight line basis based on the remainder of the contractual term.

The depreciation rate will be applied on the balance of the depreciable value as of the modification date.

▸ **Value Added Tax (VAT) Treatment**

For VAT purposes, leasing transactions are taxed considering each of the benefits involved in the structuring of the transaction. In the case of leasing, this transaction is treated as an operating lease with purchase option. Therefore, this type of transaction will be taxed as follows:

- Acquisition of the asset by the lessor: The acquisition of the asset by the lessor is subject to VAT, and constitutes tax credit for the lessor (the registration of costs or expenses is not required).
- Financial leasing installments: They consist of principal and interest and are subject to VAT. Also, the lessee may use VAT as tax credit.
- Purchase option: This transaction is subject to VAT.

3. Financing via Crowdfunding

Below we will provide information on the tax treatment of crowdfunding transactions for each of the participants involved in this type of transaction.

Income Tax

► Investors:

The return received by investors will be treated as interest, which will be levied with income tax under the premise that it constitutes income from a Peruvian source, in accordance with the status of said investors.

► Domiciled Individuals:

If investors are domiciled individuals, interest will be taxed at a rate of 5%.

Note that it will always be important to verify in each specific case how the clauses are structured to avoid claiming a regularity presumption for classifying taxpayers as third-bracket income generators within the framework of the tax regulations. It is important to indicate that, although it is not the purpose of this type of financing mechanism, it has not yet been expressly determined when the generation of income of an individual can be made on a regular basis.

► Non-domiciled Individuals :

If investors are non-domiciled individuals, the Income Tax withholding rate will be 4.99%, provided that certain requirements are met. Otherwise, the rate will be 30%.

► Legal Entities :

For domiciled legal entities, interest will be taxed with the corporate income tax rate equivalent to 29.5%, unless the company is subject to a special regime.

► Non-domiciled Legal Entities :

In the case of non-domiciled legal entities, the withholding rate will be 4.99%, provided that certain requirements are met. Otherwise, the rate will be 30%.

► Platform Administration Companies:

In case the platform is managed by an administration company, since it is a legal entity domiciled in the country, the fees charged will constitute income for the purpose of advance payments and will be levied with income tax at the corporate rate of 29.5%.

► Recipient:

The owner of the project domiciled in Peru (the owner of the project subject-matter of financing)—as a legal entity or individual with a business—may deduct the following concepts as expenses: (i) the interest paid to investors; and (ii) the fees paid for the use of the platforms, respecting the corresponding limits.

Value Added Tax (VAT)

► Investors:

Investors or beneficiaries of the interest are considered to be VAT taxpayers, who must issue a payment voucher, which will allow the project owner (legal entity) to deduct interest as an expense and use the transferred VAT as a tax credit.

If investors are individuals without a business, the interest they receive will not be levied with the VAT, since said income does not qualify as a service itself for the purposes of the VAT regulations.

► Platform Administration Company:

The fees charged by the administration company are levied with the VAT. Indeed, the owner of the platform is a legal entity or an entity that carries out business activities, so the fees charged, as well as the additional services rendered, will be levied with the VAT.

► Recipient:

If the project owner is a VAT taxpayer, the project owner may use the tax transferred thereto by investors and the platform owner as a tax credit, for which the project owner must request the investors to issue the corresponding payment voucher.

4. Electronic Wallets and Money

Income Tax (IR)

The consideration—usually in the form of fees—charged (e.g. commissions) by e-money issuing companies (“EDDE”) domiciled in Peru will constitute taxable income with a rate of 29.5% on net income, which will be determined by deducting the expenses necessary to produce it and maintain its source from the gross income, as long as its deduction is not expressly prohibited by the Income Tax Law.

Value Added Tax (VAT)

The Electronic Money Act provides that electronic money issuance transactions carried out by e-money issuing companies are exempt from VAT for an initial period of three (3) years, term that has been extended until December 31, 2024 by Legislative Order 1519.

Financial Transaction Tax (FTT)

The application of this tax on e-money transactions must be determined for each specific case, taking into consideration the characteristics of each transaction.

Thus, for example, credit (deposits) or debit (withdrawals) in e-money accounts will not be taxed since these do not qualify as accounts opened under any denomination in a company in the financial system that has that obligation derived from raising

resources from third parties through the different modalities authorized by SBS (definition included in the Regulations of Act 28194).

For its part, credit of funds granted by companies in the financial system to clients (or designated third parties) charged to loans through the use of e-money or e-wallets will be taxed with the FTT. The situation is similar for payments made by clients to companies in the financial system using e-money.

5. Cryptocurrencies

The Peruvian tax regulatory framework does not include provisions specifically applicable to cryptocurrency operations. Therefore, taxes must be applied based on an assessment of the specific characteristics of each operation and valid legal provisions.

For example, for the sale of cryptocurrencies, the applicable tax treatment is as follows:

Income Tax

In the specific case of cryptocurrencies sold by a domiciled legal person, an income taxed at the rate of 29.5% will be generated, which will be determined by the difference between the market value of the cryptocurrency and its computable cost. If the transferor is a domiciled natural person, this transaction would not be subject to this tax.

Note that in the event that cryptocurrencies are used as a means of payment (for the acquisition of goods and/or services), it would be considered a case of alienation for the purposes of the Peruvian Income Tax Act.

Value Added Tax (VAT)

The sale of cryptocurrencies does not qualify as an operation taxed by this tax as they are not considered within the definition of movable property whose transfer is taxed by the VAT Act.



C. Other Tax Obligations

1. Tax ID Number (“RUC”)

The Tax ID Number Act has provided that persons who are taxpayers and/ or responsible for taxes administered by SUNAT must register with RUC.

Furthermore, Legislative Order 1524 sets forth the obligation to include the RUC number, under penalty of fine, in all documentation through which goods and/or services are offered, including cases where the offer is made using e-commerce digital platforms, social networks, websites, emails with advertisement, and mobile apps, among others.

However, Superintendency Resolution 020-2023-SUNAT/70000 establishes the use of discretionary power in not sanctioning the infraction of not including the RUC number in documentation used to offer which goods and/or services, that taxpayers incur in the period from July 1, 2023 to December 31, 2023.



5.2

>> MONEY LAUNDERING AND TERRORIST FINANCING PREVENTION REGIME

Due to the nature of their operations, FinTech companies are exposed to various types of compliance risks, some are risks related to ML/TF, and others are related to the liability of legal entities in the commission of crimes.

Last year, there were changes in the regulations that help mitigate these risks; some are:



5.

Regulations Related to the Prevention of Corruption

► Law 30424:

Law that regulates the administrative liability of legal entities for the crime of transnational active bribery.

► Legislative Order 1352:

Amendment to Law 30424 broadens the scope of crimes, including general active bribery, specific active bribery, money laundering, and terrorist financing.

► Law 30835:

Law that amends the name and Sections 1, 9, and 10 of Law 30424, broadening the scope of crimes including simple collusion, aggravated collusion, and influence peddling.

► Executive Order 002-2019-JUS:

The order that establishes the Regulations of Law 30424.

► Law 31740:

Law amending Law 30424, which broadens the scope to include new offences.

Legal Provisions on the Prevention of Money Laundering and Terrorist Financing

► Resolution 2660-2015 issued by the SBS:

Resolution whereby the regulations on the management of money laundering and terrorist financing risks are approved for companies supervised by the SBS.

► Resolution 789-2018 issued by the SBS:

Rules for the prevention of money laundering and financing of terrorism applicable to regulated entities under the supervision of the FIU-Peru, in matters of prevention of money laundering and financing of terrorism.

► Resolution 2351-2023 issued by the SBS:

Amendments to the Regulations for the prevention of money laundering and the financing of terrorism applicable to regulated entities under the supervision of the UIF-Peru, on the prevention of money laundering and the financing of terrorism.

► Executive Order 006-2023-JUS:

Executive Order extending the list of parties obliged to provide information to the Financial Intelligence Unit (FIU-Peru).

A. Prevention Model

Law 30424 establishes that legal entities may be liable for certain crimes that are committed in their name, on their behalf or to the extent that there is some benefit towards them. This standard has been modified in recent years, and specifically during 2023, its scope has been expanded. In this regard, on May 13, 2023, the Congress of the Republic issued Law 31740 that modified Law 30424: Law that regulates the administrative liability of legal entities in criminal proceedings.

This law modifies the original scope of the norm, by including new crimes, establishing new guidelines regarding the exemption factor of the Prevention Model, proposing criteria for the execution of sanctions, among others. In turn, these changes represent new challenges for companies, who will have the task of updating their Prevention Models to comply with the new standard.

Main Changes to Law 30424

1. Regarding the scope:

a. Applicable to Foreign Legal Entities

The rule also applies to foreign legal entities that carry out or execute their activities, directly or indirectly, in the national territory regardless of the business, corporate or contractual modality.

b. Incorporation of new crimes

The categories of crimes that will be part of the liabilities of legal entities (in addition to those already established, such as: corruption of public officials, money laundering and terrorism financing) are fraud in the administration of legal entities, crimes against cultural property, tax crimes, customs crimes, terrorism crimes. New typologies of money laundering have been included, mainly applicable to entities obligated to report.

2. Regarding fines:

A new calculation of fines was established based on profit obtained, going from a minimum amount of 2 times the profit obtained up to a maximum amount of 6 times the profit obtained. If it cannot be determined using this criterion, it will be calculated by tax units, and consequently, fines can go from 10 UITs (PEN 49,500) to 10,000 UITs (PEN 49,500,000).

Additionally, the criteria below has been established to determine fines:

1. Failure to comply with internal procedures
2. Number and hierarchy of those involved
3. Omission and surveillance of offenders
4. Damage caused
5. Amount of money involved
6. Size, nature and economic capacity of the legal entity
7. Willingness to repair the damage
8. Spontaneous complaint to authorities
9. Behavior after the commission of the crime

3. Regarding the exemption factor and the Prevention Model:

The legal entity will be exempt from criminal liability if it implements, prior to the crime, an appropriate Prevention Model. However, the exemption factor will not apply when the crime is committed by partners, directors, administrators, legal representatives or attorneys with control capacity. Likewise, it will be applied with the implementation, operation and adaptation of the Model to the size, nature, characteristics and complexity of the operations of the legal entity.

B. Money Laundering and Terrorist Financing Prevention System

SBS Resolution 2660-2015, "Regulations on Risk Management of Money Laundering and Terrorist Financing" set out the guidelines and activities that companies supervised by the SBS (known as Reporting Entities) must implement in order to prevent them from being used for money laundering and terrorist financing activities.

Similarly, SBS Resolution 789-2018, issued in 2018, established the prevention guidelines that must be implemented by other categories of reporting entities that are supervised by FIU Peru. This standard is applicable, among others, to companies dedicated to currency exchange.

Due to the nature of their activities, even when FinTech companies are not considered reporting parties, some of them could be considered as such e.g., currency exchange. It is advisable to assess the implementation of a ML/TF Prevention System (SPLAFT) to protect their reputation and prevent the breach of these regulations.

On the other hand, on July 28, 2023, Executive Order 006-2023-JUS came into effect, expanding the list of entities obligated to report to the FIU Peru, to include businesses that could be part of the FinTech sector—virtual asset service providers that carry out one or more of the following operations:

- Exchange between virtual assets and legal tender or FIAT currencies.
- Exchange between one or more forms of virtual assets.
- Virtual asset transfers.
- Custody and/or administration of virtual assets or instruments that allow control over virtual assets.
- Participating in and provision of financial services related to an issuing company's offer and/or sale of a virtual asset.

Based on the above, and because FinTech companies could be entities obligated to report depending on the type of operation they carry out, the following can serve as reference of ML/TF regulatory framework: SBS Resolution 2660-2015, ML/TF Risk Management Regulation, which sets forth the guidelines and activities that companies supervised by SBS must implement to prevent ML/TF risks; and SBS Resolution 789-2018, which establishes the prevention guidelines that must be implemented by other categories of entities obligated to report to and supervised by the FIU Peru.

Additionally, on July 13, 2023, the SBS issued Resolution 02351-2023, updating Resolution 789-2018. The main changes to the resolution on the following components of ML/TF Prevention System:

- Due Diligence: greater importance is given to knowing the final beneficiary, and the mention of the knowledge to counterparties is eliminated.
- Compliance Officer (CO): the functions and requirements for the designation of the OC are expanded, and annual reports will also be prepared based on the evaluation of the previous year. Furthermore, it is established that the appointment of the position is non-exclusive and that the General Manager could be the OC, only when the Entity Obligated to Report meets the following: (i) Category of small or medium taxpayer at SUNAT; (ii) Have a maximum of 10 employees on the payroll; (iii) Is not part of an economic group; (iv) Develop one or more activities that make it an entity obligated to report.
- Risk Assessment: ML/TF risk identification and assessment procedures were added and modified. Likewise, the frequency for updating the risk assessment increased to three (3) years. 2023/2024 FinTech Business Guide | Cross-Sector Regulation 271 5.

- ▶ General Policies: the relevance of informing the organization about the changes and modifications made to the Manual and Code of Conduct was established.
- ▶ Internal Audit: the importance of having the audit report for entities obligated to report that do not have an in-house audit area, was included.
- ▶ Unusual and Suspicious Operations: details were added to identify warning signs and final beneficiaries.



5.3

>> REGULATION OF PERSONAL DATA PROTECTION

Personal data protection regulations are included in various legal provisions, the most relevant being the following:

1. Law 29733, Personal Data Protection Act (July 2011).
2. Regulations of the Personal Data Protection Act, as approved by Executive Order 003-2013-JUS (May 2013).
3. Directive on Information Security Managed by Personal Data Banks, as approved by Director's Resolution 019-2013-JUS/ DGPDP (October 2013).
4. Guide on the Duty to Report, as approved by Director's Resolution 080-2019-JUS/DGTAIPD (November 2019).



5. Directive on the Treatment of Personal Data Through Video Surveillance Systems, as approved by Ministerial Resolution 02-2020-JUS/DGTAIPD (January 2020).
6. Methodology for the Calculation of Fines in Matters Related to Personal Data Protection, as approved by Ministerial Resolution 326-2020-JUS (December 2020).
7. Implementation Guide for Model Contractual Clauses for the International Transfer of Personal Data approved by Directorial Resolution 074-2022-JUS/DGTAIPD (October 2022)

In Peru, the National Authority for Personal Data Protection (“ANPDP”), attached to the Ministry of Justice and Human Rights (“MINJUSDH”), is the competent public body in personal data protection matters. It is in charge of administrative, guiding, regulatory, resolutive, supervisory and sanctioning functions.

The existence of this regulatory framework is of utmost importance considering the increasingly prominent role of information in the economy. Personal data can be very valuable to optimize the operation of organizations and their business strategies. However, it is also important to ensure that data is collected and processed appropriately.

A. Key Concepts Regarding Personal Data Protection

Familiarization with the scope of the concepts below is necessary for a better understanding and application of the regulatory framework on personal data protection:

1. **Personal Data:** All information about individuals that identifies them or makes them identifiable through means that can be reasonably used. There is special treatment for sensitive data (e.g., about health or income).
2. **Consent (free):** It must be granted voluntarily. Consent for ancillary purposes (e.g., advertising and commercial prospecting) must be obtained autonomously and must not be a condition for the provision of the services offered.
3. **Personal Data Bank:** Organized set that collects personal data. It can be automated (computerized), non-automated (physical), or mixed. It must be registered, submitting the proper virtual form, with the ANPDP.
4. **Cross-border Flow:** International transfer of personal data to a recipient located in a country other than the country of origin of the personal data. It must be communicated, when registering the respective personal data bank, to the ANPDP.
5. **ARCO rights:** Rights of access, rectification, cancellation, and opposition recognized to personal data owners and regulated in the Personal Data Protection Act and its Regulations.

B. Legal Obligations in Personal Data Protection Matters

Below, we share five legal obligations provided for in the regulations, the compliance of which will prevent companies from incurring any legal or reputational risk:

1. **Having a “simple” privacy policy** in a clear format with understandable and simple sentences will be a good sign of transparency to users.
2. **Obtaining consent and authorization**, if required by law, in a timely manner will give companies legitimacy to carry out the proper processing of personal data.
3. **Implementing a procedure for the exercise of ARCO rights**, which must be clear and detail the information to be submitted, the deadlines, and any other documentation required.
4. **Keeping the information for a “prudent” time**, which means that the data can be stored as long as it is useful and fulfills the purpose for which it was collected.
5. **Registering personal data banks with the Ministry of Justice (MINJUS)** through the virtual forms published on the institutional website to mitigate the initiation of inspection or sanctioning procedures against them.

C. Main Challenges for Companies

Face challenges regarding personal data protection that they must address to avoid incurring legal and reputational risks.

The main challenges include the following:

1. Carrying out a correct treatment of the personal data handled by the company
2. Applying legal, technical, and organizational security measures in order to protect personal data
3. Training and continually evaluating staff concerning compliance with the regulations, including in-house and external audits to the company.
4. Designing and implementing regulatory compliance programs that add value to the business. This will allow the company to mitigate legal, economic and reputational risks.
5. Verify that third-party companies with which personal data are shared offer an adequate level of protection against said information. This applies to the national and international transfer of personal data.

D. Procedure to Register a Personal Data Bank

Companies, in their capacity as owners of personal data banks, must register them with the National Authority for Personal Data Protection using the virtual forms published on their institutional page and providing the following information:

1. Name and location of the data bank, its purposes, and intended uses
2. Information on the identity of the data bank's owner and, if applicable, that of the person in charge
3. Types of personal data subject to treatment at said bank
4. Personal data collection procedures and processing system
5. Technical description of the security measures
6. Recipients of personal data transfers
7. Indication on whether the transfer of personal data is for a value received or otherwise.

In the event that companies engage in cross-border flow (international personal data transfer) they must notify the Authority by completing the information requested in the same virtual registration form for registering the personal data bank.

For this procedure, the Authority has enabled a virtual documentary procedures portal available on the **website of the Ministry of Justice** and a physical documentary procedures office (Calle Scipión Llona 350, Miraflores) where the following must be mailed or submitted , accordingly:

1. **Personal data bank registration form**, duly completed, addressed to the Personal Data Protection.
2. Proof of payment of the corresponding fee.
3. Copy of the Certificate of Subsistence of the Legal Representative's powers.



E. Procedure to modify or cancel a personal data bank

For the owners of personal data banks registered at the National Registry for the Protection of Personal Data (“RNPDP”) of the ANPDP:

1. The PDF Form: “FOR 013 MODIFICACION DE BANCO DE DATOS PERSONALES” [MODIFICATION OF PERSONAL DATA BANK] can be used to update the information of a registered personal data bank.
2. PDF Form: “FOR 014 CANCELACION DE BANCO DE DATOS PERSONALES” [CANCELLATION OF PERSONAL DATA BANK], the owners of personal data banks can exclude from the RNPDP, the personal data banks whose information is eliminated.

For these procedures, the ANPD has enabled a virtual clerk desk, available on the **MINJUSDH website web** and an in-person clerk desk (Calle Scipion Llona 350, Miraflores, Lima, Peru), where the following must be submitted:



1. The duly completed personal data bank modification or cancellation forms, addressed to the Personal Data Protection Directorate.
2. Proof of payment of the corresponding fee.
3. Copy of the document that serves as proof of the representative of the company.

Fines imposed by ANPDP

Hydrocarbons Sector PEN 268,019

The sanction was confirmed against a company for obtaining, through media (databases) from a private company, the judicial, criminal and police records of job applicants.

Insurance Sector PEN 106,425

The sanction was confirmed against an insurance company, in its capacity as data controller, upon proving that its stakeholder (call center) did not validly obtain the consent of the owners to offer the products marketed by the aforementioned insurance company.

Public Sector PEN 101,566

The sanction was confirmed against a public entity for breaching the duty of confidentiality, by allowing its staff to give access to third-party companies to personal data (police records and statements) of various owners without their consent.

FinTech Sector PEN 12,900

A payment processor was sanctioned for processing personal data of users who accessed its “Enter your query” form on the website, without complying with the duty to inform because it did not include a link to its Privacy Policy in the aforementioned web form.

What has happened in Peru during 2022 in terms of personal data protection?¹⁷

- ▶ More than PEN 8 million in fines imposed.
- ▶ 317 public and private entities audited.
- ▶ 128 sanctioning procedures initiated ex officio.
- ▶ More than 165 resolutions issued in the first and second administrative instances.
- ▶ 21 advisory opinions.
- ▶ 4,076 procedures (registration, modification and cancellation) before the National Registry for the Protection of Personal Data.
- ▶ 2,808 personal data banks registered, reaching a total of 24,329 registered banks.



5.

17. Information obtained from a press release by the Ministry of Justice and Human Rights: "Personal Data Protection Authority audited 317 entities and imposed fines of more than PEN 8 million in 2022," dated January 13, 2023.

5.4

>> RIGHT TO FREE COMPETITION, MERGERS & ACQUISITIONS

5.

A. Free Competition Policy

Regulation of free competition regulations in Peru have two large fields of action. On the one hand, the so-called “structure control” that seeks to prevent business integration processes from allowing the creation or protection of “dominant positions” or having an anti-competitive effect; and, on the other hand, behavior control that seeks to avoid strategic behaviors that could block competition to the detriment of consumers.



In particular, the free competition rules include mainly the following:

1. Law 31112: Act Establishing Prior Control of Business Concentration Operations.
2. Executive Order 039-2021-PCM: Executive Order that approves the Regulations of Law 31112–Act Establishing prior Control of Business Concentration Operations.
3. Legislative Order 1034: Law for the repression of the anti-competitive conduct

In addition to the aforementioned regulations, the Commission for the Defense of Free Competition of INDECOPI (hereinafter, “CDLC”) has issued guides and guidelines that contribute to the best interpretation of the regulations and the predictability of decisions by the agency.

4. Resolution 022-2021/CLC-INDECOPI-OS/GG. Guidelines for the Calculation of Notification Thresholds.
5. Resolution 059-2017/CLC-INDECOPI Clemency Program Guide.
6. Resolution 006-2020/CLC-INDECOPI -Free Competition Compliance Program Guide.
7. Resolution 009-2020/CLC-INDECOPI. Inspection Visit Guidelines.

In Peru, CDLC is a public agency in charge of authorizing business concentration operations subject to the prior notification regime, as well as of supervising and penalizing anti-competitive conduct.

B. Key Concepts Related to the Promotion and Defense of Free Competition

To facilitate understanding of the legal concepts and institutions established in free competition regulations, we provide a brief description of the most relevant ones:

Control Regime for Business Concentration Operations: :

- 1. Concentration Operation:** Any act or operation that involves a transfer or change in control of a company or part of it. The obligation to notify is only applicable to those operations that exceed certain thresholds.
- 2. Control:** Possibility of exercising decisive and continuous influence over an economic agent through (i) ownership rights or use of all or part of the assets of a company, or (ii) rights or agreements that allow to decisively and continuously influence the decisions of a company's corporate bodies.
- 3. Threshold:** The quantifiable, selective, and objective parameter expressed in tax units (UIT), based on which a business concentration operation must be subject to the prior control procedure.

4. Geographic Link: The link that makes it possible to identify whether a business concentration operation produces effects in the national territory, in which the competent bodies have jurisdiction to assess any such operation.

5. Commitments or Conditions: Conducts or behaviors intended to avoid or mitigate potential effects arising from the business concentration operation. They will be called “commitments” when they are proposed by the agents and “conditions” when they are imposed by the Authority.

Anticompetitive Conduct Control Regime:

1. Relevant Market: This market is made up of the product market and the geographic market. The product market is, in general, the good or service that is the subject matter of the behavior under investigation, and its substitutes. The geographic market corresponds to the set of geographic areas where the alternative sources of supply of the relevant product are located.

2. Dominant Position: It is understood that an economic agent has a dominant position in a relevant market when it has the possibility of substantially restricting, affecting, or distorting the conditions of supply or demand in said market, without its competitors, suppliers, or clients being able to counteract that possibility at that time or in the immediate future.

3. Abuse of Dominant Position: Abuse is considered to exist when an economic agent having a dominant position in the relevant market uses this position to unduly restrict competition, obtaining benefits and harming direct or indirect, actual or potential competitors, which would not have been possible if said agent did not have said position.

4. Horizontal Collusive Practices: Horizontal collusive practices are understood to be those agreements, decisions, recommendations, or concerted practices carried out by competitive economic agents with the purpose or effect of restricting, preventing, or distorting free competition.

5. Vertical Collusive Practices: Vertical collusive practices are understood to be those agreements, decisions, recommendations, or concerted practices carried out by economic agents that operate at different levels of the production, distribution, or commercialization chain, which have the purpose or effect of restricting, preventing or distorting free competition.

6. Clemency Program: It refers to the possibility of requesting an exemption from the penalty that would be applied for the performance of anticompetitive conduct. This implies that before the initiation of an administrative sanctioning procedure, any person may request the authority to be exempted from the sanction in exchange for providing evidence that helps detect and prove the existence of a collusive practice, as well as punish those responsible for it.

C. Mechanisms to Prevent Anticompetitive Conduct

As part of the efforts of the competent authority to raise awareness in companies about the harmful effects of anticompetitive conduct in the market, it issued the Free Competition Compliance Program Guide, as approved by Resolution 006-2020/CLC-INDECOPI.

Free competition compliance programs are self-regulation tools that aim to create an organizational culture of compliance with the free competition rules to avoid breaches in this matter.

In this context, the purpose of the Free Competition Compliance Program Guide is to offer greater incentives for companies, on their own initiative, to adopt policies to comply with free competition regulations and for these to be disseminated and implemented by all of their employees.

Compliance programs have the following benefits, among others:

1. Prevention of Breaches and Their

Costs: An effective program will prevent companies from assuming the costs of fines, corrective measures, and liability (compensation for damages) and even the costs of having to defend themselves in an administrative procedure or judicial proceeding derived from breaches of free competition regulations.

2. Damage Detection and Control: The implementation of the Compliance Program does not completely rule out the probability that companies will incur breaches. If there is any breach of the free competition regulations, it may be detected in a timely manner thanks to the internal protocols implemented for that purpose.

3. Reputational Improvement: Having a Compliance Program covering this scope will allow companies to demonstrate the seriousness and responsibility of their performance in the market, especially if the fact that the breach of free competition regulations has detrimental effects on consumers is taken into account.

Free Competition Compliance Program Guide

Essential components		Complementary components
 Real Compliance Commitment (Tone at the top)	 Risk Identification and Management	 Free Competition Manual
 In-house procedures and protocols	 Training	 Incentives for Employees
 Program Update and Monitoring	 Program Audit	 Disciplinary Measures
 Procedure for inquires and Complaint	 Compliance Officer or Committee	

Source: Preliminary Report of the FinTech Sector Market Research in Peru, SUNAT.



4. Preliminary Report of the FinTech Sector Market Research: As part of its market research and competition advocacy work, the Commission published in April 2023 a Preliminary Report of the FinTech Sector Market Research, which includes various recommendations to boost competition in the sector and, mainly, to remove regulatory barriers to market entry. The report can be consulted on the official INDECOPI website.






Extract -
interview with
Humberto Ortiz
(INDECOPI)



Humberto Ortiz
Senior Economic Advisor
to the National Directorate
of Free Competition
Research and Promotion
of INDECOPI



Review the interview [here](#). 

Humberto Ortiz Ruiz, Senior Economic Advisor to the National Directorate of Free Competition Research and Promotion of INDECOPI, presented the 3 most important recommendations of the market research, the easiest to implement and the one that would have the greatest impact in terms of financial inclusion or banking penetration.

First of all, Ortiz mentioned eliminating the municipal authorization requirement that implies a physical office so that FinTech companies can carry out their operations. According to the expert, this would be the easiest to implement, and it is already under review by SBS. Secondly, encouraging the entry of FinTech companies into the Electronic Clearing House through direct participation via e-money issuing companies, which would allow FinTech companies to offer innovative and more competitive services.

The third and most important: improving the transparency process of opening and maintaining bank accounts that FinTech companies need to carry out their operations.

In addition, the Economic Advisor mentioned the most important characteristics of the main markets identified in the market research: 1) they generate competitive pressure on the services that banks also provide; 2) they are quite dynamic companies that have grown significantly, for example, factoring companies have had an accumulated growth rate of 250%, which exceeds the services provided by companies in the financial system; 3) they offer competitive services, for example, in the case of currency exchange, where the exchange split, on average, between 2019 and 2022, has been between 60% and 90% lower in reference to that of digital exchange solutions offered by banks; and 4) its volume of operations has been increasing over time and has escalated nationally.

On the other hand, Ortiz highlighted the main risks detected against competition: demanding unreasonable requirements, entry to the Electronic Clearing House, and the lack of transparency in opening and maintaining accounts.

Likewise, he explained that market research is a mechanism used by competition agencies in Peru and in the world to address competition problems, despite the redundancy, but that are not linked to indications of anti-competitive behavior. They also evaluate problems, see their causes and make recommendations, which improves the competitive dynamics in services provided by FinTech companies.

Regarding the needs in business concentration analysis that involve the change of control that FinTech companies must have, Ortiz mentioned that there are no specific criteria, but since FinTech companies provide digital services, there are characteristics that must be addressed. For example, for markets with the characteristic of network externalities, that element must be included in the analysis.

5.

5.5

>> REGULATION OF INTELLECTUAL PROPERTY

In intellectual property, the World Intellectual Property Organization (WIPO) establishes a division into 2 broad categories: copyright and industrial property.

The first protects works created out of human ingenuity, such as literary, audiovisual, and artistic works, software, artistic interpretations, among others.

On the other hand, industrial property grants exclusives rights to an invention, new technology or distinctive signs, such as trademarks, patents and industrial designs.



5.

Intellectual Property Regulations in Peru are covered in different national and international normative bodies:

1. The Berne Convention for the Protection of Literary and Artistic Works to which Peru has been a party since 1988.
2. The Paris Convention for the Protection of Industrial Property, to which Peru is a signatory.
3. Decision 486 issued by the Commission of the Andean Community, which establishes the common industrial property regime.
4. Legislative Order 822—the Copyright Act
5. Legislative Order 1075, which approves supplementary provisions to Decision 486 issued by the Commission of the Andean Community, establishes the common industrial property regime.
6. Decision 351 issued by the Comission of the Cartagena Agreement, which establishes the common copyrights and related rights regime.

In Peru, INDECOPI is the public agency in charge of promoting and regulating the exercise of all of these rights.

A. Copyright

In Peru, certain works are specifically protected by copyright, including the following:

- Literary works such as novels, poems, stage performances, reference works, newspaper articles
- Computer programs and databases
- Films, musical compositions, and choreographies
- Artistic works such as paintings, drawings, photographs, and sculptures
- Architecture
- Advertisements, maps, and technical drawings.

Copyright comprises two types of privileges established in the legislation:

- Proprietary rights, which allow owners to receive financial compensation for the use of their works by third parties.
- Moral rights, which protect the non-proprietary interests of the author.

In Peru, copyright regulations provide that owners have the proprietary right to authorize or prevent certain uses of their work or to receive economic compensation for the use thereof (for example, through collective management). Holders of the proprietary rights over a piece of work may prohibit or authorize:

- The use of their work without having a license provided by the owner, as would be the case with software or computer programs.
- Reproduction of their work in various ways, such as a printed publication or sound recording
- Public performance, for example, in a dramatic or musical work
- The recording of the work, for example, in the form of compact discs or DVDs
- The broadcasting of the work by radio, cable, or satellite
- The translation of the work into other language.

B. Industrial Property

In Peru, holders of industrial property rights are not required to register as such with INDECOPI. However, this registration is essential to exclusively exercise these ownership rights.

Indeed, registration grants its holders certain advantages, such as:

- Preventing others from taking advantage of the prestige or reputation of a creation through imitations or forgeries.
- Allowing for bringing civil and even criminal actions to protect the right against third parties.
- Empowering INDECOPI to impose sanctions, final and conclusive measures, and coercive fines on those who misuse registered industrial property.
- Granting the possibility of selling or assigning in use the right in exchange for a consideration.

Industrial Property Elements Subject to Registration

Under Peruvian legislation, distinctive signs, inventions, and new technologies are subject to registration. Next, we provide a detailed description of the main industrial property elements.

C. Distinctive Signs

► Product and Service Marks

Trademarks are a graphic representation that indicates that certain goods and services have been produced or provided by a certain market agent. This sign allows consumers to distinguish between different competitors since it represents a market agent, the quality of the product or service, and its commercial value.

It is thus essential to keep the registered trademark in use since, after three years of inactivity, any interested person could request its deregistration and proceed to register it in his or her name.

► Commercial Slogan

It is the word or phrase used in conjunction with a trademark. Thus, for its registration, the trademark to which the slogan will be associated must be indicated, and its validity will be subject to that of the said distinctive sign. Likewise, the transfer thereof also implies the transfer of the trademark.

► Trade Name

It is the sign used to identify a company, economic activity, or establishment. Unlike other industrial property classes, the exclusive right over the trade name is acquired automatically upon its first use in commercial activities. In that regard, its registration is merely declarative. However, it is effective proof of ownership.

D. Effective Term of Registration

Ten years from the date the registration was obtained and said term may be extended for the same period.

E. Elements that are not Subject to Registration

It is important to note that, despite the importance of registering industrial property, not every human creation can be registered.

In this regard, for example, in Peru, know-how is not an element subject to registration. This term refers to the set of business knowledge, either technical, administrative, or commercial, which is acquired through experience and skill building at the time of carrying out an activity or business process.

Thus, the “know-how” to manage a company constitutes an economic value for it, and cannot be registered.

This does not mean that this expertise or a particular way of making a product or rendering a certain service is not subject to protection, but rather that Peruvian legislation has provided for a different area to that of intellectual property for its protection; in this case, the unfair competition regulation is the one that advocates its protection, through Act for the Elimination of Unfair Competition, approved by Legislative Order 1044.

F. Right of Priority

The territorial space where industrial property rights can be exclusively exercised corresponds to the country in which they have been registered. That is, market agents must register their right in each of the countries in which they wish to make use thereof since their registration will only be valid in the country in which it was granted.

However, by virtue of the Paris Convention, market agents who have registered (i) an invention patent, (ii) a utility model patent, (iii) an industrial design, or (iv) a trademark in any member country of said Convention may use the date of submission of their application in any other country to which said international standard applies.

The term to exercise the right of priority in another country will depend on the type of industrial property to be registered and will begin to run from the submission date of the first registration application.

- For invention patents and utility models: 12 months.
- For industrial designs and trademarks: 6 months.

Consequently, individuals who intend to register their right in another country may not be prevented from doing so if the basis is a registration made during said period.

INDECOPI’s Report on Intellectual Property (2021)

Inspection of website

Inspection and monitoring actions were carried out on websites that were infringing copyright and related rights. Also, INDECOPI ordered the inspection of sites that streamed audiovisual works and other protected elements.

2,040

Registrations of works were granted to authors and owners.

838

Invention patents and utility models were granted.

1,149

Complaints for intellectual property infringement were addressed; based on which, 96 ex officio complaints were filed for the use of signs on counterfeit or trademark infringing products offered by web platforms.

* No se ha publicado la Memoria Anual del año 2022.

5.6

>> CONSUMER PROTECTION IN FINTECH SERVICES

A. Regulatory framework applicable to consumer relations between FinTech companies and users

FinTech companies are an important vehicle for financial inclusion. According to what the SBS¹⁸ and the BCRP¹⁹ have pointed out, the trend is due to the increase in virtual banking transactions (online, software, telephone banking, mobile, among others).



18. SBS. Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems. December, 2022. <https://www.sbs.gob.pe/inclusion-financiera/cifras/indicadores>

19. BCRP. Evolution of Financial Inclusion and the Use of Digital Payments in Peru: An Analysis based on the National Household Survey. December, 2020. <https://www.bcrp.gob.pe/docs/Publicaciones/Revista-Moneda/moneda-184/moneda-184-03.pdf>

As specified by the SBS and the BCRP, transactions through virtual means have increased five times from 44 million (2019) to 255 million (2022), a situation that can be significantly attributed to the development of the FinTech sector. In that same sense, INDECOPI²⁰, has specified the following:

“

FinTechs not only innovate the offer of financial services, but also the user experience, based on an approach that focuses on the consumer, providing new solutions and new standards in user service that contribute to promoting greater competition in the provision of financial services for consumers. (INDECOPI, 2023)

FinTech companies with a consumer-focused business strategy, have more opportunities to expand their market share and, consequently, promote financial inclusion. They will also assume more regulatory obligations in their B2C interactions. The latter provided that they offer financial products or services aimed at consumers, they will be under

the scope of application of Law 29571, Consumer Protection and Defense Code (“CODECO”)²¹, as specified in article III of its Preliminary Title. Within the framework of said regulations, it is important that FinTech companies observe compliance with the following aspects:

a. Duty of suitability: is the consistency between what suppliers offer to consumers as products or services with what they actually receive. It is regulated in articles 18 and 19 of the CODECO and its analysis focuses on complying with three guarantees: (i) legal, (ii) explicit; and, (iii) implicit.

b. Right to Information: consumers have the right to receive timely, clear, truthful and sufficient information that allows them to make an appropriate consumer choice. For these purposes, the CODECO has recognized this right in item b) of section 1.1 of article 1.

c. Complaint Management: the Complaints Book is an important tool that, used properly, can allow providers to assess the efficiency of their operations in relation to their consumers. Its implementation is regulated in article 24 of CODECO and the Regulation on the Complaints Book²².

20. INDECOPI. Preliminary Report of the FinTech Sector Market Research. March, 2023. <https://bit.ly/43IMMm4>

21. Congress of the Republic (Congress). Law 29571, Consumer Protection and Defense Code. September, 2010. <https://spij.minjus.gob.pe/spij-ext-web/#/detallenorma/H682697>

22. Prime Minister's Office (“PCM”). Executive Order 011-2011-PCM that approved the Rules for the Complaints Book from the Consumer Protection and Defense Code. February, 2011. <https://spij.minjus.gob.pe/spij-ext-web/#/detallenorma/H1025769>

B. Terms in claim response

FinTech companies are subject to the general regulation on complaint management provided by consumer protection regulations. It is important to specify that, in accordance with the update of said regulations issued last year, the new term for responding to claims should not exceed fifteen (15) business days without the possibility of an extension.

In this way, FinTech companies must make a Complaints Book available to consumers, whether physical or virtual, depending on the way in which they offer their services. The complaints they receive must be addressed within the indicated period.

Additionally, FinTech companies must take into account the following:

The use of electronic means, telephone lines or similar means to handle complaints should not be an obstacle to the registration of complaints.

If there is a **Virtual Complaints Book**, it must be displayed on the home page of the platform with which users interact and the necessary support must be provided for the consumer to enter their complaint or claim virtually.

C. Claims due to illicit financial operations

Within the framework of consumer protection, it is relevant to mention that it is prohibited to execute any financial intermediation activity without prior authorization from SBS or SMV, as applicable. Thus, activities like raising money from third parties, under any modality, as well as intermediating in the contracting of insurance and offering insurance coverage on their own account, without having express authorization from SBS, are restricted and can be exclusively carried out by duly authorized entities, otherwise administrative sanctions and the imputation of a crime may be applicable.

Taking this into account, it is important for FinTech companies to provide financial services without incurring this prohibition. The restriction also covers:

- a. The prohibition of using terms in their denomination or company name that lead consumers to think that they have any authorization from the regulator.
- b. The prohibition of sharing communications or advertisement in which it is stated or suggested that they carry out operations that can only be carried out with authorization from SBS or SMV.

Thus, in its role of protecting the public from financial informality, regarding indirect financial intermediation and the scope of application of the aforementioned restriction, SBS has the power to monitor and receive complaints regarding possible illegal businesses, as well as to intervene and even close establishments that are presumed or show signs of having incurred said restriction.

D. Comments on Anti-spam regulation

Throughout 2023, Bill 02942/2022-CR has been debated, which contains the legislative proposal to modify article 58 of CODECO, to expand the prohibition of spam to consumers to include the restriction of “cold calls” with consumers, classifying them as an aggressive or deceptive marketing method. Although the bill has been approved by the Plenary of Congress, it has been observed in August by the Executive Branch under the argument that it could be ineffective, consequently lacking adequate justification.

Impact of the regulatory proposal on the FinTech sector

Since 2005, various aspects have been developed aimed at regulating advertising strategies (spam emails, call centers, SMS messages, among others) that can be used by providers (for example, FinTech companies) in terms of consumer and personal data protection, for example, through:

- The regulation on the use of emails for commercial purposes
- The implementation of a no-contact registry.

- The issuance of advisory opinions on “cold calls”, use of personal data for advertising purposes, and consent.
- The imposition of sanctions for inappropriate processing of personal data with advertising purposes.
- The restriction of contacting consumers in the offering of products or services.

From the above it follows that, for example, companies’ (in their role as data controllers or suppliers) failure to obtain consent to send unsolicited commercial advertising would be considered infringing conduct in two different regulations, empowering these two entities (the National Authority for the Protection of Personal Data and INDECOPI) to oversee, supervise, initiate administrative sanctioning procedures and impose fines.

This could affect companies as they are not certain about which entity can supervise and sanction them, as well as personal data holders themselves (consumers) by not knowing which entity can help them exercise their rights and to whom report the lack of obtaining consent for personal data processing with advertising purposes.

5.7

>> INFORMATION SECURITY AND CYBERSECURITY

As technology has become a fundamental part of companies worldwide, they are more likely to be victims of a cyberattack, which have significantly increased in recent years. These are now more frequent and occur at a faster rate. Consequently, Information Security and cybersecurity are critical to business risk management.

Useful cybersecurity and information security stats:

- In 2019, Peru was the sixth country in the Latin American financial sector with the highest number of cyberattacks on web applications exposed.



► The 2021 Global Information Security Survey showed that 45% of respondents in Peru think they will face a major threat in the short term, which could have been eliminated with appropriate investment.

► The 2021 Global Information Security Survey showed that 47% of respondents in Peru identify compliance assurance within the legal framework can be the most stressful part of their job.

► In 2021, Peru was the most affected country in Latin America in the category of data theft and espionage-known as Spyware.

► In 2021, Peru was the third country in Latin America with the highest number of Trojans attacks.

► In 2022, the main challenges for conducting a cyber risk assessment around the world are:

- Lack of sufficient personnel to carry out the assessment
- Lack of experience of in-house employees
- Lack of proper tools to conduct an assessment effectively.
- Cost of tools to assure and maintain cybersecurity
- Lack of budget to outsource to a specialized third party.

► In 2023, Peru was one of the countries with the highest malware incidents in Latin America.

Given the growing interconnectivity and greater adoption of digital channels for services and the virtualization of certain products of the financial system; make it necessary for companies to continue working on strengthening the capabilities of their Cybersecurity program, such as: Architecture, Platform Assurance, Access Management, Vulnerability Management, Incident Management and Third-Party Security.

In Peru, the SBS is the body in charge of regulating and supervising the Financial, Insurance and Private Pension Systems, as well as preventing and detecting money laundering and terrorist financing. In terms of cybersecurity, SBS has the Regulation on Information Security and Cybersecurity Management, approved by Resolution SBS 504-2021 (hereinafter, "the SGSI-C Regulation").

The SGSI-C Regulation provides the necessary guidelines that supervised entities must comply with in proportion to their size. In addition, the SBS regulation describes the minimum controls that supervised entities must comply with.

These controls respond to the safety of human resources; physical and logical access controls; security in operations; communications security; security in acquisitions, development and maintenance of systems; cybersecurity incident management; physical and environmental security; cryptography and information asset management.

Additionally, companies must have a C-ISMS strategic plan and a cybersecurity program. The SBS also requires supervised companies to report significant cybersecurity incidents.

A. Cybersecurity and Information Security in FinTech Companies

Perhaps one of the most important attributes that FinTech and financial institutions can have is customer trust in the security information and transactions associated. Trust drives growth bringing more customers that share the experience and perception that the service being provided is useful and secure. Cybersecurity is emphasized, as part of information security, when a company or entity provides services or offers digital channels exposed to the Internet and the environment in which the activity of a series of business models that offer facilities through apps that can be downloaded from mobile devices.

It is important to establish a clear understanding of what information security is and what cybersecurity is. Information security aims to protect the confidentiality (that it is available to authorized persons), integrity (that it is not modified without control), and availability (that it can be used when needed) of information. For this, it uses physical (technological infrastructure), logical (information systems), and organizational (processes, procedures, and people) means.

On the other hand, cybersecurity focuses on the control of the technological components that make up the digital environment (computer equipment, data networks, smart mobile devices, applications or databases exposed to the Internet, among others), of the operational dynamics that occur in this environment (registries, queries, transactions, among others), as well as the access and identity of the people who execute them (employees, clients, or third parties) so that the business model operates securely and reliably.

B. Cybersecurity Risks

Financial institutions and FinTech companies face cybersecurity risks from different sources such as integration issues, compatibility with legacy technologies, among others.

Integrating a FinTech company within traditional banking systems raise concerns regarding data security and privacy. Normally, said integration is executed through the use of an application programming interfaces, also known as API, and is regulated in article 21 of SBS Regulation, which provides minimum security measures for the use of API, service provision requirements, and the requirements to carry out operations through third-party services.

It should be noted that FinTechs that work with APIs can collect large volumes of customer data, including personal information, and provide easy access to banking activities to people who previously could not access these services. However, these new bank customers often have little prior awareness of cybersecurity risk and may therefore be more exposed to cybercriminals.

In addition, FinTechs are driven by various banking systems that need to access customers' financial profiles to conduct transactions in real time. Such systems are the preferred attack vectors due to hidden vulnerabilities in their design and source code. Those responsible for FinTech development must ensure fail-safe application security measures. To address cybersecurity risk, organizations should consider implementing the following proactive measures:

- Regular vulnerability scans
- Vendor-recommended patches in a timely manner
- Performing application security risk assessments at regular intervals
- Monitoring and detection of anomalous events.
- Web Application Firewall (WAF)
- Multi-factor authentication (MFA) solutions
- Among others

The different business models that FinTechs can adopt make it necessary to consider all the possibilities they offer and the advantages that motivate customers using them. Consequently, we will focus attention on an information security and cybersecurity baseline. This term will refer to the minimum information security and cybersecurity control environment that must be considered for a FinTech, which must be fully implemented and operating in a sustained manner over time.



Below are the definitions of some terms that will be mentioned in the controls that make up the baseline:

- **Information Asset:** Information or medium in which it is stored, that is managed in accordance with business needs and legal requirements, so that it can be understood, shared, and used. It is valuable to the company and has a life cycle.
- **Company Assets:** End-user devices, including laptops and cellphones; network devices; non-computing / Internet of Things (IoT) devices and servers; as well as the company's systems and applications.
- **Vulnerability:** Weakness that exposes assets to threats that can cause incidents and have a negative impact on the company.
- **Malware:** Malicious code designed to damage systems

C. The information Security Baseline is made up of 11 controls

Control 1:

Information Security Policies

Implement policies and procedures that provide support and guidance for information security management.

Control 2:

Organization of Information Security

Establish a management framework to initiate and control Information Security implementation and operation within the organization.

Control 3:

Human Resources Security

Implement applicable information security protocols in the recruitment and staffing of personnel, in the event of a change of position and termination of employment; as well as define disciplinary processes in case of non-compliance with information security policies.

Control 4:

Asset Management

- Identify information assets through an inventory, assign their custody, establish guidelines on how to use them appropriately, and ensure their return at the end of the agreement under which it was provided.
- Ensure that the level of information protection and treatment is executed in accordance with its classification in terms of legal requirements, value, criticality and sensitivity to unauthorized disclosure or modification.
- Establish measures to prevent unauthorized disclosure, modification, deletion or destruction of information, in the use of removable devices.

Control 5:

Physical and Logical Access Controls

- Implement an access management procedure that must include administrative access accounts, ensuring segregation of functions to reduce the risk of error or fraud, following the principles of least privilege and need-to-know basis. Implement authentication processes to control access to information assets, in particular access to services provided to users through digital channels.

Control 6:

Cryptography

- Use cryptography to ensure the confidentiality, authenticity and integrity of information, both when the associated data is in storage and in transmission.
- Implement the necessary procedures to manage the life cycle of the cryptographic keys to be used.

Control 7:

Physical and Environmental Security

- Implement controls to prevent unauthorized physical access, damage or interference to the company's information or processing facilities.
- Adopt measures to avoid loss, damage, theft or compromise of information assets and the interruption of operations, by protecting equipment and devices taking into account the environment where they are used.



Control 8:

Operational Security

- Ensure and provide for the continuous operation of information processing, storage and transmission facilities.
- Maintain computer systems operational according to previously established procedures.
- Control changes in the systems operating environment, and keep development, testing and production environments segregated.
- Implement controls that ensure the integrity of transactions executed in computer services and systems.
- Restrict the software installation in operating systems and prevent the exploitation of information security vulnerabilities.
- Have response and recovery protocols for malware incidents; generate and test backup copies of information, software and elements that facilitate its restoration.
- Define, implement and maintain secure configuration baselines for the use of devices and implementation of computer systems.
- Have a backup copy strategy and information restoration procedures in the event of possible incidents, of internal or external origin, that compromise information availability in operations and the productive environment of the data processing center.

Control 9:

Communication Security

- Implement and maintain the security of communication networks considering the information being transmitted and the threats to which it is exposed.
- Ensure that communication networks and network services are managed and controlled to protect information.
- Segregate available information services, users and systems on company networks.
- Implement security protocols and controls for information transfer, within the organization and with external parties.
- Ensure that remote access, the use of personal equipment on the company network, mobile devices and the interconnection between own and third-party networks have controls in accordance with existing security threats.



Control 10:

System Acquisition, Development and Maintenance

- Implement and maintain security in computer services and systems according to the information processed and threats to which it is exposed.
- Ensure that information security practices are included in the planning, development, implementation, operation, support and deactivation of computer applications and systems.
- Limit access to the modification of source program libraries and maintain strict change control.
- When the operating platform is changed, critical applications must be reviewed and tested to avoid negative effects on their security.
- Ensure that technical, functional and information security tests are carried out on computer systems before going into production.
- Implement and verify compliance with procedures that include secure development practices for computer services and systems.

Control 11:

Information Security Incident Management

- Implement a methodology to classify information security incidents and establish response and recovery protocols.
- Have an information security operations service, that includes capabilities for the detection, response, and monitoring of communications in the internal network and of the operativity level of the technological infrastructure.
- Have access to threat intelligence, vulnerabilities and incidents information, as well as knowledge bases of techniques and tactics used by threat agents.
- Implement internal reporting mechanisms for information security incidents.
- Identify opportunities for improvement that can be incorporated into the management of information security incidents, after their occurrence.
- Preserve evidence that facilitates forensic investigations after the occurrence of information security incidents.

D. The baseline of
Cybersecurity is made up
of eighteen (18) controls

Control 1:

Inventory and Control of Computing and Communication Assets

Actively manage (keep inventories, track and correct) all company assets connected to physical and virtual infrastructures (cloud environments) to accurately understand all of the assets that need to be monitored and protected within the company.

Control 2:

Inventory and Control of Software Assets

Actively manage (keep inventories, track and correct) all software (operating systems and apps) on the network so that only authorized software is installed and can be run.

Control 3:

Data Protection

Develop processes and technical controls to securely identify, classify, manage, retain and delete data.

Control 4:

Secure Configuration of Equipment and Programs

Establish and maintain a secure configuration of business assets, including servers, mobile devices, and laptops; network devices; operating systems, and apps.

Control 5:

User Account Management

Keep the inventory of user accounts updated, including administrator accounts, as well as service accounts, and carry out periodic monitoring of access management to enable user accounts and their access privileges or disable inactive accounts for a certain period.

Control 6:

Access Control Management

Use processes and tools to create, assign, manage, and revoke access credentials and privileges for user accounts, administrators, and service accounts for company assets and software.

Control 7:

Continuous Vulnerability Management

Develop a plan to continually assess and track vulnerabilities in all business assets within the corporate infrastructure to correct and minimize the window of opportunity for attackers. Likewise, public and private industry sources should be monitored to obtain information on new threats and vulnerabilities.

Control 8:

Audit Log Management

Collect, warn, review, and maintain audit logs of events that could help detect, understand, or recover from attacks.

Control 9:

E-mail and Web Browser Protection

Improve prevention and detection of e-mail threats and the web environment.

Control 10:

Malware Protection

Prevent or control the installation, propagation, and execution of malicious apps, codes, or scripts on computer equipment.

Control 11:

Data Recovery

Establish and maintain data recovery practices sufficient to restore information assets within the scope of established protocols.

Control 12:

Data Network Infrastructure Management

Actively establish, deploy and manage (monitor, report, fix) network devices to prevent attackers from exploiting network services and vulnerable access points.

Control 13:

Monitoring and Defense of Data Networks

Use processes and tools to establish and maintain comprehensive network monitoring and defense against security threats in the company's network infrastructure and user base.

Control 14:

Cybersecurity Awareness and Skill Development

Establish and maintain an awareness program on information security and cybersecurity to influence the behavior of employees so that they are aware of and properly trained in mechanisms to reduce the company's cybersecurity risks.

Control 15:

Service Provider Management

Develop a process to evaluate service providers that maintain confidential data or are responsible for critical IT components (processes or platforms) to ensure that these providers are adequately protecting said platforms and data.

Control 16:

App Security

Manage the security life cycle of software developed, hosted, or acquired to prevent, detect and correct security weaknesses before they can affect the business.

Control 17:

Incident Response Management

Establish a program to develop and maintain the necessary incident response capabilities (e.g., policies, plans, procedures, defined roles, training, and communications) to quickly prepare for, detect, and respond to attacks.

Control 18:

Penetration Tests

Test the effectiveness and resistance of company assets by identifying and exploiting weaknesses in controls (people, processes, and technology) and simulating the objectives and actions of an attacker.



Conclusion:

These 18 controls that make up the security baseline provide specific guidance and a clear path for FinTech companies to manage information security and cybersecurity, helping to prevent and protect themselves from cyberattacks.

Along these lines, it is necessary to consider that the size of the FinTech operation does not necessarily reduce the application of controls, although it may determine some variation in the scope of what each of them implies. This baseline represents the fundamental controls, in addition to them other controls can be considered that will be identified based on the information security and cybersecurity risk analysis of the specific FinTech business model.

Likewise, FinTech requires people who can establish and maintain information security and cybersecurity in the company. Said persons must have the necessary knowledge and experience for the prevention, identification, response, and recovery of operations in the event of an incident. The organization requires a person to lead this front who can be assisted by another person in the organization or contract the services of a specialized company. In any case, management must take responsibility for the information security and cybersecurity function and understand its scope and limitations.

The key success factor of information security and cybersecurity is to systematize it in the company. That is, make security everyone's job, think of it as an enabler of customer trust, and consider it throughout the life cycle of products and services. For this, it will be necessary to create behaviors that over time become habits and these, in turn, form the culture of information security and cybersecurity in the company.

If hackers are successful in their efforts to compromise the FinTech technology platform, the trust of banking customers may be reduced, which will slow down the growth of the FinTech industry. By implementing effective cybersecurity risk management controls, companies can protect their FinTech-powered banking system from potential cyberattacks.

Otherwise, when information security is not understood, it is seen as something where the least effort is invested, it is considered as a task of only one group in the organization instead of everyone's, and risks and controls are not taken seriously.

5.8

>> LABOR
LEGISLATION

A. Hiring Systems

1. Domestic Employees

The general hiring rule in Peru is the use of open-ended employment contracts; however, in special cases, the conclusion of fixed-term and part-time agreements is allowed. The main characteristics of each of the agreements are detailed below:

- **Open-ended Agreements:** They do not have an expressly defined period for termination. This hiring mechanism grants employees all the labor rights and benefits in force in our legal system, which are detailed in “section 2” of this chapter.



- **Fixed-term Agreements:** They give employees all the rights and benefits provided for employees hired for an undetermined term. The legislation subjects its conclusion to the existence of an objective reason or cause that justifies the temporary nature of the agreement (e.g., the start of a new activity, specific work or service, replacement, etc.), its validity being subject to compliance with the requirements provided by law.
- **Part-time Agreements:** They regulate labor relations that have a working day of less than 4 hours a day every week. Employees hired part-time are entitled to all current employment benefits, except (i) compensation for unfair dismissal; (ii) severance pay (CTS)²⁴⁵; and (iii) a 30-day vacation leave (they are only entitled to six working days of vacation time per year).

In all of these agreements, it is possible to agree upon a trial period, during which the employee is not entitled to compensation in the event of unfair dismissal. The trial period begins to run from the beginning of the employment relationship and its term can be at most: (i) three months for all employees in general; (ii) six months for qualified or trusted employees; and (iii) twelve months for management employees. To be valid, the extension of the trial period must be made in writing.

2. Ex-Patriates

The labor relations of foreign citizens who enter Peru to render subordinated services for a company domiciled in the country are regulated by the Foreign Employee Hiring Act. These employees are entitled to the same benefits provided for employees in the private activity labor regime and are subject to the same contributions and taxes. In the case of income tax, the withholding rate will depend on their domiciled or non-domiciled status.

As a general rule, the number of foreign employees should not exceed 20% of the total staff. Additionally, the total remuneration received by foreign employees should not exceed 30% of the total cost of the payroll. These limits may be exempted for professionals and specialized technicians, or management personnel of new business activity, or in case of business restructuring, among others.

None of the limits on the number of personnel and salary amount applies, among others, to foreign employees who carry out work in Peru with an immigrant visa; who are married to Peruvian citizens; that have children, parents or siblings of Peruvian nationality that are investors with a permanent investment in Peru of at least five Tax Units; or foreign personnel who, under bilateral or multilateral agreements signed by the Government of Peru, provide their services in the country; among others.

B. Types of Work

Regarding the place of provision of services, there are different temporary and permanent regimes in Peruvian legislation that regulate the conditions that must be met to adapt to one or another type of work:

1. In-person Work

It is the traditional type of work in which employees must physically commute to a pre-established place agreed with the employer for the provision of their services. During the Health Emergency declared as a result of the pandemic, employers are required to take special measures in terms of surveillance, prevention, and control of COVID-19 in the workplace, which include taking preventive measures for collective application, personal protection measures, washing and disinfection of the workplace, medical evaluation of its staff and constant monitoring of suspected cases, among others.

2. Telecommuting

This legal work regime is characterized by the subordinate performance of work without the physical presence of employees at the company with which they maintain an employment relationship. It is carried out through computers, telecommunication, and similar means, which in turn are used by the company to control and supervise the work performed by employees.

To implement this, there must be a prior agreement between the employee and the employer. In case employees use their own equipment or work items, employers must compensate the employee for all expenses incurred, including communication expenses.

C. Current Employment Benefits

Employees are entitled to the following employment benefits, the cost of which is borne by employers:

Description	Amount/Rate
Vacation Time	Equivalent to 30 calendar days of rest with a remuneration of a 1 monthly salary
Statutory Bonuses	2 monthly salaries per year
Severance Pay	1.1666 monthly salaries per year
Profit Sharing	Between 5% and 10% of income before taxes
Family Allowance	Pen 102.50 per month

► **Vacation Time :**

The right to 30 calendar days of paid vacation per complete year of service, provided workers meet the vacation record, which is a minimum of days effectively worked as required by law. The vacation period must be taken within the calendar year following the year of services rendered and the related record. In the event that the worker does not take vacation time when due, the employer shall pay one additional month of remuneration as vacation indemnity

Likewise, employees and employers can agree for the vacation leave to be used ahead of time (on account of a future vacation period) or partially (i.e., in periods of 7 and 8 uninterrupted days, and the rest of the rest thereof can be used in periods of at least 1 calendar day).

► **Statutory Bonuses:**

Two bonuses per year, the first in July (Independence Day holidays) and the second in December (Christmas). Employees who leave their job before the months of July or December are entitled to receive the proportional payment of this benefit for the full months completed on the job, provided they have worked at least one full month (incomplete bonus).

► **Severance Pay (CTS):**

This is a fringe benefit to cover contingencies arising from termination of employment and promotion of employees and their families. The payment is deposited in the employees' bank account in the months of May and November.

► **Profit Sharing:**

Companies with more than 20 employees that engage in activities that generate business income are required to distribute a percentage of their annual income before taxes among their employees. The percentage of the share is fixed by law, and depends on the company's principal activity, as follows:

Type Company	Percentage
Fisheries, Telecommunications, and Industrial Companies	10%
Mining, Wholesale and Retail Companies and Restaurants	8%
Agricultural Companies	5%(*)
Companies Engaged in Other Activities	5%

(*) Starting the 2024 financial year, the applicable percentage will increase to 7.5%; and starting 2027, it will amount to 10%.

► **Family Allowance:**

Employees who have one or more dependent children under the age of 18, or children over 18 enrolled in vocational or university education, are entitled to this benefit. The amount is equivalent to 10% of the minimum wage, which is equivalent to PEN 102.50 in 2022.

► **Comprehensive Annual Remuneration:**

With workers who receive a monthly salary of at least 2 Tax Units (for 2022, 1 Tax Unit is equivalent to PEN 4,600) employers can negotiate a comprehensive annual remuneration (RIA)²⁴⁷ to which all the benefits detailed above are added, with the exception of profit sharing, to be paid as provided by law, and which may be paid directly to the worker in monthly installments.



D. Taxes and Contributions
Levied on Remunerations

Employers must assume the payment of the following taxes and contributions:

Taxes/ Contributions	Applicable Rate
Income Tax	30% or progressive tax, depending on the worker's tax bracket.
Public Health Insurance (EsSalud)	9%
Statutory employer provided Life and Disability Insurance	Depends on the type of policy
Occupational Disability and Life Insurance	Depends on the type of policy
Pension System	13% for the Public System or 12.94% for the Private System (on average)

► **Income Tax:**

Employers are responsible for withholding and paying income tax on work income. For this purpose, in the case of workers who qualify as domiciled for tax purposes, a projection of the employee's annual income must be made, and then apply an initial deduction equivalent to 7 UITs. The rates indicated in the table below regarding individual taxes will be applied to the result.

The approximate monthly deduction will be one-twelfth (1/12th) of the determined annual tax amount, which may be established by following the procedures provided by law, in order to establish the exact amount to be withheld. For domiciled employees, an initial deduction of 7 tax units is applied and further to this, the following rates are applied:

Sum of the Net Work Income and of the Foreign Source Income	Tasa
Up to 5 Tax Units	8%
More than 5 Tax Units and up to 20 Tax Units	14%
More than 20 Tax Units and up to 35 Tax Units	17%
More than 35 Tax Units and up to 45 Tax Units	20%
More than 45 Tax Units	30%

Moreover, in addition to the deduction of the 7 tax units applicable to the work income of parties domiciled in Peru for tax purposes, a maximum of 3 UITs can be deducted from the tax base if the worker has incurred expenses by concept of the leasing of real properties, interest on first-home mortgage credits, professional fees paid to freelancers (such as doctors, dentists, attorneys, veterinarians, etc., provided that they issue the respective receipts for professional fees) and social medical insurance contributions (EsSalud) for household employees and amounts paid for hotel accommodation and consumption in restaurants and bars through electronic sales receipts.

For non-domiciled workers, the tax rate is 30%, without deductions.

► **Public Health Insurance (EsSalud):**

This contribution is paid by the employers and is designed to finance the public health system (EsSalud) so that the system may provide healthcare services to employees and financial assistance in case of disability through the payment of subsidies. The collection of this amount is undertaken by the National Superintendency of Customs and Tax Administration (SUNAT)²⁴⁹ to which employers make this payment. The amount contributed is equivalent to 9% of the employee’s monthly remuneration. If the company provides health coverage to its employees using its own resources or through a Healthcare Service Provider Company (EPS) it may request a credit of up to 25% of the EsSalud contribution, provided it complies with the limits established by law.

► **Statutory Employer-Provided Life and Disability Insurance:**

This is a collective insurance. The premium depends on the number of insured employees, the work they carry out and, in general, the terms agreed to with the insurance company.

► **Pension System:**

Employees may join the National Pension System (SNP) or the Private Pension System (SPP)²⁵¹, which are mutually exclusive. This contribution is to be assumed fully by employees, with employers being responsible solely for its collection.

► **Other Contributions:**

Other contributions depend on the activity performed by the companies, for example:

a) Occupational Disability and Life

Insurance: A mandatory insurance to be paid by companies whose activities involve a high level of risk, and which grants additional coverage for health and pensions. The contract for health services may be entered into with EsSalud or with a Healthcare Service Provider Company (EPS)252; while pension-related services may be contracted with the Government Agency for Pension Fund Management (ONP)253 or with a private insurance company. The rates depend on the type of activity and/or the terms agreed upon with the insurance company.

b) Contribution to the National Industrial Vocational Training Service (SENATI):

Companies engaged in industrial activities included in Category D of the Uniform International Industrial Classification (UIC) are under the obligation to make a contribution to SENATI. The contribution amounts to 0.75% of the employee's remuneration, according to the conditions provided by law.

E. Employment contracts are terminated in the following cases

Employment contracts are terminated in the following cases:

- Compliance with the condition subsequent or the termination of the period of fixed-term agreements.
- By agreement between employees and employers, which should be put into writing.
- Resignation of employees, who must provide thirty (30) days' prior notice.
- Due to permanent absolute disability or death of employees.
- Retirement of employees.
- Justified dismissal, in which the cause must be related to the skill or conduct of employees, according to conditions established under national legislation.
- In cases established for collective dismissal, pursuant to Peruvian law.

The dismissal will be subject to the verification of an objective cause that justifies the action, pursuant to law. If the cause is found not to exist, employers will be penalized via the payment of an indemnity.

In which cases is it possible to apply for reinstatement for dismissal?

Type of Dismissal	Description	Consequences
Unfounded Dismissal	When employers fail to state a legal cause or ground for dismissal	Reinstatement / Indemnity at the employee's discretion
Fraudulent Dismissal	When employers falsely charge the worker of committing gross negligence	Reinstatement / Indemnity at the employee's discretion
Null and Void Dismissal	When the measure violates the fundamental rights of employees	Reinstatement
Dismissal with Reasonable Charge of Gross Negligence	When the gross negligence is not proven during the process, although due process was followed as required by law	Indemnity
Indirect Dismissal	When employees are subject to acts of hostility comparable to dismissal	Indemnity

The compensation is only payable after the probationary period (first three months of the contract) and is capped at 12 monthly salaries.

In the case of employees who are hired for an indefinite term, the amount to be paid is one and a half months' remuneration for each year of completed service. On the other hand, in the case of employees hired under a fixed-term agreement, indemnity is one and a half months' remuneration for each month not worked up until the termination thereof.

In both cases, indemnity is paid in fractions of 12ths and 30ths per year.

Management staff or employees in positions of trust who are hired as such may not request reinstatement, and are only entitled to receive an indemnity for dismissal, unless they have previously held an ordinary position, in which case they may also be entitled to reinstatement into such ordinary position.

F. Additional Obligations

Companies have the following obligations in terms of occupational health and safety, personnel well-being, among others:

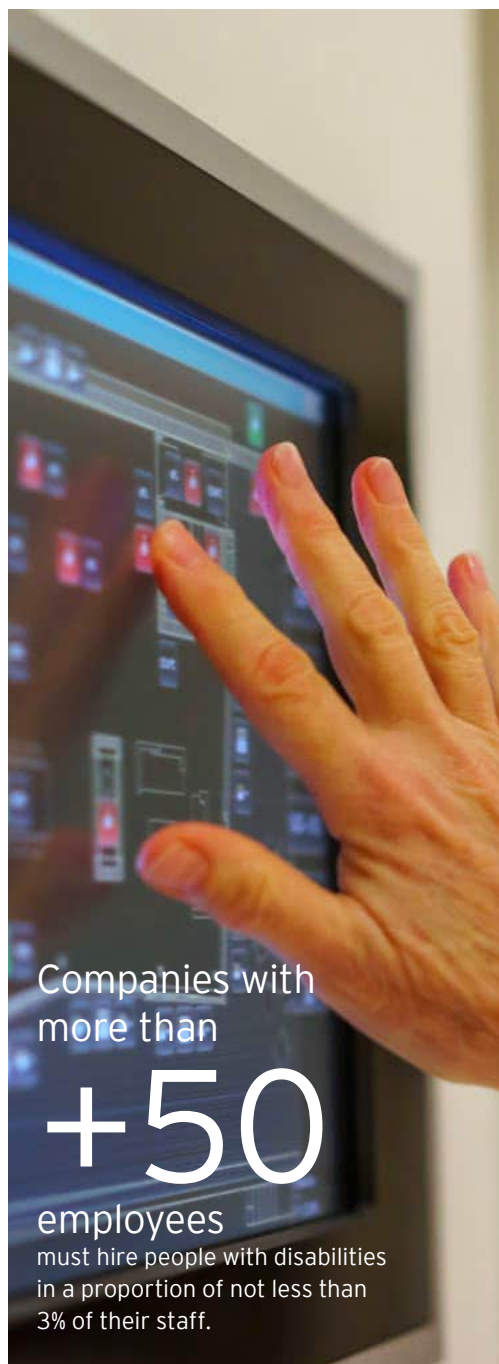
- ▶ Establishing a Committee on Occupational Health and Safety, which must be made up of equal numbers of representatives of the employer and employees. This obligation is only applicable for companies with 20 or more employees; otherwise, employees must appoint a health and safety supervisor.
- ▶ Preparing internal regulations for occupational health and safety, which must be disseminated among all employees by physical or digital means. This obligation will also be applicable only in the case of companies with 20 or more employees.
- ▶ Providing annual training on occupational health and safety, based on the position and work environment, technologies and work equipment, the measures that allow adaptation and prevention of risks, and the periodic updating of knowledge. Training sessions must be in person when they are carried out at the time of hiring, or when there are changes in the job duties, position or task type or assigned technology.
- ▶ Preparing internal work regulations, which must be handed out to all employees. This is mandatory for companies with more than 100 employees.
- ▶ Implementing, in the case of a company in which 20 or more women of childbearing age work, a breastfeeding area, that is, a specially prepared environment for working mothers to extract their breast milk during working hours.
- ▶ Setting up an Intervention Committee against Sexual Harassment in the case of companies with more than 20 employees. Said Committee will consist of 4 members: 2 representatives of the employees and 2 representatives of the employer, ensuring gender parity in both cases.
- ▶ Companies with 20 or more employees must have policies to prevent and punish sexual harassment, which must specify the reporting channels, the investigation and sanction procedure, and the deadlines for each stage.
- ▶ Providing training on sexual harassment at the beginning of the employment relationship in order to raise awareness in employees on the importance of fighting sexual harassment; and an annual specialized training for the Human Resources area and the Intervention Committee against Sexual Harassment.

- ▶ Grouping job positions into categories and duties, applying objective criteria based on the tasks involved, the skills needed to perform them and the job profile. The tables must contain the job positions included in the category, a general description of the characteristics of the job positions, and the ordering and/or ranking of the categories based on their assessment and the need for the economic activity.
- ▶ Implementing a salary policy and informing employees about its content.
- ▶ Companies with more than 50 employees must hire people with disabilities in a proportion of no less than 3% of their staff.
- ▶ Companies with more than 100 employees must have a licensed Social Worker, as well as an Industrial Relations or Human Resources area



Types of visas that foreigners can apply for in Peru

Classification	Type of Visa	Permitted Activities
Tourist Visa	Temporary	Limited to tourist visits, recreation, or similar activities. Paid or lucrative activities are not permitted.
Business Visa	Temporary	Allows them to carry out business, legal, contractual specialized technical assistance, or similar activities. It is valid for a cumulative stay time of up to 183 days within a 365-day period. It is not extendable.
Work Visa	Resident	Allows them to carry out lucrative activities in a subordinate or independent way for the public or private sectors, by virtue of an employment contract, administrative relationship or service agreement. Includes employees of a transnational or international corporation who travel to Peru to work in a company of the same economic group or holding company, to work as senior management or trust personnel or as a specialist or specialized employee.
Investor Visa	Resident	Allows them to establish, develop or manage one or more legal investments within the framework of Peruvian legislation.
Designated Work Visa	Resident	Allows them to carry out work activities in the national territory that consist of carrying out a specific task or function or a job that requires professional, commercial or specialized technical knowledge when sent by a foreign employer. They cannot carry out remunerated or lucrative activities on their own account.
Work Visa/ Temporary Designated Work Visa	Temporary	Allows them to carry out the same activities as a Resident Employee and Designated Resident, but without the intention of establishing their residence in the country.
Student Visa	Resident	Allows them to pursue regular higher education, basic education, arts or trades in institutions recognized by the Peruvian State. It includes student exchanges, undergraduate or professional internships, cultural exchanges, and other training modalities recognized by Peru.



Companies with
more than

+50

employees

must hire people with disabilities
in a proportion of not less than
3% of their staff.

In the case of foreigners coming from Mercosur countries (Brazil, Argentina, Chile, Uruguay, Colombia, Bolivia), from CAN countries (Bolivia, Colombia, Ecuador, in addition to Peru) or from countries with which there are specific immigration agreements (Spain, Argentina, and others), other immigration provisions and/ or facilities may be applicable.

h. Supervisory Body

The National Superintendency for Labor Audits (SUNAFIL) is a specialized technical entity attached to the Ministry of Labor and Employment Promotion and responsible for promoting, supervising, and auditing compliance with labor laws and laws on occupational health and safety. It designs and conducts nationwide all duties and competencies established in Law 28806—the General Labor Inspection Act, and acts as the central authority and guiding entity of the Labor Inspection System, in accordance with national and sector policies and plans, as well as the institutional policies and technical guidelines of the Ministry of Labor and Employment Promotion.

5.9

>> ACCOUNTING STANDARDS

The LGS establishes that the financial statements of companies incorporated in Peru must follow the general accounting principles accepted in Peru and other applicable legal provisions. The Peruvian Accounting Standards Board (CNC) has established that the general accounting principles are basically the standards issued by the International Financial Reporting Standards Board (IFRSB), including the International Financial Reporting Standards (IFRS), the IFRS Interpretation Committee (IFRIC), and the Standing Interpretations Committee (SIC), and the specific provisions approved for particular businesses (banks, insurance companies, etc.).

The CNC is responsible for issuing the general chart of accounts for companies and methodologies that apply to both private business and government entities.



The CNC adheres to the standards approved by the International Financial Reporting Standards Board (IFRSB) which are explicitly approved by the CNC and published in “El Peruano” Official Gazette, indicating their date of approval in Peru, which may differ from the internationally approved date.

On the other hand, entities belonging to the Peruvian financial industry, which include certain financial technology companies such as electronic money issuers, are regulated by the Superintendency of Banking, Insurance and Private Pension Fund Management Companies (SBS). This regulator requires supervised entities to keep their accounting books and prepare and submit their financial statements in accordance with the requirements described in the Accounting Manual for Financial System Companies. Although said manual is based on the principles proposed by the IFRS locally approved by the CNC and the IFRS internationally approved by the IASB, it is important to emphasize that the SBS has established in said manual certain prudent accounting standards and practices that are different from IFRS requirements and must be mandatorily applied.

As of the date of publication of this guide, the CNC and the SBS have not issued specific accounting guidelines for financial technology companies incorporated in Peru. In this regard, said companies will be governed in accordance with the guidelines established in the accounting framework described above.

As mentioned, although there is no regulation in force nor series accounting that have been released, FinTech companies, like all other companies, find an opportunity in international standards. The IFRS is a tool that will allow them to have greater clarity in their financial information with better comparability in international markets for potential investors, also making it a challenge to adapt to IFRS requirements.

The transactions particular to the FinTech sector and the speed of its growth create new fronts for new products and services that require organizational and operational development to maintain the same pace. Therefore, it is important to know some of the most common accounting considerations faced, which are described below:

A. Accounting for shareholder transactions

Investors enter FinTech companies using a variety of instruments, with one of the most common ways being investment in equity shares or convertible preference shares. Such options may contain an unconditional obligation to deliver cash or another financial asset or contain liquidation rights through a variable number of equity shares. Depending on the characteristics, according to IFRS, the classification will depend on the content of the agreement and, therefore, a financial liability or an equity instrument could be recognized, which could cause different effects on the presentation of financial statements.

B. Classification and Recognition of Commission Revenue

FinTech companies, when providing financing operations and/or offering financial products to their clients, incur certain administrative commission charges or commitment commissions for approved, unused and other lines.

Depending on the analysis on the nature of these commissions, the classification and accounting recognition of commission revenue is different according to IFRS (the transaction may be under the scope of IFRS 9 Financial Instruments criteria or IFRS 15 Revenue from Ordinary Activities Originating from Contracts with Customers).

C. Treatment of Commercial Discounts and Impact on Revenue Recognition

The use of discounts, loyalty plans (customer loyalty), accumulation of points for discounts, exchanges, among others, are common operations used in FinTech companies.

From the perspective of IFRS, recording income from these operations has certain particularities that affect the recognition and measurement of income and, therefore, a detailed evaluation will have to be carried out to know the appropriate accounting dynamics in accordance with IFRS.

D. Accounting for Investments in R&D and their Classification as Cost or Expense

FinTech companies outlay considerable investments for research and development projects.

Under the guidelines of IAS 38 Intangibles, it is important to identify the stage in which the project is at in order to know if said outlay should be recorded as an intangible asset or an expense (differentiated accounting treatment).

E. Share-Based Payments

FinTech companies offer their staff, as part of their key position retention program and achievement of commercial goals, benefit plans such as compensation based on company's shares.

IFRS 2 Share-Based Payments establishes the accounting requirements for such transactions and their impact on financial statements.

F. Leases

In accordance with IFRS 16 Leases, there are no longer operating leases and, therefore, the right-of-use asset and the lease liability must be recognized under an accounting model of the present value of the projected flows of lease income.

FinTech companies may also enter into lease agreements in pursuit of rapid commercial or logistical growth.

G. Financial Derivative Instruments and Hedge Accounting

FinTech companies live in a scenario of constant volatility in exchange rates and interest rates due to the nature of their businesses. To mitigate these risks, there are certain types of derivatives on the market.

IFRS 9 Financial Instruments, specifically on the financial derivatives front, details the accounting considerations to record a derivative transaction following what is established in hedge accounting, which entails certain advantages that converge on the financial statements.

H. Securitization with Trust Estate (Investment Vehicles) through Portfolio Transfers

Placing loan portfolios in the capital market through asset securitization to obtain financing implies that an analysis is correctly carried out to determine whether the risks and benefits of the transferred assets have been substantially assigned and, depending on the conclusion, accounting impacts may be very different. For example, the amounts received could lead to the recognition of a financial liability (financing) and not as a derecognition of assets.

I. Expected Loss of the Credit Portfolio

Many FinTech companies that have entered as payment service providers (“digital banks”), virtual wallets and non-financial credit lenders, offer business or consumer loans through virtual platforms.

Many of these companies have not yet developed a model to determine the expected loss of the credit portfolio in accordance with IFRS 9 Financial Instruments.

Not having a model that meets regulatory requirements would result in non-compliance with IFRS, in addition to incorrect portfolio risk management and inadequate treatment for disclosure in financial statements.



J. Treatment of the Modification of Credit Flows due to Refinancing or Restructuring

One of the main accounting challenges for the FinTech sector is the speed at which online loans are generated, refinanced or restructured.

It is important to measure the accounting impact on financial statements of refinancing or restructuring, and adequately recognize the accounting treatment for each type of modification to credit flows in accordance with the guidelines of IFRS 9. For example, IFRS 9 indicates that, if the changes in cash flows are classified as substantial change, the financial asset should be derecognized and a new financial asset should be recognized at its fair value.

K. Investment in Cryptocurrencies and Other Financial Assets

The accounting treatment of cryptocurrencies will depend on the facts and circumstances specific to each type of entity and the corresponding analysis could be complex.

Cryptocurrencies, according to their functionality, can be recognized differently as financial instruments, equity instruments, derivatives, inventories or intangible assets.



FIN
TECH

6

FINTECH IN
LATIN AMERICA



6.1

>> ARGENTINA

The FinTech sector is experiencing exponential growth not only in the region in general but also specifically in Argentina. Today, the country is home to 10% of the FinTech companies in all of Latin America and is the third country with the most digital banks in the region.

Through 330 registered companies, this industry is directly responsible for the creation of 30,000 jobs that have the option of being remote positions, which represents an opportunity for professionals residing in the more inland region of the country.

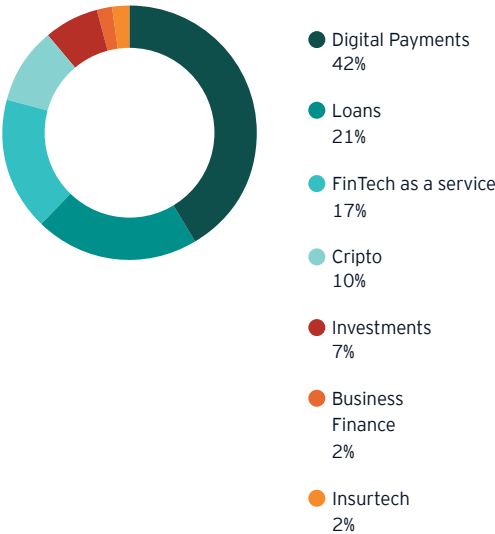


The advance of digitalization becomes evident with the 9.3 million accounts with Single Virtual Key (“CVU”, issued for Payment Service Providers and FinTech), incorporated in 2022, and a 149% increase in the participation of at least one CVU in a transfer, compared to the previous year.

Thus, there has been a year-on-year growth of 122% in FinTech transfers. This dynamism demonstrates the relevance that FinTech solutions²³ have represented for the digitalization of the economy and the financial inclusion of the population, even in a less than optimistic macroeconomic outlook.

In Argentina, activities concentrate in the following verticals:

FinTech landscape in Argentina



Source: Panorama FinTech Argentina, FECOBA



The digital payments vertical is the most representative given the great progress in the digitalization of cash payments and the amount of people, businesses and governments that have joined this solution to carry out transactions. Additionally, digital payments are the basis on which several FinTech businesses are built.

Loans is another key vertical in the industry since there were more than 4.4 million registered debtors in the FinTech industry in December 2022, which reflects an increase of 13% in the number of debtors compared to June 2022, and of 58% compared to December 2021. A product that was widely accepted was Mercado Credito (by Mercado Pago).

Likewise, payment accounts and funds invested through payment service providers registered 15.8 million payment accounts in the month of June with a total balance of USD 148.2 billion, while the balance invested in mutual funds reached USD 317.5 billion. Both concepts together represent 2% of total private sector deposits, which was USD 23.3 billion for that same month, showing the exponential growth of the sector. It is important to highlight that 92.4% of investments in mutual funds were made through Mercado Pago accounts and 81.8% of payment accounts were also opened in Mercado Pago, which demonstrates the boom of the platform. In order to be able to offer this option, which simulates an interest-bearing demand account, FinTech companies make alliances with mutual fund administrators and focus on liquid mutual funds.

23. Intra-PSPCP transfers: immediate transfers in which both the ordering customer's payment account and the receiving customer's payment account are located within the same PSPCP. the receiving customer's payment account are located within the same PSPCP. Glossary-Payments-Retailers.pdf (bcra.gov.ar)

Currently, there are three FinTech companies in Argentina that are considered "unicorns":

1. Ualá

It was founded in 2017 and today is valued at USD 2.5 billion, with 5 million users in Argentina and operations in Colombia and Mexico. It started with a rechargeable debit card for domestic and international use and then expanded to different financial solutions such as access to credit, payment instruments, investment in pesos and the digitalization of unbanked users. In recent years, it has been innovating and incorporating new verticals and markets, employing 1,500 people in Argentina. In August 2023, its strategy was finally revealed after the acquisition of Wilobank: it renamed it Uilo and allowed its users to have a CBU (Single Bank Code) instead of a CVU. It is a win-win situation: clients can receive their salaries and earn 5% cashback while having balances in CBUs allows the company to carry out financial intermediation i.e. it can invest or lend those funds. It also purchased ABC Bank in Mexico for USD 150 million in 2021 in order to accelerate its development in the Mexican market.

2. Mercado Pago

It is the online payment platform created by Mercado Libre; it represents almost half of the unicorn's net income (USD 1.2 billion of USD 2.7 billion).

It allows persons to pay in online and physical stores, send and receive money, top up cell phones and SUBE cards for public transportation, and get paid for business sales. As a virtual wallet, it offers different forms of payment and protection to buyers. It has experienced significant growth in recent years, with a total volume of transactions processed through digital accounts, which includes payments through the e-wallet, P2P transfers between Mercado Pago users, credit, debit and prepaid card transactions, of more than USD 10.6 billion, growing 137.5% year-on-year in constant currency.

3. itfarms

Is a company dedicated to crypto mining (cryptocurrencies and crypto tokens) in Canada, the United States, Paraguay and Argentina; it also owns and operates server farms that primarily validate transactions on the Bitcoin blockchain and earn cryptocurrency from block rewards and transaction fees. It is listed on the Toronto and New York stock exchanges, becoming a unicorn in 2021.

Despite not having yet reached the category of "unicorns", there are other companies and startups within the FinTech industry that have a leading role and are significant due to the business model they offer:

1. **MODO**, is a public-private project by the country's main banks to simplify payments and transfers using a mobile app. The platform, founded in 2020, allows for transfers, payments and purchases in all stores via cell phone, similar to Mercado de Pago, its competitor. Currently, there are more than 30 banking entities associated with MODO.
2. **BNA+** is the virtual wallet of Banco de la Nacion that offers Banco Nacion cards and accounts in one place and the possibility of making payments without cards or cash. BNA+ has some features that are similar to BNA Homebanking, as it shows the account balance and latest movements.
3. **Cuenta DNI** is another virtual wallet that Banco Provincia launched in response to new consumer demands and to maintain competitiveness against the rest of the banks. The proposition is that when opening a virtual wallet in a Cuenta DNI, a savings account is opened automatically and free of charge without any maintenance costs. Cuenta DNI managed to capture a large portion of the QR payments market, which reflects the platform's rapid growth since its launch in 2020.
4. **Getnet** is a FinTech company that proposes an open platform for collections and services that provides merchants, entrepreneurs and professionals with an easier, faster and safer alternative when getting paid. It is a payment service for card transactions, a Santander Group product that accepts payments with credit, debit, prepaid cards and other methods. The Group also offers Superdigital, a platform with a virtual wallet service to pay for services, top up cell phones, send and receive transfers and make purchases with a virtual or physical prepaid card.
5. **Nubi**, is a FinTech founded in 2017 that offers an online marketplace that allows users to compare different financial products from different banks in one place so they can make informed decisions about the best product for them. It also provides users with access to personalized advice from experts on topics such as budgeting, debt management, retirement planning, as well as the usual services such as a prepaid card, among other benefits.
6. **Ripio**, offers a prepaid card to use funds, either in crypto or in pesos, from the ripio wallet to make purchases and payments in any online or physical store. It provides B2C and B2BC services (with integration of other clients) and has more than 8 million active accounts as part of its operations in Argentina, Brazil, Mexico, Uruguay and Chile.

7. Menta, is a technology company based on cloud microservices that seeks to eliminate frictions and barriers from the payment and financial system, developed its own collecting device with Android to create an ecosystem of devices that not only includes collection solutions, but other applications as well. In this way, each business will be able to create its own customized experience on its own device.

8. Finally, Pomelo is a FinTech company that offers other FinTech ventures the possibility of quickly providing financial services so that they can include them in their value proposition. It works on the backstage of FinTech or crypto since its star product is linked to card issuance and processing.

Below are some relevant transactions in the FinTech sector:

Date of Announcement	Target Company	Investing Company	Description of the Transaction	Value of the Transaction in USD (M)
Jan 3, 23	Yacaré (200% Stake)	Fiserv Inc	Fiserv Inc is a financial technology software company from the United States that provides processing solutions and online payment clearing. It acquired Yacare, a financial services provider based in Argentina.	n.a.
Sep 7, 22	Ceibo Creditos (100% Stake)	Ualá	Bancar Tecnologia SAU, the Argentina-based fintech software company committed to a financial management mobile app. It acquired Ceibo Creditos, a local BNPL FinTech.	n.a.
Aug 18, 22	Koibanx	G Squared; Algorand, LLC; Borderless Capital; Kalonia Venture Partners; Innogen Capital	Koibanx, a blockchain company based in Argentina, raised USD 22 million in a Series A funding round led by Algorand. Borderless Capital, Kalonia Venture Partners, G2 and Innogen Capital also joined the round.	22

Date of Announcement	Target Company	Investing Company	Description of the Transaction	Value of the Transaction in USD (M)
Aug 4, 22	Geopagos	Riverwood Capital, LLC; Endeavor Catalyst Inc	Riverwood Capital LLC, the private equity firm, has acquired an undisclosed stake in GeoPagos SA, an Argentina-based payment processing software.	35
Mar 14, 22	Prisma Medios de Pago S.A. (49% Stake)	Advent International Corp	Advent International Corp, a private equity firm focused primarily on acquisitions, will acquire 49% of Prisma Medios de Pago S.A, an Argentina-based FinTech software company committed to payment processing solutions.	350
Feb 22, 22	Technisys S.A. (100% Stake)	SoDi Technologies Inc	SoFi Technologies Inc, a US-based software company that provides an online lending platform, has agreed to acquire Technisys LLC, a local software technology company engaged in payment processing solutions belonging to Riverwood Capital LLC, a private equity firm.	897.9

Regulatory Framework

From a regulatory/legal aspect, FinTech companies are not regulated by a framework law, but are regulated by different laws, as well as by different regulatory and control bodies that include the Financial Information Unit (FIU), the Central Bank of the Argentine Republic (BCRA), and the National Securities Commission (CNV). In addition, they are also regulated by the general provisions issued by the General Inspection of Justice (IGJ) and the Federal Public Revenue Agency (AFIP).

The main laws are:

1. Law 21.526 - Financial Entities

This law regulates and supervises the operation of financial institutions in the country. Its objective is to establish a regulatory framework that promotes the solidity and stability of the Argentine financial system, as well as to protect the interests of depositors and users of financial services. Similar to banks and other traditional financial institutions, FinTech companies that offer financial services in Argentina must obtain the corresponding authorization and license to operate.

2. Law 25.246 - Money Laundering

Its main objective is to combat the use of the financial system to legitimize funds coming from illicit activities. FinTech companies must develop effective technological solutions to carry out know-your-customer (KYC) processes in an agile and secure manner, ensuring

compliance with the identification requirements established by law.

3. Law 26.831 - Capital Market

The CNV regulates and controls entities that operate in the securities market, such as stock exchanges, brokerage companies and other financial intermediaries. It seeks to protect investors, promote transparency and efficiency in financial operations, and establish an adequate framework for the development of the financial market in Argentina. In the case of FinTech companies that act as intermediaries to facilitate financial operations or provide advice, they must ensure that they comply with the regulations established by the CNV and obtain the necessary authorizations.

Because Argentina does not have a FinTech framework law, but rather the applicable regulation is found in different legislation, the following instruments are very important to consider:

1. Circulars and periodic communications from the BCRA, where type "A" are the most important ones because they deal with permanent regulatory issues. Below are the most relevant ones:
 - 7759: It restricted payment service providers that offer payment accounts from carrying out or facilitating their clients to carry out operations with digital assets, including crypto assets and those whose returns are determined based on the variations that they register, if not authorized by a competent national authority or by the BCRA.

► 7825: Virtual wallets must distribute among their clients all the profitability obtained from the balances in pesos of deposit accounts in financial entities where the funds of those clients are deposited in and that because of the client's decision these funds are not invested, preventing entities from generating income from their balances.

► 7724: Defines the minimum requirements for the management and control of technology and security risks, replacing Communication A 4609 and its modifications. Broadly speaking, the new communication incorporates factors such as:

- Artificial Intelligence
- Third-Party Relationship Management Framework
- Authentication
- Cyber Incident Response and Risk Management
- Government and Enterprise Architecture

This transformation involves rethinking the technological risk management model, prioritizing cybersecurity and fraud risks. The challenge for Financial Entities? Quickly understanding the real changes that their processes require in relation to what is required by the standard, and implementing them in the times established (Gap Analysis and identification and prioritization of initiatives and their assigned budget).

2. Resolutions by the FIU, mainly 14/2023, which regulates matters related to money laundering and terrorist financing.

3. Regulations by the CNV, IGJ and AFIP.

4. Recommendations from other bodies that specifically regulate the activity.

5. General provisions contained in the National Civil and Commercial Code.

The ML/TF Bill (Prevention and repression of money laundering, terrorism financing and financing of the proliferation of weapons of mass destruction)²⁴, is currently being processed in the Senate. This Bill proposes the creation of a Registry of virtual asset service providers, and was promoted by the CNV in order to generate and improve the rules and regulations around the FinTech world, in line with similar initiatives in the international arena. This is because the situation requires agile changes and adaptations given the evolution of these markets. In recent years, the emergence and growth of these virtual asset service providers has been exponential, while technology has evolved at an equally frenzied pace.

This proposition, which also aims to protect the investor and promote the development of the industry, comes at a key moment for the industry, since, in May 2023, the BCRA prohibited carrying out or facilitating operations with digital assets, in line with its 2022 decision to prevent traditional financial entities, such as banks, from using these digital assets, considering that Argentina is the second country in terms of the adoption of crypto assets in the region, after Brazil, and 13th in the world.

24. ML/TF Bill presented to the Senate | Argentina.gob.ar

Finally, the main actors in the sector came together to improve user security through an important cooperation agreement in 2022. This agreement complements other security initiatives promoted by the BCRA and the sector's chambers, such as the Central Fraud Prevention ("CPF"), which will have various financial and tax databases available that will allow alerts when potentially suspicious operations occur in transfers between banks and between CBU and CVU.

After this journey, it is evident that a comprehensive law, based on a flexible model, and capable of addressing the constant changes that this industry entails, could benefit both FinTech and more traditional players in the financial industry, bringing greater transparency to the sector and greater focus on customers.

Challenges and Trends in the FinTech sector

a. Impact on the financial sector: FinTech growth has undoubtedly brought about a positive transformation in the financial sector. It even forced traditional banking to digitalize processes and optimize services, fundamental requirements to satisfy the experience of an increasingly demanding and immediate user. Of course, the pandemic also had a profound impact on this process of definitively promoting the adoption and consolidation of new technologies, such as transfer payments, which in June surpassed card payments, both debit and credit (230 million vs. 194 and 130 million, respectively).

b. New generations: FinTech companies, especially Mecado Pago, have been able to attract the most vulnerable and excluded sectors of the financial system, particularly the youth, not only with their innovative user experience but also because they have been able to identify and solve the segment's needs. Thus, centennials and millenials are the main protagonists of the sector. For more traditional players, attracting the young segment represents a great challenge. The agility to access financial services and products (simpler) facilitates independence and autonomy in managing personal finances. After a year of launching the Mercado Pago digital account for teenagers, 700,000 young people between 13 and 17 years old joined the payment ecosystem.

c. New competition: From retail to energy, companies are developing their FinTech facet, creating new forms of collection, financing and access to financial information and preferences of their clients. Such is the case of Carrefour, with its Financial Services Bank and its virtual Mastercard card, YPF's App, and Telecom's Personal Pay, among others. FinTechs face, then, not only the FinTech evolution of BigTechs (such as Apple, Google and Amazon), but of all types of organizations, competing for the same users.

d. Democratization of credit: Ten million people accessed financing from Non-Financial Credit Providers (“PNFC”), 4% more than the previous year, according to the latest BCRA report. Argentina's complexity implies challenges such as:

- Operating in a context of high informality, preventing access to the financial information of individuals/SMEs
- Greater tax pressure than other sectors
- Being patient in an environment of great volatility and uncertainty

But at the same time, FinTechs have the opportunity to:

- Consolidate as a fast and reliable alternative in close reach, compared to traditional players.
- Leverage on points of sale, both physical and virtual, so that people can complete their purchase at the moment, since what they are looking for is to acquire a certain good and not, in fact, a financial product.
- Making the most of the potential of technology, such as AI and blockchain, to offer more efficient services and products and prevent over indebtedness of the population.

e. Open finance: Integration is growing in finance. This new mentality has shifted the approach from product-focused to customer-focused, as customers demand protection, transparency, diversity of options and low costs, and are willing to share their financial information with different participants of the financial ecosystem in order to have a better and more personalized experience. With Open Finance, rates are expected to reduce. Data sharing diminishes competitive advantage, requiring innovation to reinvent models. The breaking down of barriers between industries will bring an increase of alliances and collaborations, expanding the range of embedded insurance, payments, investments, entertainment and e-commerce.

According to the latest report from the Argentine Chamber of FinTech, the main barriers identified for entities to implement embedded finance and Open Banking are regulatory complexity and the lack of products that facilitate this interaction. Although in Argentina there is no comprehensive legal framework that regulates Open Finance, there are regulatory and legal initiatives, aligned with international standards, that moderate data sharing and transactions through integrations via API. For this reason, we can consider the interoperability of instant payments as proof of the existence of Open Finance, which is regulated through Transfers 3.0, the interoperability of QR codes, the regulation of wallets and consent from financial users (more due to pressure from traditional banks).



Experience has shown that a framework is not necessary to evolve data sharing and the technological integration of different financial and non-financial players, although an umbrella law could better guide future actions, and FinTechs would be the most interested actor. Open Finance demands collaborative work, something not very common in the financial sector, and focusing on the interests of clients and not their own, a strong investment in technology (especially from banks, since they are the ones with the greatest number of obsolete systems) and cybersecurity. This results in a better experience for the customer and the possibility of developing new business models, but at the same time it can make loyalty more difficult.

After six years from the emergence of FinTech in the country and the region, the growth of the sector managed to demystify the idea that it was just a trend. The world of digital finance continues to advance, even despite the global and regional crisis, which in 2022-2023 resulted in the defunding of the industry and a lack of liquidity. Once these obstacles have been overcome, the FinTech sector continues to consolidate and grow, increasing its impact, while positioning itself as a more mature and established industry.

6.2

>> BRAZIL

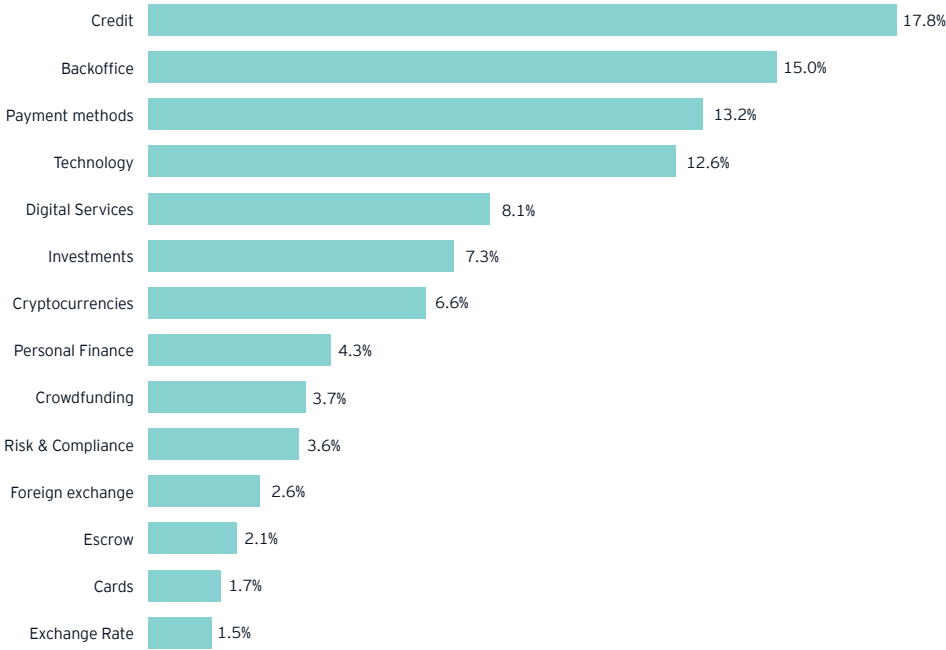
1. Data on the Current Scenario of the Financial and FinTech Sector

- ▶ According to a Report by Distrito, as of December 2022, there are 1,450 FinTechs in Brazil.
- ▶ In Brazil, FinTech can be classified into various categories: payments, credits, digital wallets, back office, Marketplace and digital asset brokers.



6.

Main categories of Fintech companies

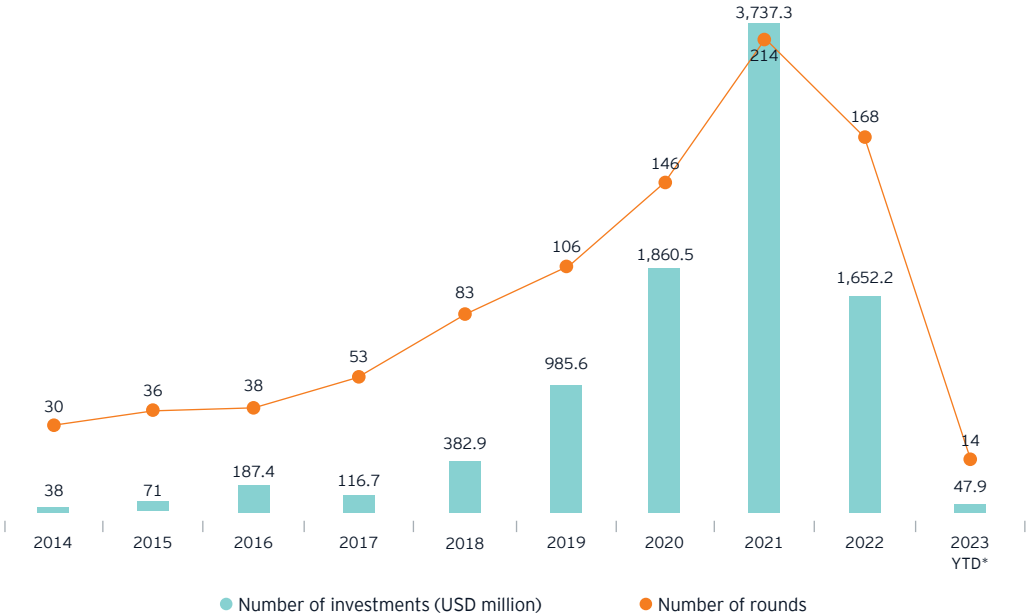


Source: Distrito FinTech Report 2023.pdf (hubspotusercontent-na1.net)

The number of FinTech companies experienced a continuous period of growth between 2012 and 2020, going from 250 companies to 1,300. In recent years, the number of FinTech companies has stabilized.

There has been significant growth between 2019 and 2021 in the number of investments, with a historical record in 2021 for the largest number of investments in Brazil. Starting in 2022, the decrease in the number of investments in this type of company has been notable.

Total Annual Investments in FinTech Companies



Source: Distrito FinTech Report 2023.pdf (hubspotusercontent-na1.net)

In recent years, a large number of FinTech companies in Brazil have become Unicorns, making it the Latin American country with the largest number of companies in this category. Some examples of Brazilian FinTech Unicorns are: Banco Neon, Banco C6, CloudWalk, Creditas, EBanx, Mercado Bitcoin, Nubank and Dock.

Regarding services, FinTech has grown significantly in Brazil in recent years, and now covers many types of businesses, offering

a great diversity of financial services. When they first emerged, FinTech companies focused on offering procurement services, credit card issues, and digital accounts. It was very well received by many companies in this segment (for example, Nubank, which today is a large company, but started issuing cards and digital accounts). In recent years, many FinTech companies have started offering loans to their clients, and have been investing heavily in technology, so that they can be able to do an efficient credit evaluation.

Today, credit is the fastest growing service in the Brazilian FinTech sector. Another segment that has been explored by FinTech companies is digital assets, and recently many FinTechs have emerged to be intermediaries in the purchase and sale of these assets. A final example of services offered by FinTech is Bank as a Service, this type of FinTech takes advantage of a very strong movement in Brazil, in which all non-financial companies want to become FinTech companies, seeking to offer more services and build customer loyalty.

2. Regulatory Framework

Since 2013, the Central Bank of Brazil has been regulating a significant number of FinTech companies. Initially, payment entities were regulated, followed by other FinTech entities. In general terms, FinTech companies (depending on the volume of their operations) are required to obtain authorization from the Central Bank in order to operate. Once authorized, FinTech companies are subject to regulations issued by the Central Bank, which include, for example, specific accounting practices, governance structures, regulatory capital requirements, etc. In addition, regulated FinTech companies must periodically provide the Central Bank with reports on their operations (for example, balance sheets, information on commissions charged, volume of transactions carried out, etc.).

Here's a brief history:

- Years ago, the Central Bank of Brazil presented the "BC Agenda" in its strategic planning, which, among other issues, includes the regulator's incentive for financial inclusion, greater competitiveness and transparency.
- These actions by the regulator served as a strong impetus for the creation of FinTech. For example, in 2013 the Central Bank began to regulate payment institutions, opening this market to the creation of several FinTechs that provide credit card issuance services, acquisition services, as well as digital wallets.
- Soon after, the Central Bank created a new type of financial institution, the SCD (Direct Credit Society), which allowed FinTechs to enter the credit market, mainly for small businesses and low-income individuals.

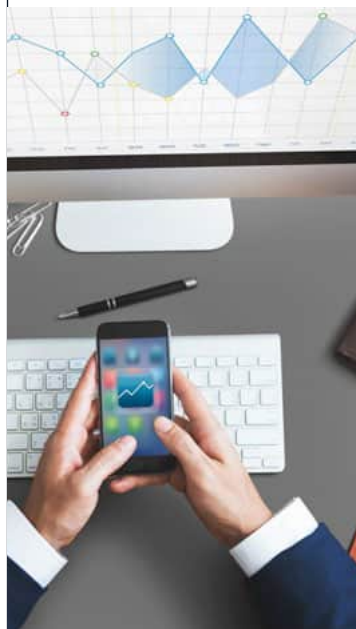
6.3

>> CHILE

A. Market Trends

1. Payment Methods

- ▶ As of June 2023, 26.2 million debit cards were valid, which represents an increase of 5.2% compared to the same month of the previous year.
- ▶ As of June 2023, 13.8 million credit cards are valid, which represents a 3% decrease compared to the same month of the previous year, according to the Financial Market Commission ("CMF").



6.

- ▶ Chile is a leader in the adoption of contactless payment technology in the region, with 70% of purchases (Ebook: 2023 Digital Payment Trends).
- ▶ According to Payments and Commerce Market Intelligence (PCMI), Chile's e-commerce market will grow by 16% in 2023 to almost USD 34.1 billion.
- ▶ These are the most common payment methods in e-commerce in Chile in 2022, according to their market share:
 - Credit cards (30%)
 - Debit cards (29%)
 - Digital wallets (18%)
 - Account-to-account payment (15%)
 - Postpay (3%)
 - Cash on delivery (2%)
 - Buy Now Pay Later (1%)
 - Prepaid cards (1%)
- ▶ In 2022, 42% of e-commerce purchases in Chile were made using a desktop computer.
- ▶ In 2022, 58% of e-commerce purchases in Chile were made using mobile devices
- ▶ By 2023, e-commerce in Chile will be primarily mobile. According to PCMI:
 - In 2023, 60% of e-commerce sales volume will be attributed to mobile device purchases.
 - In 2023, 40% of e-commerce sales volume will be attributed to purchases made using a computer or laptop.

- ▶ Electronic Fund Transfers (referred to by its Spanish acronym "TEF") are especially relevant in the increase in the use of digital payment methods. As of March 2023, digital payments accumulate, in 12 months, 5 billion 292 million operations, for an amount of USD 8 billion 707 million (approximately 339 billion 275 million dollars), equivalent to 110% of GDP.

Currently, TEFs constitute the most relevant digital payment method in terms of amount, representing 68% of total digital payments. Between March 2022 and the same month in 2023, the digital payment method that registers the greatest growth in the number of transactions is prepaid cards (207%), followed by TEFs, and bank debit and credit cards with a growth of 25%, 20% and 20%, respectively. In contrast, the significant decrease in check payments continues, both in number of transactions and in the amount of operations, which, in 12 months, are at levels below 10% of GDP.

2. Banking Penetration

- ▶ Chile is the country with the best results in the region in terms of access to financial instruments, use, and perceived quality, only surpassed by Panama.
- ▶ In Chile, only 8% of people over 18 years of age are not connected to the financial system (aimchile.cl - "The impact of Banking Penetration on Consumption Patterns in Chile").
- ▶ 50% of Chileans claim to know at least 10 financial products. In addition to that, 87% of Chileans surveyed stated that they have debit cards, making the country with the highest percentage out of the eight surveyed.

3. Raising Capital for FinTech

Below are some case examples:

- ▶ **Datamart:** USD 6.3 million in February 2023 led by Moonvalley capital and with the participation of Banco Santander, Grupo Falabella and BICE, with the aim of expanding their operations in Mexico.
- ▶ **Destacame:** USD 10 million in November 2022 in a Series B funding round to expand in Mexico, providing tools to companies to help their collaborators improve their finances.

4. Other Funding for FinTech

- ▶ **Krealo:** Credicorp's investment arm launches a financing program of up to USD 150 thousand and will be aimed at 10 startups focused on financial services and in the pre-seed stage in Chile, Peru and Colombia.
- ▶ In July 2023, Chilean startups raised USD 6 million, which means a drop of 77% compared to July 2022.

5. FinTech Ecosystem

- ▶ There are 277 local startups related to the financial and/or FinTech industry by 2023 in Chile, which represents a growth of 54% compared to the previous year.
- ▶ In addition, another 296 foreign FinTech companies have operations in Chile, forming an ecosystem of a total of 583 FinTech companies.
- ▶ 33% of the FinTech ecosystem corresponds to Wealthtech, 24% to Paytech, 21% to Lending & Crowdfunding, 15% to Regtech & Suptech, 3% to Neobanks, and 4% to other categories.
- ▶ Notable mergers and acquisitions
 - Latam Trade Capital acquires Fivana, being its sixth purchase in 5 years (June, 2023).

6. Main economic indicators

► The Monthly Index of Economic Activity

("IMACEC"): This indicator shows the evolution of global economic activity for 12 months, which is also deseasonalized and calculated in terms of trends, constituting an indicator supplementary to the quarterly Gross Domestic Product (GDP), which is adjusted once the quarter is over. The July 2023 IMACEC grew by 1.8% compared to the same month last year. The seasonally adjusted series increased 0.3% compared to the previous month and increased 1.8% in twelve months. The increase in IMACEC was mainly explained by service activities, particularly education and, to a lesser extent, by the production of goods.

► Financial Stability Report ("IEF"): The

IEF for the first half of 2023 indicates that financial conditions have deteriorated globally and exhibit an above-usual degree of uncertainty regarding their future evolution. The turbulence that began in March, as a result of the failure of several banks, has been mitigated by the rapid and coordinated action of the authorities. At the local level, the impact of these events has been limited, in an economy that continues to resolve the effects of the macroeconomic imbalances accumulated in previous years. In this process, the financial position of households has narrowed, showing a negative savings rate. Meanwhile, companies have continued to reduce their indebtedness

after the pandemic. The increased use of cards and lines of credit among households and businesses has resulted in greater exposure to interest rates, with defaults returning to pre-pandemic levels, and a situation that does not suggest the presence of systemic risk elements. The local bank has a position of sufficient liquidity and solvency to face the scenario of tension and, in the face of the recent international banking situation, it differs in terms of its business model, regulation and supervision.

► Performance of supervised banks and cooperatives:

Loans from the banking system fell 3.99% in 12 months, explained by a 6.50% decrease in commercial loans, a smaller drop than the previous month, and a 3.53% decrease in consumer loans, both in 12 months. On the other hand, the housing portfolio experienced growth in 12 months, of 1.92%, a higher rate than last month.

► Monetary Policy Report (IpOM):

According to the Monetary Policy Report delivered by the Central Bank of Chile in June 2023, the entity maintains the monetary policy interest rate at 10.25%, on track to reach the 3% target in 2024. In general, domestic activity and demand have evolved in line with expectations, although with a larger-than-expected fall in the durable component of private consumption. For this year, activity is expected to grow between -0.5 and 0.25%. In 2024 it will be between 1.25 and 2.25% and in 2025 between 2 and 3%.

B. Regulation

In Chile, financial institutions are regulated by the CMF, and there are different regulations that, depending on the entity, regulate the activities they carry out. Thus, it is worth mentioning the following standards:

- ▶ **General Banking Act (LGB):** It regulates the incorporation and operation of banking entities and other financial institutions.
- ▶ **Single Fund Act (LUF):** Law 20.712 regulates the incorporation and operation of third-party resource managers through Mutual Funds, Investment Funds, and Third-Party Portfolios.
- ▶ **Insurance Act (Decree with Force of Law [DLF]):** Insurance brokers must be registered with the CMF, both in the Register of Insurance Brokers for legal entities and the Register of Insurance Brokers for individuals.

Regarding regulations for FinTech companies, Law 21,521, Law that Promotes Competition and Financial Inclusion through Innovation and Technology in the Provision of Financial Services (“the FinTech Law”), was issued in January 2023. The general purpose of this regulation is to promote competition and financial inclusion through innovation and technology in the provision of financial services.

The FinTech Law mainly regulates two different but related ecosystems, such as (a) FinTech services themselves, as well as (b) Open Finance.

In this context, all FinTech services or companies regulated by the Law are the following: (i) Crowdfunding, (ii) Alternative transaction systems, (iii) Credit and investment advice, (iv) Custody of financial instruments, and (v) Order routing and intermediation of financial instruments. Entities that provide this type of technology-based financial services must be registered in the Registry of Financial Service Providers that CMF will create, in addition to having the authorization granted by this same for this purpose as long as said entities comply with a series of requirements depending on the type of FinTech activity they develop.

For its part, the Open Finance system aims to allow sharing financial client information between different service providers, including FinTech entities, through remote and automated access interfaces, which allow interconnection and direct communication between participating institutions. The FinTech Law regulates the institutions that will participate in the Open Finance system, covering, among others, the following categories: (i) Institutions providing information, (ii) Institutions providing services based on information (there will be a voluntary Registry of Providers of Information-Based Services), and (iii) Payment initiation service institutions.

Regarding the institutions that provide information, which include banks, insurance companies, savings and credit cooperatives, card issuers, among many others, the FinTech Law provides that their participation in the system is mandatory and that therefore they must provide their clients' financial information as detailed in said Law. For their part, FinTech entities, which could participate as institutions mentioned in point (ii) above, that meet certain registration requirements by the CMF, will be able to access information that, prior to the entry into force of this Law, was reserved for traditional financial institutions.

It is important to mention that the details of the obligations contained in the FinTech Law must be set forth by the CMF through general regulations, which according to said law should be issued no later than August 2024.

Finally, it is worth mentioning the following bills relevant to FinTech:

► **Bill to Update the Personal Data**

Protection Act: This bill seeks to update the Privacy Protection Act of 1999 to reflect the needs of current times and to create the Personal Data Protection Agency. The bill aims to modernize the legal regime for data protection to levels analogous to those of the EU's General Data Protection Regulation, regulating aspects such as new technologies in the collection and diffusion of personal data.

Since May 2023, the bill is in the third constitutional process (Senate), with an existing political agreement for it to become law in 2023 or early 2024.

► **Bill for a Framework Law on Cybersecurity and Critical Information Infrastructure:** this bill seeks to establish the necessary institutional framework to strengthen cybersecurity, expand and strengthen preventive work, form a public culture on digital security, address contingencies in the public and private sectors, and safeguard the security of people in cyberspace.

Thus, minimum requirements for the prevention and response to computer security incidents are also defined, as well as parameters to determine what constitutes critical information infrastructure, and the obligations that this implies for the organizations in charge of it, along with the competence of the supervisory bodies over their regulated sectors, such as the financial system.

This bill is at the second stage of the constitutional process, where legislative discussion has been expeditious, so it could become law during the course of 2024.

6.4

>> COLOMBIA

A. Current Scenario of the Financial and FinTech Sector

FinTech in Colombia represents 15.3% of the most important startups in the country. Both FinTech companies and banks are exploring technologies such as AI, blockchain, cloud computing, big data and decision engines, with the aim of transforming the way people and companies access, manage and use financial services, providing opportunities and challenges for society.



Adopting these technologies can reduce costs for financial institutions, create new strategies and reach previously underserved population segments.

Currently in Colombia, there are a total of 322 FinTech companies registered, which shows their constant growth and consolidation in the financial sector. FinTech's impact goes beyond commercial terms with an influence in the Colombian labor market, having generated a total of 9,308 jobs in the sector. This number not only reflects the economic dynamics driven by these companies, but also their ability to provide job opportunities in various segments of the population, thus contributing to the social structure of the country.

Another relevant aspect lies in the popular adoption of FinTech solutions by Colombian society, with 76% of the active digital population in the country using these solutions. This high adoption rate underlines the fundamental role that the FinTech sector is playing in the daily lives of Colombians, consolidating itself not only as a transformer of the financial sector, but also as a facilitator of a contemporary financial culture that is easily accessible by the general population.

Finally, it is important to highlight the success of some Colombian FinTech companies such as Bold, Avista, Addi and Simetrik, which have the highest probability of becoming unicorns according to the soonicorns platform.

B. Regulatory Framework

This section addresses the relevant regulations applicable to both companies in the financial system and FinTech companies in Colombia.

There are important regulations that cover companies in the financial system, governed and surveilled by the Financial Superintendency of Colombia ("SFC"), such as the SFC Legal Basis Circular that compiles the main general instructions issued by the entity, Law 527 from 1999 that addresses e-commerce, and Law 1266 from 2008 that deals with information in databases. Additionally, Law 1328 from 2009 establishes the principles for financial consumer protection; Law 1273 from 2009 creates criminal offenses related to computer crimes; Law 1480 from 2011 stipulates obligations for credit operations; and Law 1581 from 2012 establishes rules for the protection of personal data.

It is important to highlight that Colombia lacks regulation that is specific to the FinTech sector. FinTech companies must comply with various provisions found in different areas of the legal system, depending on the origin of the funding and the characteristics of each. Although there is no FinTech framework law, relevant regulatory advances have been made in the country. For example, Law 1955 from 2019 establishes the concept of "regulatory sandbox" for testing technological developments in activities supervised by the SFC. In addition, Law 2009 from 2019 promotes the free use of certain financial services.

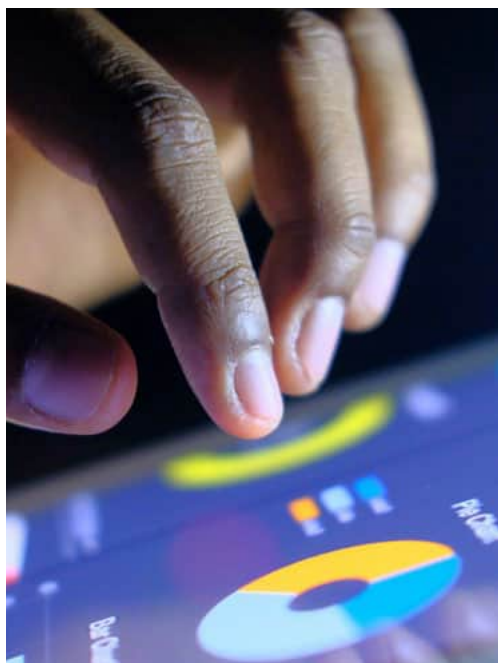
Regarding recent regulations, it is worth noting that Order 253 from 2022 has modified the Collaboration Benefits Program of the Superintendence of Industry and Commerce (SIC) to address conduct contrary to free competition. In addition, External Circular SFC 016 from 2021 provides instructions related to the "regulatory sandbox" and the temporary certificate to operate, allowing controlled tests for financial innovation activities. These regulations are part of the regulatory landscape that Fintech companies and companies in the financial system must take into account in Colombia.

It is important to highlight the relevance of the current draft external circular entitled "Instructions related to Open Finance and commercialization of technology and digital infrastructure" proposed by the Financial Superintendence. This draft arises

in response to Order 1297 issued in July 2022, which introduced innovative elements in financial services, such as the initiation of payments by third parties and information sharing.

The purpose of the document is to strengthen and regulate these provisions in the following year. The draft regulation establishes technological and security standards to ensure the reliability of the system, in addition to recommending the homogeneity of parameters to promote interoperability between the supervised entities and the payment system. Likewise, guidelines are proposed for supervised entities to offer services through third parties, including FinTech, in order to promote improved services, financial inclusion, innovation and competition. The Financial Superintendency intends to add new chapters to the Legal Basis Circular related to Open Finance and the commercialization of technology and digital infrastructure.

It is relevant to highlight that a transition regime is established with defined deadlines for supervised entities that participate in Open Finance, depending on whether they are already commercializing said technology and digital infrastructure. While some banks have anticipated regulation by promoting Open Finance initiatives since 2022, this process marks a crucial step towards the consolidation of a more open and innovative financial ecosystem in Colombia.



c. Challenges and Trends in the FinTech Sector

Bogota stands out as the core of FinTech companies in Colombia, where a significant proportion of them is located. Of the FinTech companies identified in the country according to the Colombia FinTech economic report, 62% are based in Bogota. The city shows a particular concentration in certain segments, with 75% of regtech companies, 75% of those related to crypto and blockchain, and 71% focused on digital payments. The digital payment segment is the largest, with 56 FinTech companies of this type in the Bogota ecosystem.

The outlook for FinTech in Colombia in 2023 presents significant challenges. One of the main challenges, according to Erick Rincón, director of TicTank, is related to funding and access to credit to promote projects in this industry. Approximately nine million digital credits issued by FinTech in recent years lack a specific focus. Difficulties in terms of investment are also significant, since economic resources are not being directed towards credit due to international factors such as recessions in certain countries, geopolitical tensions and the reduction of government stimuli in response to the COVID-19 pandemic. In this context, it is very important that banks allocate resources to support FinTech companies, thus preventing them from depending

exclusively on their own investors. The current Government recognizes these challenges and is considering options in order to provide additional stimuli in public policy, recognizing the need for collaboration between economic actors for financial inclusion. Despite these economic challenges, 2023 also brings interesting trends to Colombia, such as the development of identity models, the adoption of instant payments, the approval of online credits and the implementation of Open Banking with a market that could reach USD 60 million in 2025 due to the massive adoption of mobile devices and the growing demand for modern and convenient financial services. These trends are expected to shape the evolution of the FinTech industry in the country and become an innovative response to current challenges.



6.5

>> ECUADOR

A. Current Scenario

The post-pandemic financial scenario that Ecuador is experiencing is very encouraging for the development and growth of FinTech companies within the country. Driven, in turn, by greater economic activity of new generations, who become active clients of the Ecuadorian financial and banking environment. As we will see, new users from younger generations leverage a growing preference for digital channels when carrying out banking transactions, ideally from their mobile phones.



In turn, financial institutions continue in the search for greater market capture, with ambitious digital transformation plans, needing to constantly update the technology of their platforms in order to remain current in a hypercompetitive and globalized market that is already navigating Industry 4.0. This growth and development imply investment, transformation and adaptability, which are reflected in alliances with emerging FinTech companies or in the approach to their services, contributing to bridge the digital divide in traditional banking during this modernization.

In this context, and as already mentioned, FinTech companies present important advantages over traditional banking when adapting to this market environment, by being agile and inclusive with current technology. The data collected in Ecuador helps entities that are part of the financial service industry in the country understand that they must act proactively on their digital and technological transformation, if they intend to maintain the continuity of their business.

1. Transactions by Economic Nature

Based on an analysis by the Ecuadorian Association of Private Banks (“ASOBANCA”), there were a total of 929 million transactions in 2022 within the national banking system. This represents an increase of 37.6% compared to 2021, reflecting a growth in the capabilities of private banking to help the economic development of the country.

This same study shows that 93.7% of the transactions were carried out by natural persons; while companies made the remaining 6.3%. However, there is greater parity in the Volumen section, where 56.9% of the total amount transacted corresponds to natural persons, and 43.1% to companies.

2. What channels do natural and legal persons prefer?

As the number of transactions carried out using mobile channels has increased (15 times since the pre-pandemic period in 2019), there is a clear trend towards digital. Of the total transactions mentioned, 49.1% are from digital channels (online and mobile devices), 30.2% from physical channels and 20.7% from remote channels (ATMs and Self-Service Branches).

3. What about the FinTech’s current scenario?

According to data by BuenTrip Hub included in its Radar Tech Startup, the business verticals where FinTechs most venture in Ecuador are Financial Management, Payment Processing, Financial Education, Alternative Credit and Digital Banking.



Below are some important figures to highlight from the Ecuadorian FinTech ecosystem:

- Ecuador has more than 60 identified FinTechs, with an interesting representation of 13 FinTech companies founded by women.

Foreign Startups - Ecuadorian Founders	3
Startups with Women Founders	13
Jobs Created	1,459
Have received Investment	2
Have gone International	20
Closed	24

The FinTech market in Ecuador has great growth potential, as the value of digital transactions is expected to reach USD 2.5 billion in 2023, with an increase of 28.9% compared to the previous year.

- ▶ The largest segment of the FinTech market is Digital Payments, with 94.6% of the total transaction value. The number of users in this segment is estimated to be 7.1 million in 2023.
- ▶ The most dynamic segment in the FinTech market is Digital Investments, with a CAGR of 46.8% for the 2020-2023 period. Assets under management (AUM) of this segment are projected to reach \$20.4 million in 2023.

Finally, with the enactment of the FinTech Law in December 2022, the opportunities for FinTech companies to advance towards a more digital and inclusive Ecuador have increased, as it created an enabling framework for FinTech companies in the country. The law establishes the requirements, control authorities and the regulatory testing environment (Sandbox) for FinTech activities (for more information, go to the next section).

- ▶ The challenges for FinTech companies in Ecuador are low banking penetration, lack of financial education, competition against traditional financial institutions and adaptation to current regulations.
- ▶ The opportunities for FinTech companies in Ecuador are the growing demand for digital financial services, technological innovation, access to sources of funding and collaboration with the public and private sectors.

B. Regulatory Framework

1. Generalities of the FinTech Act

The Economic Development Committee of the National Assembly analyzed and observed for two years the Organic Law for the Development, Regulation and Control of Technological Financial Services (FinTech Law)²⁵, before it was passed at the end of October 2022 and published in the Official Registry on December 22 of the same year. Additionally, on August 7, 2023, the Standard that regulates Currency, Payment Methods and Systems and FinTech Activities and their Participants in Ecuador was issued by Resolution JPRM-2023-014-M by the Monetary Policy and Regulation Board²⁶, both as main regulatory frameworks for technological initiatives within the financial sector.

One of the main objectives of the FinTech Law was the creation of a legal framework that regulates the development of this industry and all parties involved in the financial sector (Financial Market, Securities and Insurance). The FinTech Law covers topics ranging from the incorporation, supervision and control, authorization to operate, and funding of FinTech companies, as well as reforms to previously existing legal bodies. Likewise, this initiative aims to promote innovation, the development and adoption of new technologies in financial products, seeking to contribute and promote their

25. Organic Law for the Development, Regulation and Control of Technological Financial Services (FINTECH LAW), 2022: 2SU215_2022.pdf (edicioneslegales-informacionadicional.com)

26. Resolution JPRM-2023-014-M, 2023: JPRM-2023-014-M.pdf (bce.fin.ec)

productivity, inclusion, development, and protection of users and consumers of this type of product or services.

This law defines FinTech companies as those that develop, provide, use or offer activities related to technological financial services, technological infrastructures to channel means of payment, specialized electronic deposit and payment companies, and technological services of the securities market and insurance.

2. Eight Principles of the FinTech Act

1. Transparency under the rules for the prevention of money laundering and terrorist financing
2. Confidentiality about Personal and Financial Data, in accordance with the Organic Law for the Protection of Personal Data
3. Security in data management, integrity and availability of information

Through these principles, the FinTech Law is expected to become a risk-based regulation that considers the risks of the financial activity carried out by these types of startups, as well as the nature of the services that are being offered, while the principle of technological neutrality prevails.

3. The Process of Incorporating a FinTech Company and Control Entities Involved

Since the enactment of this Law, four entities have been established in charge of the control and supervision of FinTech companies according to the sector in which they are developed, these are: the Central Bank of Ecuador (BCE), the Superintendency of Companies, Securities and Insurance (Supercias), the Superintendency of Banks (Superbancos) and the Superintendency of Popular and Solidarity Economy (SEPS). Given all that is governed by this Law, additions, substitutions and modifications have been made to various legal bodies including Books I to III of the Organic Monetary and Financial Code, reforms related to Capital Funds within the Organic Law of Entrepreneurship and Innovation, and modifications to data management issues in the Organic Code of the Social Knowledge Economy.

4. Introduction of the Regulatory Sandbox

One of the most relevant aspects of this legislation is the introduction and enablement of the creation of regulatory testing environments i.e., regulatory sandboxes. These environments are understood as a “restricted implementation mechanism of standards, procedures, processes or formalities,” where FinTech companies or participants in Auxiliary Payment Systems that have new business models related to the means, systems, structures and technology-based payment services, obtain a temporary operating space for the development of their business proposals. BCE, through the Coordinating

Commission for the Authorization of Regulatory Testing Environments, is called upon to supervise, monitor and control the authorized Sandboxes, with the maximum testing period being 24 months. FinTech companies must present several strategic, financial and risk requirements for the issuance of the temporary authorization to operate.

5. New Concepts in the Regulations

Within the regulations issued by the Monetary Policy and Regulation Board, the guidelines, scope of services, actions, definitions and participants of the Auxiliary Payment Systems are stipulated.

One new actor that has been emphasized are the specialized electronic deposit and payment companies (“SEDPES”), which are defined as “entities whose sole corporate purpose is the receipt of resources for the exclusive purpose of facilitating payments and transfer of resources through authorized electronic payment methods; and, send and receive financial transfers.”

Specifically, for this type of companies, the authorization to operate will be granted by the Central Bank of Ecuador and the licenses to exercise by the Superintendency of Banks, once the authorization has been received. Additionally, liquidity reserves and cash holdings of 0.5% are required from the SEDPES based on the weekly average of daily deposit balances. It should be emphasized that SEDPES have a period of three months counting from the date that they obtained their authorization to operate from the BCE to comply with these provisions.

6. Ecuador Financial Cluster: Point of View

The Ecuadorian Financial Cluster, an interconnected group of more than 80 companies, specialized providers, technological enablers, academia and institutions of the financial sector, has sought a rapprochement with the National Assembly and regulatory entities since the analysis of the FinTech Law, with the sole purpose to contribute to the financial development of the country through a spirit of collaboration and competition among its members, and to add to the growth of the financial ecosystem through its contribution to pillars such as Financial Inclusion, Financial Innovation and Attraction of Capital. Consequently, as part of this dynamic environment, it carried out an impact analysis and issued its opinion regarding 19 articles included in the legislation and applied to the sector.

This analysis emphasizes and presents a contrast in issues related to financial risks in intermediation, as well as the definition, delimitation and scope of powers of regulatory entities, issues related to investments by financial entities in FinTech companies, categorization of new actors and transitional provisions regarding APIs. It also points out that topics such as crowdfunding in the Stock Market, and the definition and regulation of investment funds, are sections that should be contemplated externally and not included in said regulation.

In summary, the Financial Cluster presents their clear position and concludes that there are opportunities for improvement corresponding to definitions, clarifications and delimitations in the functions and interactions between the different actors in the financial sector, as well as to the alignment among provisions contemplated in complementary and secondary legislation, both current and future. In this sense, its members agree that the new regulation must create an efficient and competent environment that guarantees the operations of FinTech companies, by supporting and enabling the Ecuadorian financial sector.

c. Challenges and Trends in the FinTech Sector

It is important to be aware of the challenges that financial institutions will face in the coming years, even more so of those related to their new interaction with FinTech companies, according to the Finnovista 2025 FinTech Agenda, "In 2025, banks that are completely integrated with FinTech solutions will be the first to experiment with new monetization models." For this, it is important to discuss the role that digital infrastructure plays in the development of an interconnected financial ecosystem.

Today, less than 50% of the Latin American population has fixed broadband connectivity and only 9.9% have high-quality optic fiber at home. Additionally, in urban areas the population with connectivity options is 71%, which is significantly different from rural areas where only 4 out of every 10 Latin Americans have Internet access.

Accessibility to interconnected services is not the only challenge to overcome, but also the cost associated with these services, which today adds to the family basket expenses of Latin American households. According to the report "Internet Access and Use in Latin America and the Caribbean" by the United Nations Development Program, half of households are not connected to the Internet, pointing to the high cost of data services as the main obstacle.

1. Connectivity within Reach

From the above, it can be inferred that one of the main challenges is to achieve integrated and efficient connectivity within the reach of citizens. The data presented not only reflects the reality of the arrival of communication technology to the region and especially to rural areas, but also the important need of affordable prices for citizens, which is influenced by some factors such as high prices of data plans (70.8%) and cost of devices (7.8%), making them difficult to access by low-income individuals.

Despite what has been mentioned, the future remains promising. With advances towards 5G technology, a cheaper, more accessible technology can be expected in different regions and economic strata. On the other hand, all companies at the technological forefront are promoting their efforts to improve the user experience, together with the responsible use of data, which is regulated in the Personal Data Protection Law that came into force in May 2021 in Ecuador.

2. Business Model Trends

Between 60% and 70% of companies offering financial services that were evaluated for the Finnovista agenda assured that their solutions mainly use data infrastructure and APIs. Some business models that are under worldwide experimentation can be categorized as follows:

- **Open APIs:** The most common model to date is one where application programming interface (API) providers grant FinTech companies and other financial institutions access and permission to read financial information of individuals and companies, previously authorized by the user through their banking entity.
- **Premium APIs:** This is a model where banks provide access and allow the reading of certain financial data through the use of APIs, and this is done under a specific tariff scheme.

► **Alliances:** This model implies that banks establish strategic collaborations with the FinTech sector with the objective of sharing financial information through APIs, allowing them to expand their user base.

► **Banking as a Service:** Under this model, banks provide house brand services, allowing FinTech and other companies to offer financial products using the bank's infrastructure.

Open Finance is still in its early stages, so the business models that derive from it will undergo corresponding evaluation. In this particular, the application of the Regulatory Sandboxes set forth in the FinTech Law is beneficial so that financial institutions, together with FinTech companies, define and implement the appropriate strategies for the adoption of these business models, for the benefit of the consumer, ensuring the security and proper management of personal data, and seeking the best use of the data infrastructure and APIs that are part of this ecosystem.

Additionally, due to the technological use of the majority of FinTech in the region, the adoption of biometric payments, blockchain, big data and data analysis could be seen as the next strategic step or trend, as part of the combined service offer between financial institutions and FinTech companies.

3. Regulatory Challenges

Regulatory bodies also face challenges in this new role of ensuring compliance with the FinTech Law, as they may find it difficult to have a comprehensive understanding of the nature and impact of the risks originated by the FinTech sector. Both operators and supervisors must have, in a timely manner, the relevant training to understand FinTech business models.

Another concern that emerges around FinTech is that they could become "shadow banking" entities, which means that they could carry out activities similar to those of banks, but without being subject to the same regulation and supervision. In this sense, it is particularly important that the regulations be flexible enough to regulate the technological financial activity that is carried out, instead of regulating the type of company, as this can cause legal gaps leaving out new types of companies not considered and that threaten the ecosystem because of their similarity to other already established financial institutions.

4. Conclusion

Financial institutions in Ecuador face a technological future that is already here, that can serve them to support and complement their value proposition with solutions provided by FinTech, through which they will be able to offer products and services that are better tailored to the needs of their clients, consolidating trust and loyalty and promoting financial inclusion.

Additionally, although the FinTech Law has only recently been enacted, it will become the initial regulatory framework that enables the surveillance of the participation and interaction of FinTech companies in the financial services industry. The execution of related activities will allow for inconsistencies to be identified and, consequently, reforms be made accordingly. For this reason, continuous communication channels must be established between sector actors and regulators, working groups and dialogue must be implemented in order to strengthen regulations based on lessons learned and on the best regional or global practices, adapting them to the local environment, and constantly monitoring the results and the understanding of the needs of the sector.

6.6

>> MÉXICO

A. FinTech Law



The Law to Regulate Financial Technology Institutions (“LITF”) issued in March 2018 and most recently modified in May 2021, aims to regulate the financial services provided by FinTech companies, their organization, operations, and everything related to new models.





LITF was complemented by secondary regulations (Provisions, Circulars, and Rules).

These have the purpose, among others, of strengthening LITF in matters such as: financial inclusion, technological innovation, financial stability, specification of corporate and capital requirements, as well as the mandatory nature of a business continuity plan focused on the technological infrastructure to solve contingencies.

B. Secondary Regulations

The secondary regulations issued after the publication of the LITF are the following:

Banco de México

- ▶ CIRCULAR 39/2020 - Correspondence of ratings granted by credit rating agencies.
- ▶ CIRCULAR 27/20 - Presentation of digital documents such as messages with electronic signatures to Banco de Mexico.

- ▶ CIRCULAR LETTER 2/2020 on standardized computer application programming interfaces to which reference is made in Section 76 of the LITF.

- ▶ CIRCULAR LETTER 12/2018 aimed at the transactions carried out by electronic payment funds institutions.

- ▶ CIRCULAR LETTER 4/2019 aimed at credit institutions and financial technology institutions in relation to transactions with virtual assets.

- ▶ CIRCULAR 4/2019 - Operaciones con activos virtuales de las instituciones de crédito e instituciones de Tecnología Financiera.

- ▶ CIRCULAR LETTER 5/2019 aimed at legal entities interested in obtaining an authorization for novel models.

- ▶ CIRCULAR LETTER 6-2019 aimed at crowdfunding institutions regarding foreign currency transactions and information reports from crowdfunding institutions.

National Banking and Securities Commission (CNBV)

- ▶ General provisions relating to standardized computer application programming interfaces to which reference is made in the LITF.
- ▶ General provisions on Information requirements made by authorities to which reference is made in Sections 142 of the Credit Institutions Act, 34 of the Popular Savings and Credit Act, 44 of the Credit Unions Act, 69 of the Act to Regulate the Activities of Savings and Loan Credit Unions, 55 of the Investment Funds Act, and 73 of the Act to Regulate Financial Technology Institutions.
- ▶ General provisions applicable to Financial Technology Institutions.
- ▶ General provisions relating to companies authorized to operate new models to which reference is made in the LITF.

CNBV and Banco de México (jointly)

Provisions applicable to Electronic Payment Fund Institutions to which reference is made in Sections 48, second paragraph; 54, first paragraph; and 56, first and second paragraphs of the LITF.

National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF)

General provisions of CONDUSEF regarding transparency and sound practices applicable to financial technology institutions.

National Commission of the Retirement Savings System

Guidelines for the disclosure of the sanctions imposed by the National Commission of the Retirement Savings Systems in terms of the LITF.

Secretariat of Finance and Public Credit

- ▶ General provisions to which reference is made in Section 58 of the LITF.
- ▶ General provisions applicable to new models to which reference is made in the LITFC.

C. Financial Technology Institutions

FinTech entities are financial companies that use new technologies to offer innovative solutions that allow consumers to access products more efficiently and with competitive transaction costs, which may or may not be regulated by the National Banking and Securities Commission ("CNBV"), since all companies that combine the use of technology and the offer of financial services are included in this category.

According to the Law to Regulate Financial Technology Institutions (FinTech Law), there are two types of entities that are regulated and that require authorization from the CNBV: (I) Electronic Payment Fund Institutions and (II) Collective Financing Institutions.

Today, LITF recognizes 2 types of Financial Technology Institutions:

Collective Financing Institution ("IFC")

They put people from the general public in contact, so that financing can be granted between them through computer applications, interfaces, websites or any other means of electronic or digital communication.


Electronic Funds Institution (IFPE)

They provide consistent services for the issuance, administration, redemption and transmission of electronic payment funds through computer applications, interfaces, internet websites or any other means of electronic or digital communication.

6.



Collective Financing Institution (IFI)		
Participants	Modalities	Additional Operations
<p>► Investors: Natural or legal persons that contribute resources to applicants.</p> <p>► Applicants: Natural or legal persons who required such resources through an IFI.</p>	<p>► Debt crowdfunding: Investors grant loans, credits, from a mutual or any other source of funding with a direct liability or contingent on applicants.</p> <p>► Capital crowdfunding: Crowdfunding capital: investors buy or acquire equity securities from legal persons that act as applicants.</p> <p>► Co-ownership or royalty crowdfunding: investors and applicants associate in participation or any another type of agreement where the investor acquires an aliquot share or participation in a present or future asset or income, profit, royalties or losses that are obtained from one or more activities or projects of the applicant.</p>	<p>a. Receive and publish requests collective financing operations.</p> <p>b. Facilitate the understanding of investors about the characteristics of requests for crowdfunding operations and their projects.</p> <p>c. Enable and allow the use of electronic communication channels through which investors and applicants can connect.</p> <p>d. Obtain loans and credits from any person, national or foreign, intended for the fulfillment of its corporate purpose.</p> <p>e. Issue securities on own account.</p> <p>f. Acquire or lease movable and immovable property necessary for the realization of its purpose.</p> <p>g. Make deposits in financial institutions authorized for such.</p> <p>h. Establish the trusts that are necessary for the fulfillment of its corporate purpose.</p> <p>i. Make permanent investments in other companies, as long as they provide auxiliary, complementary or real estate services.</p> <p>j. Carry out out-of-court or court collection of credits granted to applicants on behalf of investors, as well as renegotiate terms and conditions of said credits.</p>

Institution of Electronic Payment Funds Institution (IFPE)	
Main Activities	
<ul style="list-style-type: none">a. Opening of electronic payment funds accounts for each customer, in which payments equivalent to the amount of electronic payment funds issued against the receipt of amounts of money, in domestic or foreign currency, or of specific virtual assets are recorded.b. Make electronic fund transfers through the respective credits and charges to the corresponding accounts.c. Make money transfers in national currency or, subject to prior authorization from Banco de Mexico, in foreign currency or virtual assets, through the respective credits and charges in the corresponding accounts, between its clients and those of another electronic fund institution, as well as account holders or users of other financial entities or foreign entities.d. Deliver an amount of money or virtual assets equivalent to the same amount of electronic funds in an electronic funds account, by debiting said account.e. Maintain updated the records of accounts referred to in literal a).	
Additional Activities	
<ul style="list-style-type: none">a. Issuing, selling or managing instruments for the disposal of electronic payment fundsb. Providing the money transmission servicec. Providing services related to disposal means networks.d. Processing information related to payment services corresponding to electronic payment funds or any other payment methodse. Granting credits or loans in the form of overdrafts in the accounts they manage derived from the transmission of electronic payment fundsf. Carrying out transactions with virtual assetsg. Obtain loans and credits from any person, national or foreign, intended for the fulfillment of its corporate purpose, except for the issuance of electronic funds or the granting of credith. Issue securities on own account. The resources obtained from debt securities loans may not be used for the issuance of electronic funds or for the granting of credit.i. Establish demand or time deposits in financial institutions authorized to receive them.j. Acquire or lease the movable and immovable property necessary to carry out its purpose and dispose of it when appropriate.k. Contact third parties in order to facilitate the purchase, sale or any other transfer of virtual assets.l. Buy, sell or, in general, transfer virtual assets on own behalf or on behalf of clients.	
<div><div></div><div>Both types of ITF shall be entities duly authorized by the National Banking and Securities Commission.</div></div>	

D. New Models

In addition to the two types of ITF exposed, LITF contemplates the so-called New Models.

These models refer to legal entities incorporated in accordance with Mexican commercial legislation, other than ITFs, financial entities and other supervised subjects, who request temporary authorization to offer financial services or use technological means and other innovative models that do not exist in the market, when it is considered that the existing financial regulation creates an impediment to the provision of these services. The authorization must have a duration according to the services that are intended to be provided and may not be longer than two years. In 2022, there was no new model under the supervision of the CNBV and 4 applications were received in accordance with the provisions of LITF.

- ▶ 2 applications were rejected because the information requests from the CNBV were not fulfilled during the authorization process.
- ▶ 2 applications were dismissed; one because requirements were not met in time, and the second one because the applicant did not continue with the authorization process.

E. Current Scenario in Mexico

The authorities in charge of supervising ITFs have various public registries where relevant information on IFCs and IFPEs is compiled. These records provide the possibility of having an overview of the ITF presence in the country, as well as accessing data such as status, level of compliance, among others. The information obtained from these records may not necessarily accurately reflect the number of existing ITFs, since it is the obligation of each entity to include and update the information requested by the competent authority. However, official data is only comprised of that provided by relevant authorities.



The CNBV has the List of Supervised Entities (PES), a tool that contains updated information on the entities and participants in the Mexican Financial System, focusing on ITFs, which are currently in operation and are supervised. The following figures are available:



▶ 16 IFCs authorized up to July 2023

Of the 45 ITFs that exist according to official information as of today, the 2022 CNBV Annual Report reports that said year ended with the authorization of 8 ITFs, 3 IFCs and 5 IFPEs.

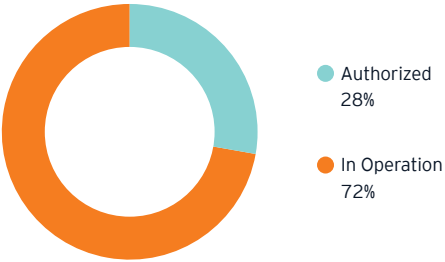
Thanks to the National Commission for the Protection and Defense of Users of Financial Services (“CONDUSEF”), there are other records that add to the information provided by the CNBV. The first is the Bureau of Financial Entities (“BEF”), a tool with information from 24 IFPEs and 14 IFCs. Each entity is given a compliance rating based on the proper registration, updating and validation of information, and the financial products they offer. The following figures are available:

	IFC	IFPE
	11 compliant	19 compliant
	3 not compliant	5 not compliant

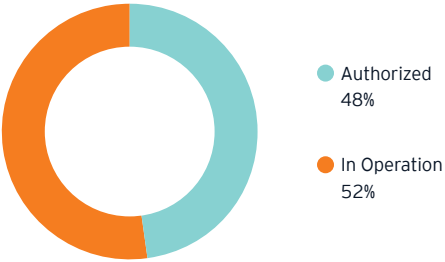
Another list is SIPRES, also run by CONDUSEF, which provides corporate and general information on ITF. At first, ITF must receive authorization to incorporate and organize as ITF from the CNBV and subsequently give notice of the start of operations. Other statuses that ITFs may have are: cancelled, dissolved, in liquidation, terminated due to division, merged, put into

administration, pre-operational, revoked, converted (financial) and converted (non-financial). Today, none has the above statuses; here are the figures available:

IFCs



IFPEs



Another relevant aspect in the financial environment and particularly for ITF is that related to the prevention of ML/TF. Within the financial sector, ITFs are 93.9% compliant with the appointment of a Compliance Officer.

Sector	Percentage of companies
BM	98.00%
ITF	93.90%
CB	94.40%
Currency Exchange	71.40%
Investment Fund Managing Companies	93.80%
Money Transmitters	88.20%
Regulated Multi-Purpose Financial Companies	77.50%
AGD	80.00%
Popular Financial Companies	84.20%
Investment Funds Distributing Companies	66.70%
Credit Union	56.60%
Exchange Centers	60.80%
Savings and Loan Union	59.70%
IBD	83.30%
Non-Regulated Multi-Purpose Financial Companies	30.70%

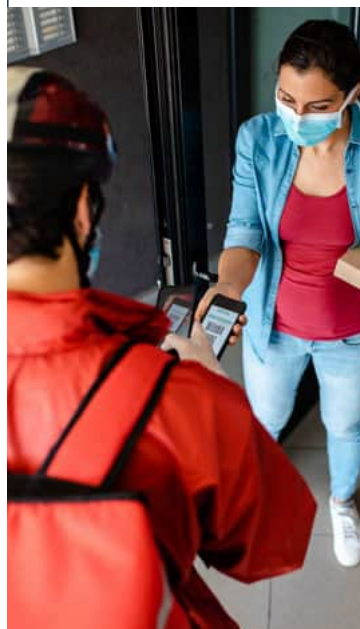


6.7

>> PANAMA AND CENTRAL AMERICA

A. Data on the Current Scenario of the Financial and FinTech Sector

Despite the moderate economic growth projected by the World Bank in the region where countries such as Panama, Guatemala, El Salvador and Honduras stand out; the FinTech industry in Central America has not grown at the same speed, as it was affected by the decrease in venture



6.

capital funding, in response to some symptoms of recession in all economies, mainly due to the increase in interest rates in the United States and their global impact. However, and despite this decrease in investment, the current scenario of FinTech companies already established in the region suggests that the most popular segments are payments, followed by digital loan, financial software, crypto and, to a lesser extent, those of insurtech, neobanks and financial trading. The crypto, lending and payments segments show the highest growth compared to previous years.

B. Regulatory Framework

To date, no significant progress or modifications have been observed in FinTech regulations of the countries in the region. However, Financial Innovation Centers or Innovation Hubs have been established in Costa Rica, El Salvador, Guatemala and the Dominican Republic. These centers serve as communication spaces where innovators and regulators can collaborate and take advantage of the opportunities offered by technological advances.



C. Challenges and Trends in the FinTech Sector

In addition to the decrease in venture capital investments due to the increase in interest rates, the market also faces increasing competition from large technology companies in the payments area. A clear example is the progressive introduction of Apple Pay in several countries in the region.

Added to increasingly more intuitive services and better user experiences, there are multiple controls leveraged by AI innovations, which are supporting better strategies to combat identity theft and improve the security of transactions carried out by customers.

The expectation of real-time payments (RTP) is constantly growing. In Costa Rica, the SINPE Mobile system is solidifying, while in Panama the incorporation of ACH Express stands out, which has been gradually adopted by local banks.

The ability of FinTech companies to carry out operations with traditional banks and transfers between themselves continues to represent the greatest challenge that could generate interesting business cases in the region, as well as the improvement of financial products and services. However, many countries have faced a number of regulatory, technological and cost challenges to payments interoperability.

Below are some notable FinTech initiatives in Panama and the Central American region:

► TAFI

This new platform promotes the commercial management of sales representatives through an innovative sales model that uses WhatsApp and allows users to contact TAFI sellers and complete various processes to obtain financing products, such as lines of microcredit or credit card applications, instantly. TAFI is committed to financial inclusion and empowers sellers, who do not need to pay to join the entity as sellers nor do they incur costs by ceasing to be one.

► QIK

It is the new 100% digital financial services platform in the Dominican Republic that offers its clients the possibility of having a virtual credit card and a digital account with benefits such as cashback and gaining competitive interests (compared to the Dominican market) in their savings account that are competitive.

► NIU

It is the new 100% digital platform for financial services in El Salvador which offers its clients the possibility of having a virtual account and debit card and allows the payment of services and bank transfers.

As in previous years, multiple FinTech companies maintain their robustness and have incorporated new products and services to their catalog such as Cashpak in Nicaragua, YAPPY in Panama, KASH in Panama and several countries in Central America, ZINLI in Panama and multiple countries in the region, PixelPay in Honduras, Paggo in Guatemala, as well as many others.



6.8

>> PARAGUAY

A. Data on the Current Scenario of the Financial and FinTech Sector

Paraguay has established itself as a benchmark country in South America for domestic and foreign investments in all sectors, including the FinTech sector. With regard to foreign investment itself, the current legal framework makes it possible for foreign capital to have a significant presence in the local



6.

economy through the establishment of subsidiaries, branches, shareholdings in local companies, investments or corporate alliances.

Paraguayan law guarantees equal treatment for domestic and foreign investment, this means that it guarantees that the foreign investor or company has the same rights and obligations as any national investor, limited only by the National Constitution and specific laws. Paraguay has a national policy of free trade for the influx and outflux of capital; dividend payments, interest, commissions, royalties for technology transfer, and profits, are lightly taxed.

The country has a high degree of participation, growth and receptivity of non-financial agents offering FinTech products and services. On the one hand, almost all telephone companies provide e-wallet services in their capacity as electronic payment methods entity ("EMPE") under the brands Tigo Money, Billetera Personal, Giros Claro. Likewise, others operate under the ZIMPLE or Wally brand.

On the other hand, there is an important and gradual development of FinTech through companies operating as online lending or investment platforms aimed at individuals or small and medium-sized businesses (SMEs), such as Prester, Linx, GOIKO, Prestamos.com.py or Masfazzil, to give a few examples.

In matters of digital banking, and to name one of the most recent cases of transformation in the country, there is a traditional financial institution with several years in the market that adopted a completely digital banking modality known today as Ueno.

Likewise, there are examples of associations with already recognized financial institutions; taking advantage of their licenses, structure, client portfolio and consolidated performance in the country, including the association with technology companies that develop platforms and provide services for FinTech such as ITTI, E-Services, Documenta, Roshka, among others.

There are also companies operating in other segments such as TAXit!, dedicated to tax settlement and to the control of personal finances in a purely digital way; TeoPagos, which offers a fast and secure way for people to charge their products and services with multiple options of payment methods; or Dimo, a financial management application that interacts with different payment ecosystems, among others.

B. Regulatory Framework

Paraguay does not have specific or macro regulations for companies or ventures linked to the FinTech sector, but it does have a set of rules of direct and cross-sector application in financial innovation and technology applied to finance.

In very general terms, FinTech companies must keep in mind, but not be limited to, General Law 861/1996 on Banks, Financial Institutions and Other Credit Institutions and its modifications; Law 6,822/2021 on Services of Trust for Electronic Transactions, Electronic Documents and Electronic Shareable Documents; Law 6,534/2020 on the Protection of Personal Credit Data; Law 4,868/2013 on E-Commerce; Law 1,334/98 on Consumer and User Defense; Law 1,183/1985 Paraguayan Civil Code and its modifications, including provisions on intellectual or industrial property rights, trust businesses, Cloud regulations, the Paraguayan payment system ("SIPAP"); among others.

At the regional level, the economic bloc of the Southern Common Market (MERCOSUR) established the MERCOSUR Digital Agenda Group with the objective of promoting the development of a Digital MERCOSUR through common policies and initiatives. At the local level, the objectives included in the Digital

Agenda Program consist of promoting the digital economy with the adoption of technologies by companies, promoting digital entrepreneurship, training workers with technological knowledge and improving digital connectivity to strengthen the national digital economy.

Regarding the inclusions of MERCOSUR digital Commerce in the Paraguayan legal system, there is MERCOSUR Resolution 37/19, "Consumer Defense - Consumer Protection in E-Commerce", by Order 4053/2020 applied to providers of e-commerce goods or services, located or established in Member States of MERCOSUR or that operate commercially under any of their domain names.

As a recent fact, in July 2023, two initiatives were enacted in the country that are related to e-commerce and the mutual recognition of digital signature certificates at the MERCOSUR level.

Law 7120/2023, "Approving the MERCOSUR E-Commerce Agreement," aims to provide a legal framework that elevates the principles and regulations related to e-commerce in MERCOSUR, seeking to take advantage of the economic potential and opportunities provided by the Agreement. This Agreement includes specific provisions on the processing of users' personal data, online consumer protection, cross-border transfer of information by electronic means, among others.

For its part, Law 7121/2023, “Approving the Mutual Recognition Agreement of MERCOSUR Digital Signature Certificates,” has the objective of mutual recognition of digital signature certificates (understood according to Paraguayan Law 6822/2021 as a qualified electronic signature), issued by accredited certification service providers or licensed certifiers, in order to grant digital signatures the same legal and evidentiary value as handwritten signatures, in accordance with the internal legal system of each State Party.

With this, the certificates of qualified e-signatures issued by providers of services of trust authorized by relevant authorities (and as long as they meet the required technical requirements), will have the same legal validity in each State party. Thus, qualified electronic signatures issued in Paraguay will also have the same legal validity in Uruguay and Argentina and vice versa, for example.

1. Regulation on Electronic Transactions and other Relevant Standards

- Principles of Functional Equivalence, Non-Discrimination against the Use of Electronic Communications and the Electronic Identity Card: Act 6822/2021 - Act for Reliable services for Electronic Transactions, Electronic Documents and Electronic Transferable Documents repealed the previous Digital Signature and Data Messages Act, embracing much broader concepts and opening up new possibilities and challenges for the private and public sectors in the digital environment. This Act aims to regulate and reinforce trust in electronic

transactions and increase the efficiency of both public and private online services, and e-commerce in Paraguay. The regulation provides that legal effects or admissibility in private, judicial and administrative procedures will not be denied to electronic documents or electronic signatures.

- Protection of Personal Credit Data: Law 6,534/2020 “On the Protection of Personal Credit Data” guarantees the protection of credit data of any person, regardless of their nationality, residence or domicile, and it’s mandatory for the treatment of personal data in public or private records collected or stored in the Paraguayan territory. It includes a definition of Personal Data, issues related to Informative Self-Determination, Consent, Sensitive Data, etc. This law is complemented by other provisions included in the National Constitution.

With the enactment of Law 6,534/2020, there are still issues that must be considered more explicitly within the framework of personal data processing. There is also a Bill under evaluation that plans to comprehensively regulate personal data processing in the country. This Bill also seeks to modernize the legal regime in response to existing new technologies for personal data collection and processing. The enactment of a comprehensive law will be essential in the country before the introduction or progressive expansion of business models such as Open Banking. Resolution 3/2023 by the Central Bank of Paraguay (“BCP”) was issued to regulate Credit Bureaus and users of credit information within the framework of Law 6,534/2020.

- ▶ **E-Billing:** In Paraguay, the implementation of e-billing is already mandatory for some taxpayers in accordance with Resolution 105/2021 of the Undersecretariat of State for Taxation.
- ▶ **Use of Cloud Computing Services:** BCP Resolution 10/2022 repeals the previous Resolution SB.SG. 281/2004 on Decentralization of the Information Process. With this resolution, the BCP establishes the minimum guidelines and obligations that supervised entities outsourcing their cloud computing service processes and activities for the effective administration and supervision of such services must comply with.
- ▶ **Corporate Governance:** BCP Resolution 16/2022 established the minimum standards for good corporate governance, making it mandatory for legal entities supervised by the Superintendency of Banks and the Superintendency of Insurance. This Resolution was issued in January 2022; and BCP has also issued General Guides and Specific Application Guides according to the nature of those supervised (Resolutions 110/112/113/114 and others), indicating specific dates and deadlines for its implementation.

In turn, in 2023, CNV Res. 35 updated CNV regulations related to Corporate Governance good practices.

- ▶ **Open Banking:** To date, Paraguay does not have a regulation regarding Open Banking.

2. Regulation related to electronic or digital wallets

BCP Resolution 6/2014 constitutes the formalization of the mobile money business in Paraguay and establishes a series of conditions and technical requirements so that companies providing these services (EMPEs) can be accredited and obtain authorization from BCP, which is also subject to the records from the National Telecommunications Commission ("CONATEL"). Resolution 6 includes mobile money operations within the general framework of financial consumer protection and encourages industry leadership in the search for technical solutions, thus achieving interoperability between mobile wallets.

Additionally, Resolutions related to the sector have been issued, such as BCP Resolution 10/2019 that regulates the Information Regime applied to Electronic Payment Methods Entities (EMPEs); or Resolution 77/2022 by the Secretariat for the Prevention of Money Laundering ("SEPRELAD"), that approves the Regulations for the Prevention of ML/TF, based on a risk management system; aimed at EMPEs authorized and supervised by BCP.

3. Regulation on virtual assets and virtual asset service providers

Paraguay does not have a single and comprehensive law regarding digital assets. In August 2022, the Executive Branch vetoed the Bill “That Regulates the Industry and Marketing of Virtual Assets. Crypto Assets,” which had the purpose of regulating the production and marketing activities of virtual assets or crypto assets (crypto mining activities and activities based on crypto assets), but was also rejected by the Senate.

However, Paraguayan authorities have issued provisions applied to the virtual asset sector.

With regard to Virtual Asset Service Providers as subjects bound by ML/TF Prevention and Repression regulations, Act 6,797/2021 amended Art. 13 of Act 1015/1997 to include PSAVs reporting entities by regulations on the prevention and suppression of ML/FT.

SEPRELAD issued Resolution 314/2021 approving the ML/TF Prevention Regulation, based on a risk administration and management system applied to natural and legal persons that carry out activities associated with VASPs. The Resolution establishes PSAVs cover activities such as mining or equivalents, exchange, transfer, storage and administration, or participation and provision of financial services related to them. To date, all PSAV must register with SEPRELAD, and they are subject to due diligence obligations in their operations and information reporting to SEPRELAD.

SEPRELAD Resolution 88/2023 encourages VASPs to register or re-register through the Integrated Reporting and Operations System (“SIRO”).

Regarding cryptocurrency operations, local civil regulations open the possibility to consider exchange operations and/or transactions with cryptocurrencies between the parties. In the country, there are some companies that offer services for the purchase, storage or transfer of crypto assets/cryptocurrencies such as Cripex, Bitex, among others. As well as companies that carry out crypto mining activities, infrastructure provision services, hosting and access to the mining of digital assets, such as Digital Assets.

4. Relevant Authorities

According to the nature of the products or services offered by FinTech companies or ventures, relevant authorities could have influence and substantial participation, such as the BCP, the National Securities Commission, the Ministry of Consumer and User Defense (SEDECO), the Secretariat for the Prevention of Money or Asset Laundering (SEPRELAD), the Ministry of Industry and Commerce (MIC), the National Technology Commission (CONATEL), the National Institute of Cooperatives (INCOOP), the Ministry of Finance, the National Competition Commission (CONACOM), the National Directorate of Intellectual Property (DINAPI), among others.

C. Trends in the FinTech sector

Several trends linked to the FinTech sector remain active in the Paraguayan market. At the same time, various business models or other opportunities have stabilized and have their own challenges.

1. Most common and massive trends

- ▶ Use of chip or contactless debit and credit cards or QR payments
- ▶ Payment apps and portals
- ▶ Transactional websites
- ▶ E-wallets

2. Trends in constant growth

- ▶ Neobank
- ▶ Digital loans and crowdfunding
- ▶ Digital solutions and personal finances control
- ▶ Factoring
- ▶ Forfaiting
- ▶ Operations with crypto currencies

3. Trends that should be leveraged

- ▶ **Data in the Cloud:** Local regulations on data processing provide that data management of financial entities can be carried out by cloud computing service providers external to the entity, whether they are domiciled in Paraguay or abroad. This is a very good opportunity for financial entities in their transformation process or business management model, as well as for technology or consulting companies linked to these services.
- ▶ **Artificial Intelligence and process automation:** The use of AI in the FinTech sector would contribute to the risk analysis of profiles for loans, for example. For its part, process automation will help optimize and accelerate management activities by materializing the tasks for the provision of FinTech products and services.
- ▶ **Alliances:** In the Paraguayan market, strategic alliances have been created between banking entities and FinTech companies, with the purpose of promoting digital products and services, taking advantage of synergy and the combination of technological capabilities.
- ▶ **Near-Field Communication (NFC) technology in mobile apps:** The use of NFC in mobile applications is already a reality that is gaining strength even at the regional level. In Paraguay, almost all transactions require the intermediation of a POS (with all the costs that this represents), but the NFC

could make the functionality of the POS, 100% software and suitable for cell phones. Banks could explore developing mobile app features so that customers can accept debit or credit payments directly on their mobile phones in an encrypted and contactless manner.

- **ESG-focused FinTechs:** Globally, there is a significant increase in environmental, social and governance (ESG) investing, which has influenced material change in the financial services sector. ESG-focused FinTechs would have a unique ability to attract investment capital supporting their efforts to improve the environment and society while generating substantial returns.

It is worth noting that the inherent use of big data, AI and real-time information by FinTechs makes the industry a perfect model to follow when implementing environmentally friendly and sustainable logistics practices; including the use of technology to help organizations calculate their carbon footprint using data analysis.

To date, a large number of green bonds and loans linked to projects and efforts related to sustainability and ESG have been issued globally. In Paraguay, the Sustainable Development Objective Bonds Regulation (green, social and sustainable bonds) is recent, issued by Resolution CG 9/20 of the CNV and supplementary regulations.

In the particular case of Paraguay, it is worth noting associations such as the Sustainable Finance Board of Paraguay ("MFS"), which is made up of various financial entities that join efforts to promote initiatives and strategies that contribute to the construction of a more supportive and inclusive economy.

Likewise, BCP has expressed its opinions regarding the Central Bank Digital Currency (CBDC), and in this sense, it approved the regulations of the Working Group on Digital Currency of the Central Bank of Paraguay, in order to monitor the different initiatives at the international level on CBDC, as well as analyzing the implications of the possible implementation of some type of CBDC by BCP.



D. Challenges in the FinTech Sector

The participation of other actors in the financial market is a challenge for the Paraguayan government when preserving financial stability and protecting users and consumers against abusive practices or fraud.

However, the government has contributed substantially by exercising notable and positive leadership in the field by promoting regulatory initiatives for the FinTech sector. It is also expected that it will continue to commit to working on the main guidelines linked to the sector, focusing its efforts on bills that provide greater legal certainty and less uncertainty, within the framework of business planning and advances that involve the adoption of new technologies financial activities in stages.

It is worth highlighting that there are still important challenges such as increasing financial inclusion, having a comprehensive approach regarding the protection of personal data, financial education, innovation in services and technology, effective free competition, having sources of funding for FinTech projects, access to global information and communication networks, special support programs (regulatory sandbox or accelerators), training in disruptive technologies, safe and responsible adoption of AI in financial services, among others.

Paraguay is a competitive market, but it is one of the countries with the lowest broadband connection penetration rate in the region. Additionally, there are difficulties in international fiber optic connectivity that goes through neighboring countries to be connected to the global network. Today's connectivity level has a considerable cost, resulting in loss in competitiveness and limitations on Internet access, both for public services and for private enterprises outside the central region in the country.

Nevertheless, Paraguay enjoys a pro-FinTech legal framework and an optimal investment scenario as evidenced by several of the current regulatory provisions, and Bills in progress, as well as companies in the segment operating successfully with great expectations of expansion, without overlooking the challenges previously exposed, and without failing to highlight that in Paraguay there is still much to do and to develop.

6.9

>> URUGUAY

A. Data on the Current Scenario of the Financial and FinTech Sector

Currently, Latin America is positioned as one of the FinTech hubs with the greatest global projection, especially in B2C (Business to Consumer) services. In this sense, countries like Brazil and Mexico stand out for being in the Top 10 countries in the world with the largest number of active FinTech ventures.



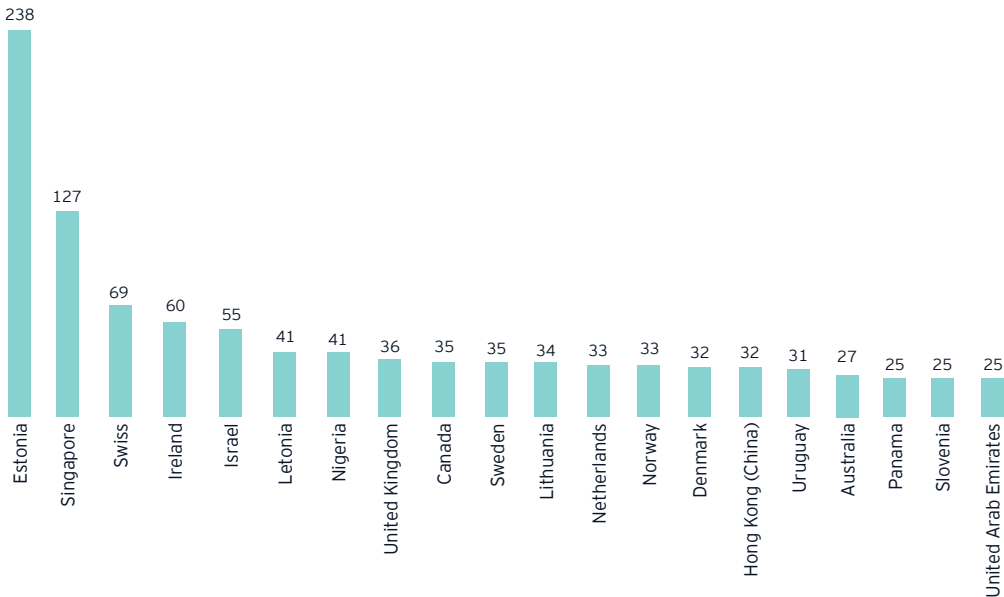
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However, “when talking about FinTech, we must not only take into account the number of FinTeh companies that operate in a country, but also the number of companies based on the size of that country, in order to also analyze their maturity index,” mentioned Rodrigo García de la Cruz, CEO of Finnovating and vice president of the Spanish Association of FinTech and Insurtech.

It is at this point where Uruguay takes on greater relevance, leading the maturity index in the region, which seeks to measure the number of active FinTechs per million inhabitants. Likewise, at a global level

and according to the Finnovating Guide published in March 2023, Uruguay is in the sixteenth position among the countries with the highest number of FinTechs per million inhabitants. Finally, from the results of this study it can be deduced that those countries with a greater degree of digitalization and with greater flexibility at the regulatory level are those that generate the greatest volume of FinTech per capita. Therefore, we consider it pertinent to focus this section of the guide on these two aspects, as well as on a brief update of the FinTech scenario in the territory and future challenges and trends in the sector.

The most digital countries with the most flexible regulations are those that generate the most FinTech per capita, with Estonia leading the way



Source: Finnovating Platform.

In the last 12 months, we have witnessed great milestones in the FinTech ecosystem, including the great evolution that instant bank transfers have had in the country and some objectives achieved by some local companies in the sector. We can highlight, for example, that the FinTech company Infinia has been selected by a North American startup accelerator; that Bankingly, another renowned FinTech company in the country, has attracted an investment of more than USD 2.5 million to continue with the objective of expanding its banking services to more markets; or the acquisition by Banco ITAÚ of the share parcel of two growing FinTech companies: Prex and Paigo.

On the one hand, in relation to instant bank transfers, although detailed later on, we must not overlook that the Central Bank of Uruguay presented a report on the retail payment system at the beginning of September 2023, that shows the steady growth of instant bank transfers. In this sense, in the first half of 2023, more than two million instant bank-to-bank transfers were registered, almost four times more than in the same period of 2022.

On the other hand, in relation to the main verticals of the FinTech ecosystem in Uruguay, we must highlight the following: loans, payments, Open Finance and cryptocurrencies. Likewise, according to recent data provided by the Uruguayan FinTech Chamber (made up of 44 companies and more than 68 members, including Ripio, Prometeo, Prex, Paganza and Mercado Pago), there are currently 60% of companies denominated “factories”, that are a kind of software “farms”. The remaining 40% refers to product development companies; and it is important to highlight the fact that, within these, 25% are in a Series A funding.

Additionally, 39% of companies have a business model, product and/or clients, among others, in initial validation. Of that percentage, 20% of the chamber members have national validation and 41% have international validation. This shows that many of the Uruguayan FinTech companies have managed to scale their business in the region, perhaps driven by the growing limits within national market only.

Finally, and in terms of business models at the local level, we must take into account three large national companies that can be considered unicorns: dLocal, NowPorts and PedidosYa. Likewise, some smaller but very significant companies also continue to grow, among which we can highlight Prometeo or even Ripio, a company of Argentine origin but that has had great development in Uruguay.

B. Regulatory Framework

The Central Bank of Uruguay (“BCU”) is the regulator for the financial and FinTech sector through the Superintendency of Financial Services (“SSF”), which depends directly on the BCU Board of Directors. Some of the functions of the SSF include regulating the financial system in the search for the development of a regulatory framework aligned with the best international practices and aimed at compliance with legal tasks, managing authorizations linked to the entry of new agents into the system, receiving and processing information from supervised entities with the objective of facilitating the supervision and transparency of the financial system, among others.

As of December 2022, there were 540 institutions within the regulatory scope of the SSF, including 28 Credit Administrators, 19 Financial Services Companies, 12 Banks and Financial Intermediation Union, among others. To date, Uruguay does not have a Framework Law that regulates the activity of FinTech businesses. Because of that, the

regulation applicable to these businesses falls within the same rules that govern the rest of the companies in the financial sector; such as the regulations in BCU Circular 2307 issued in 2018 on the activity of companies that manage lending platforms between people, known as Peer to Peer Lending (P2P), or Law 19210 that created the E-Money instrument, introducing the figure of E-Money Issuing Institutions (“IEDE”), which are regulated by the BCU.

However, during 2022, the BCU carried out an analysis of the regulation, authorization and supervision processes of all the entities that make up the financial and payment system. On January 18, 2023, the Board of Directors adopted a resolution to create a focused Payment System Management with greater resources for surveillance, with the priority of fostering the conditions for the development and introduction of new products or technologies, monitoring the evolution of the market in terms of innovation and streamlining the regulation process, seeking to guarantee the incorporation of new products and instruments in a comprehensive, coordinated and efficient manner.

According to the BCU, "the way in which payment transactions are carried out are everchanging at the local and global level, incorporating new modalities and innovative technologies. In this context, the Central Bank of Uruguay will foster the conditions so that all people and companies have access to modern and efficient payment methods that meet high security standards and in line with the best international practices of prudential regulation and innovation." Aligned with this, the BCU presented the "Uruguay Payment System Roadmap," defining its lines of action from 2023 to 2025, which are based on joint work by all actors under three main principles: (i) promote development and competition in the market, (ii) promote innovation and the adoption of new products/technologies, and (iii) promote system security and integrity. Considering these principles, the BCU presents several actions in its 2023 - 2025 Roadmap, the most relevant are:

- ▶ Promote the implementation of a fast payment system aligned with best international practices.
- ▶ Promote the development of a legal framework and the operational start of an Open Finance system.
- ▶ Continue establishing an environment conducive to innovation with clear rules of the game for the incorporation of technology in the financial and payment systems (authorization processes, access, data processing, etc.).

- ▶ Prepare a conceptual framework and propose a roadmap for the issuance of an electronic currency by the Central Bank.
- ▶ Complete the implementation of comprehensive compensation systems with access to the entire regulated industry that are operational 24/7, and with high security standards that are the basis for the development of new products.²⁷

Additionally, Uruguay has recently presented Bills on the treatment of virtual assets, that are currently being debated in Parliament (one has been approved by the Chamber of Deputies), the BCU has regulated the activity of credit granting entities, and they are working on a Bill to make modifications to the Compilation of Payment System Standards with objective of establishing a fast payment system, as set forth in the aforementioned Roadmap.

27. [bcu.gub.uy/Sistema-de-Pagos/Documents/Sistema de Pagos-hoja-de-ruta-2025.pdf](https://bcu.gub.uy/Sistema-de-Pagos/Documents/Sistema%20de%20Pagos-hoja-de-ruta-2025.pdf)

C. Challenges and Trends in the FinTech Sector

The sections that can be considered in this section are the following:

1. Brief summary of the possible challenges of the FinTech market in the country or possible entry barriers, if applicable (regulatory issues, connectivity, etc.).
2. Brief summary of trends in the market: booming business models, enabling policies under discussion (e.g., Open Banking), among others.

In order for the BCU to advance its 2020-2022 Payment System Roadmap and the key points presented above from its 2023-2025 agenda, it is developing different actions together with the rest of the market players. For example, in June 2023, instant electronic transfers between banks were enabled 24/7/365, which was considered a new milestone after this type of transfers was authorized at the beginning of 2021.

This change had a noticeable effect on users. According to the report on the Retail Payment System issued by the BCU for the first half of 2023, the number of transfers

processed by the Bank-to-Bank Payment System in the first quarter of 2023 amounted to more than 19 million, meaning an increase of 33% compared to the same semester of the previous year. Especially referring to instant bank-to-bank transfers, in the first quarter of 2023, more than 2 million operations were recorded, almost 4 times more than in the second quarter of 2022. In June 2023 instant bank-to-bank transfers increased by 61% compared to the previous month, coinciding with the beginning of 24/7/365 operations.

In line with the points discussed in the 2023-2025 Payment System Roadmap, the BCU is working towards the implementation of the following actions during the second half of 2023:

- A. Instant transfers between people and businesses.
- B. Adding to the previous point, there is a plan to strengthen payments between people and businesses through new systems that do not involve the use of cards/cash.
- C. Implement the alias scheme with the aim of facilitating money transfers between people.

Based on the above, we consider that trends in the Uruguayan market will be especially focused on these points over the course of the coming months.

On the other hand, we consider it relevant to expand on certain actions that the Uruguayan government is developing together with different actors, with the aim of attracting greater investment to the country, consolidating the local ecosystem and positioning Uruguay as a global reference. Some relevant actions worth highlighting:

- A. Law 20191, recently enacted, which aims to encourage technicians and professionals in the IT sector to settle in Uruguay, granting tax incentives for this purpose.
- B. The launch of the Uruguay Innovation Hub program by the government, aimed at “strengthening the country as an innovation and entrepreneurship hub in the region.” The initiative, which is led by different ministries, the National Research and Innovation Agency, the Technological Laboratory of Uruguay, Uruguay XXI with the support of the Inter-American Development Bank, aims to follow three concepts:
 - Program to attract and accelerate national and international startups, providing technology and capital with public and private funds.
 - Attraction of investment funds leveraging public funds.
 - Encourage the installation of open labs that strengthen the national ecosystem.



List of Major FinTech Regulatory and Promotion Bodies, as well as Relevant Associations in Peru

1. BANCO CENTRAL DE RESERVA DEL PERÚ (BCRP)

Tel: +51 1613 2000
www.bcrp.gob.pe



It is an autonomous constitutional entity of the Peruvian State. According to the Constitution, the functions of the Banco Central de Reserva del Perú (BCRP) are to regulate the currency and credit of the financial system, to administer international reserves under its control, and the other functions indicated by its Internal Regulations. The Constitution also entrusts the BCRP with the issue of notes and coins and the accurate and periodical reporting to the country on the state of national finances. In addition, the actions of the issuing Institute should be oriented towards maintaining monetary stability, avoiding any inflationary or deflationary pressure on the economy.

2. OFFICE OF THE PRIME MINISTER - PCM

Tel: +51 1 219 7000
www.gob.pe/pcm



The Office of the Prime Minister is the technical-administrative entity of the Executive Branch, the highest authority of which is the President of the Republic. It coordinates and monitors the multisectoral policies and programs of the Executive Branch. In addition, it carries out coordinated actions with Congress and with various constitutional bodies.

3. **MINISTRY OF FOREIGN AFFAIRS (MRE): EXECUTIVE OFFICE FOR ECONOMIC PROMOTION - DPE**

Tel: +51 1204 2400

www.gob.pe/rree



The Executive Office for Economic Promotion (DPE) is the institution of the Ministry of Foreign Affairs (MRE) responsible for coordinating with Peruvian missions abroad in an effort to promote Peru as a country capable of providing goods and services in international markets, as well as positioning it as a world-renowned tourist destination, and a country with interesting business and investment opportunities in different economic sectors.

4. **SUPERINTENDENCY OF BANKING, INSURANCE, AND PRIVATE PENSION FUND MANAGEMENT COMPANIES (SBS)**

Tel: +51 1630 9000

www.sbs.gob.pe



The SBS is the agency responsible for regulating and supervising financial, insurance, private pension, and cooperative savings and credit systems, as well as preventing and detecting money laundering and terrorist financing. Its primary objective is to preserve the interests of depositors, insured persons, and members of the Private Pension System (SPP)

5. **SUPERINTENDENCY OF THE SECURITIES MARKET - SMV**

Tel: +51 1610 6300

www.smv.gob.pe



The SMV is a specialized technical agency attached to the Ministry of Economy and Finance (MEF) that aims to ensure the protection of investors, the efficiency and transparency of markets under its supervision, the correct establishment of prices, and the dissemination of all the information necessary for such purposes. It has a corporate existence under public domestic law and enjoys functional, administrative, economic, technical, and budgetary autonomy.

6. **MINISTRY OF ECONOMY AND FINANCE - MEF**

Tel: +51 1311 5930

www.gob.pe/mef



The Ministry of Economy and Finance (MEF) is the executive authority responsible for planning, directing, and controlling matters related to budget, treasury, debt, accounting, tax policy, public investment, and economic and social policy. It also designs, establishes, implements, and supervises national and sectoral policy under its scope of action, assuming the regulation thereof.

7. SECRETARIAT OF E-GOVERNMENT AND DIGITAL TRANSFORMATION OF THE OFFICE OF THE PRIME MINISTER - SGTD

Tel: +51 219-7000
www.gob.pe/7025-presidencia-del-consejo-de-ministros-secretaria-de-gobierno-digital



It is the governing body of the National Digital Transformation System, where it integrates the public, private, organized civil society, academia, and citizens in the areas of the country's e-government, digital trust, and digital transformation. Since its creation, the Secretariat has put together an extensive policy framework with the aim of strengthening and ensuring the digital transformation of the country, involving citizens and all key actors.

8. THE NATIONAL INSTITUTE FOR THE DEFENSE OF FREE COMPETITION AND THE PROTECTION OF INTELLECTUAL PROPERTY - INDECOPI

Tel: +51 1224 7777
www.gob.pe/indecopi



The INDECOPI promotes a culture of fair competition, protection of consumer rights and protects all forms of intellectual property (distinctive signs, copyrights, patents, and biotechnology).

9. MINISTRY OF TRANSPORTS AND COMMUNICATIONS - MTC

Tel: +51 1 615 7800
www.gob.pe/mtc



The MTC is the entity of the Peruvian State that seeks to achieve a rational territorial order linked to the areas of resources, production, markets, and population through the regulation, promotion, execution, and control of transportation and communications infrastructure.

10. MINISTRY OF INDUSTRIES AND FISHERIES - PRODUCE

Tel: (01) 616 2222
www.gob.pe/produce



The Ministry of Industries and Fisheries (PRODUCE) is an agency of the Executive Branch responsible for implementing and supervising national and sectoral policies in fisheries and aquaculture, industrial fisheries, medium and large aquaculture companies, industrial standardization, as well as controlled products, productive innovation, and technological transfer.

11. ENDEAVOR


www.endeavor.org.pe



Endeavor is an international organization with offices in more than 30 countries and is responsible for identifying entrepreneurs who lead high-impact companies, helping them maximize their potential through a network of mentors and allies that are second to none.

12.

PERUVIAN FINTECH ASSOCIATION

www.fintechperu.com 

Association of business owners that seeks to contribute to the development of Peru, the FinTech ecosystem, and financial inclusion through transparent, efficient, and effective business models based on financial innovation, impact generation, collaboration, and cooperation with different public and private actors, at the national, regional and global levels.

13.


PERUVIAN BANKING ASSOCIATION - ASBANC

Tel: +51 1 612-333
www.asbanc.com.pe 

Founded in 1967, the Peruvian Banking Association (ASBANC) is an institution that groups the banks and private financial institutions of Peru and whose main objective is to promote the strengthening of the private financial system, providing its members with information services. It is also a liaison among the financial institutions of the country, identifying, developing, and managing aspects of common interest to them, for their promotion and development.

14.


PERUVIAN ASSOCIATION OF INSURANCE COMPANIES - APESEG

Tel: +51 2011600
www.apeseg.org.pe 

Founded in 1904, the Peruvian Association of Insurance Companies (APESEG) groups insurance and reinsurance companies operating in Peru. Some of its objectives are to promote awareness of and access to insurance for families and businesses to protect their income and continue to contribute to the development of the country.

15.

PERUVIAN ASSOCIATION OF SEED AND VENTURE CAPITAL - PECAP

www.pecap.pe 

PECAP is the association representing venture capital investors in Peru. Its main objective is to promote financing in innovative ventures that generate inclusive development in Peru, thus seeking to contribute to the increase of productivity and competitiveness of the country, and the generation of quality employment.

16.**LIMA STOCK EXCHANGE - BVL**


Tel: +51 619-3333

www.bvl.com.pe 

The Lima Stock Exchange has as its mission to contribute to the development of Peru, leading the growth of the capital market, promoting and encouraging financing and investment through stock market instruments. Thus, the main objective of the Lima Stock Exchange is to facilitate the negotiation of the securities registered on the stock exchange, providing the services, systems, and mechanisms for intermediation in a fair, competitive, orderly, continuous, and transparent manner.

17.**THE NATIONAL INSTITUTE OF STATISTICS AND INFORMATION - INEI**


Tel: +51 1 652 0000

www.inei.gob.pe 

INEI is the agency responsible for producing and disseminating official statistical information that the country needs with the quality, timeliness, and coverage required, with the aim of contributing to the design, monitoring, and evaluation of public policies and the decision-making process of socio-economic agents, the public sector, and the community at large.

18.**PERUVIAN FACTORING ASSOCIATION - APEFAC**


Tel: +51 1 612 52 52

www.apecfac.com 

This institution aims to promote and support sustainability, research, development, production, dissemination, creation, implementation, marketing, consulting, and representation of Factoring companies in Peru. It contributes to the social and economic development of the country by promoting the practice of Factoring, as well as the improvement and transparency of this industry.

19.**PERUVIAN ASSOCIATION OF MICROFINANCE INSTITUTIONS - ASOMIF**

Tel: +51 1 421-7336


www.asomifperu.com 

A committee made up of institutions specialized in microfinance, whose purpose is to promote common actions that support the operational development of its members for the benefit of the public demanding their services, which are generally not covered by traditional banking.

20.

PERUVIAN FEDERATION OF MUNICIPAL SAVINGS AND CREDIT UNIONS - FEPCMAC

Tel: +51 1 222-4002


www.fpcmac.org.pe 

The FEPCMAC enjoys economic, financial, and administrative autonomy and is made up of 11 Municipal Savings and Credit Unions operating throughout the national territory in a decentralized manner. It represents the Municipal Savings and Credit Unions (CMAC) system as a valid facilitator in the various coordination with public and private, national, and international organizations that support the economic and financial development of the CMAC system.

21.

PERUVIAN FOREIGN TRADE ASSOCIATION - COMEXPERU

Tel: +51 1 625-7700


www.comexperu.org.pe 

ComexPeru is a private association that groups the leading companies involved in foreign trade in Peru. Its main purpose is to contribute to the improvement of competitive conditions within a free market environment that will make Peru an attractive destination for private investment.

22.

NATIONAL CONFEDERATION OF PRIVATE BUSINESS INSTITUTIONS - CONFIEP

Tel: +51 1 415-2555


www.confiep.org.pe 

This institution brings together and represents private business activities within Peru and abroad. Its principal objective is to contribute to the process of sustained economic growth, based on investment and job creation through individual effort and initiative, the promotion of entrepreneurship, and private property.

23.

ASSOCIATION OF CAPITAL MARKETS BUSINESS PROMOTERS - PROCAPITALES


Tel: +51 1 440-1080

www.Procapitales.org 

The Association of Capital Markets Business Promoters (Procapitales) brings together the principal actors in the market, channeling their concerns and proposals. It acts as a business guild to focus fundamentally on promoting investment and capital markets. It speaks on behalf of its members to the public sectors with proposals to reduce legal costs and bureaucratic barriers that hinder easy market access. The institution's principal objective is to encourage an efficient legal framework and appropriate corporate governance practices.

24.**LIMA CHAMBER OF COMMERCE**


Tel: +51 1 463 3434

www.camaralima.org.pe 

For the past 128 years, the Lima Chamber of Commerce has represented and defended the interests of the business class before the country's authorities, as well as national and foreign entities. As part of its activities, it promotes free-market policies and free competition with a sense of social responsibility, as well as fair and honest competition within a framework of values and ethical principles, fostering domestic and foreign trade and promoting good commercial practices. Moreover, it is a strategic partner of the State, cooperating to ensure that the laws and other provisions foster national social and economic prosperity, taking the initiative in offering proposals and assuming responsibility in the activities entrusted to it by the State.

25.**INPERU**

Tel: +51 1 619 3333

inperu.pe 

InPeru is a non-profit association for the promotion of investment in Peru among the principal international financial markets, seeking an exchange of good practices and, in general, providing information on Peru as a destination for a range of investment opportunities. The founders of InPeru include the following private institutions: Lima Stock Exchange (BVL); Cavali; Private Pension Fund Management Companies Association (AFP); Peruvian Banking Association (ASBANC); Procapitales; Peruvian Finance Association (APEF); National Confederation of Private Business Institutions (CONFIEP); and the Peruvian Association of Insurance Companies (APESEG). It also has the support of the Peruvian State, through the Ministry of Economy and Finance (MEF); the Ministry of Foreign Affairs (MRE) Banco Central de Reserva del Perú (BCRP); the Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS); the Peruvian Securities and Exchange Commission (SMV); the Private Investment Promotion Agency (ProInversión); and PromPerú.



Scan the QR
code to learn
more about our
services.

Our Services - EY Law

EY has a global, comprehensive, and multidisciplinary approach to providing financial and FinTech regulation advice with more than 300 professionals in the EY Latam Region and over 40 professionals in EY Peru engaged in the provision of services to this industry, including specialists in project processes, economists, legal experts, financial auditing, compliance, IT management, and other services. Our team is closely interconnected, regionally and globally, and shares industry and technical expertise to provide our customers with a global and strategic service without limitations.



The following are some of our specialized services in financial and FinTech regulation:

► **Financial and FinTech Regulation**

The Financial and FinTech Regulation area aims to provide comprehensive legal accompaniment to financial system companies and entrepreneurs (startups or BigTechs) in their daily operations through legal and regulatory advice, in the design and implementation of financial products and services, corporate governance, legal innovation, legal design, risk management (prudential regulations), cybersecurity, metaverse topics, IT contracts, financial licensing and soft landing, negotiation of commercial alliances, prevention of Anti-Money Laundering and Countering Financing of Terrorism (PLAFT) and regulatory compliance.

► **Competition and Markets**

This area provides advice, support in the design and implementation of compliance and sponsorship programs in litigation in the areas of free competition, unfair competition, consumer protection, bureaucratic barriers, and personal data protection with a tailored work approach that takes into account strategic aspects and communications that can affect different business models. We also advise companies on regulatory matters with the preparation of documents for the management of public affairs.

► **Corporate and Capital Market**

This area provides advice on corporate affairs, transactions and reorganizations, financing operations, and regulation of the Peruvian capital market. Our team has extensive experience in transactions with international multilateral companies, international banks, national banks, and financial entities, broker-dealers, investment funds, insurance companies, as well as

companies from various sectors such as construction, real estate, and others. Recent growth areas include corporate affairs, securitization, real estate investment trusts (REITs) finance operations, compliance, corporate governance, and regulation of capital markets and investment funds.

► **Advisory Services for the Financial Industry**

Our Financial Services Office (FSO) seeks to assist, with appropriate risk management, in consolidating a sound, inclusive, innovative financial and technological ecosystem and to foster the development of financial products and services based on the best practices of the financial industry. We also seek to ensure FinTech companies comply with the applicable Peruvian regulations set by the Superintendency of Banking, Insurance and Pension Fund Management Companies (SBS).

► Integrity Risk Management Services

Our integrity risk management professionals aim at helping companies and institutions, in general, to protect their corporate reputation by assisting them in prevention, detection, and response to irregular activities, and supporting them with independent investigation reports or reports associated with dispute situations. Our services seek to improve the effectiveness and sustainability of integrity programs, aligned with compliance with laws, regulations, and standards related to matters such as anti-corruption, prevention of money laundering and terrorist financing, free competition, and others.

► People Advisory Services

The People Advisory Services team knows what is necessary to comply with labor and tax-labor obligations related to foreign and local workers. This will allow our customers to be aware of regulatory changes and effectively manage their human talent.

EY has a network of professionals in more than 150 countries, with in-depth knowledge of labor, labor-procedural, immigration, and tax-labor law, who are willing to offer strategic and effective solutions, such as cost optimization and risk management, to provide tailored and immediate advice.

► Financial Accounting Advisory Services

Our Financial Accounting Advisory Service (FAAS) comprises a wide range of accounting, financial reporting, and data analysis services focused on strengthening and optimizing the financial function. FAAS supports the determination, monitoring, and disclosure of financial and non-financial information for your stakeholders, focusing on the CFO agenda and providing financial managers, controllers, treasurers, and audit committees with services to meet the current requirements for financial reporting that will allow for better decision-making. FAAS also strengthens the financial function through innovative services and tools aimed at analyzing financial data and optimizing and streamlining the closing process of financial statements.

► Tax Advisory Services

The Tax Advisory Services area offers specialized services for corporate tax advice in a global and dynamic environment, advising customers in the entrance, financing, nesting, alliances, ongoing and potential exit in the case of startups, giving appropriate treatment to the various taxes that may be applicable. The FinTech Tax area performs a local and cross-border analysis for the FinTech company, as well as on the impacts on customers for products that can be offered under the current regulatory framework.

The team has marked expertise in sectoral taxation in the financial taxation and FinTech sector, which allows us to allocate tax specialists according to the type of industry with a predominant focus on tax optimization work. ted and tailored approach.

EY PERÚ



Our Specialized FinTech Business Team



María del Pilar Sabogal

Lead Partner,
EY Perú
maria.sabogal@pe.ey.com



Mercedes Fernández

Associate Partner,
EY Perú
mercedes.fernandez@pe.ey.com



Darío Bregante

Senior Manager, Financial
Regulation and FinTech,
EY Perú
dario.bregante@pe.ey.com



Fernando Tori

Partner, International Tax
and Transaction Services,
EY Perú
fernando.tori@pe.ey.com



Álvaro Arbulú

Partner, Tax Advisory
Services,
EY Perú
alvaro.arbulu@pe.ey.com



José Carlos Bellina

Lead Partner, Financial
Accounting Advisory Services,
EY Perú
jose.bellina@pe.ey.com



Antonio Benites

Leading Partner, Financial
Accounting & Climate Change
and Sustainability
Advisory Services,
EY Perú
antonio.benites@pe.ey.com



Mauro Ugaz

Partner, People
Advisory Services,
EY Perú
mauro.ugaz@pe.ey.com



Cecilia Melzi

Partner, Forensic and
Integrity Risks Service,
EY Perú
cecilia.melzi@pe.ey.com



Numa Arellano

Partner, Advisory Services
for the Financial Industry,
EY Perú
numa.arellano@pe.ey.com

EY LAT AM



Our FinTech team



Adriana Jiménez Sandoval

Senior Manager, Legal Regulatory
- Financial Industry,
EY México
adriana.jimenez@mx.ey.com



Alejandro García-Botero

Senior Manager, Law,
EY Colombia
alejandro.garcia1@co.ey.com



Ana L. Lourenço

FSO Latam Market Segment Leader
FSO Tax Deputy,
EY Brasil
analuiza.lourenco@br.ey.com



Andrés Fuentes

FSO Latam Deputy Leader,
EY México
andres.fuentes@mx.ey.com

**Carina Barrera Cota**

Partner, Corporate, IP, Privacy &
Legal Ops,
EY México
carina.barrera@mx.ey.com

**Ernesto Scayola**

Associate Partner, Consulting,
EY Uruguay
ernesto.scayola@uy.ey.com

**César Román Oropeza**

Global Senior Manager
Compl&Reporting (GCR),
GCR-FSO,
EY México
cesar.roman@mx.ey.com

**Federico Trelles**

Senior Manager, Consulting,
EY Uruguay
federico.trelles@uy.ey.com

**Claudia Gómez**

FSO Colombia Market
Segment Leader
EY Colombia
claudia.gomez@co.ey.com

**Felipe Fernández**

Executive Director, Law,
EY Chile
ernesto.scayola@uy.ey.com

**Daniel Salas Torres**

Partner, Global Compl&Reporting
(GCR), GCR-FSO,
EY México
daniel.salas@mx.ey.com

**Gregory Gobetti**

FSO Latam Leader
EY Brasil
gregory.gobetti@br.ey.com

**Diego Rojas**

Manager, Business Consulting,
EY Chile
diego.rojas@cl.ey.com

**Gustavo Colmán**

Partner, Law,
EY Paraguay
gustavo.colman@py.ey.com

**Javier Vergara**

Partner, Consulting,
EY Paraguay
javier.vergara001@py.ey.com

**Laura Galarce**

Senior Manager, Technology
Consulting,
EY Chile
laura.galarce@cl.ey.com

**Jorge Garnier**

Lead Partner, Law,
EY Argentina
jorge.garnier@ey.com

**Luis Goncalves**

Senior Manager, FSO -
Technology Solutions Delivery,
EY Panamá
luis.goncalves@pa.ey.com

**José Antonio Flores Ávila**

Partner, Technology Consulting,
EY México
joseantonio.flores@mx.ey.com

**Marco Aguilar**

FSO México Market Segment
Leader,
EY México
marco.f.aguilar.fuerte@mx.ey.com

**Juan F. Martínez**

FSO Chile Market Segment Leader,
EY Chile
juan.francisco.martinez@cl.ey.com

**Marco Ventura**

Associate Partner, Strategy
Architecture & Infrastructure,
EY Colombia
marco.ventura@co.ey.com

**Juan Pablo Grisolia**

FSO Argentina Market Segment
Leader,
EY Argentina
juan-pablo.grisolia@ar.ey.com

**María José Estruga**

Senior Manager, Law,
EY Argentina
maria.j.estruga@ey.com

**Marina Abal**

FSO Central America Market
Segment Leader,
EY Panamá
marina.abal@pa.ey.com

**Óscar Ortiz**

FSO Latam Tax,
EY México
oscar.ortiz@mx.ey.com

**Mauricio Martínez**

Partner, Technology Consulting,
EY Chile
mauricio.martinez@cl.ey.com

**Paula Colodete**

Associate Partner, Financial
Accounting Advisory Services,
EY Brasil
paula.colodete@br.ey.com

**Mauro Salvi**

Senior Manager, SaT,
EY Argentina
mauro.salvi@ey.com

**Regis Borges Filho**

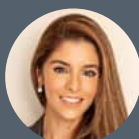
Associate Partner, Financial
Accounting Advisory Services,
EY Brasil
regis.borges@br.ey.com

**Milton Santiago Alvarez C.**

Manager, Technology
Transformation,
EY Ecuador
milton.alvarez@ec.ey.com

**Roberto C. Drummond**

Associate Partner, Financial
Services Consulting,
EY Ecuador
roberto.c.drummond@ec.ey.com

**Nabila Larroza**

Manage,
EY Paraguay
nabila.larroza@py.ey.com

**Ximena Zuluaga**

Country Managing Partner,
EY Colombia
ximena.zuluaga@co.ey.com

Acknowledgement

María del Pilar Sabogal	Cristoffer Gómez	Manuel Puertas
Mercedes Fernández	Numa Arellano	Business
Dario Bregante	Antonio Benites	Consulting,
Leyla López	EY Law	EY Argentina
Mario Arce	Argentina	EY Financial
María Alejandra Ortiz	Technology	Services
Jessica Carrasco	Consulting,	Innovación y
Nadia Romero	EY Chile	Transformación
Noemi Gutiérrez	EY Law Chile	Digital, EY Brasil
José Andrés Arenas	Financial Service	Latam North, EY Colombia
Astrid Mogollón	EY Law Colombia	Technology
Matías Lavanda	Consulting,	EY Ecuador
Fátima Abanto	FSO	EY México
Bruno Mejía	EY Law	Business
Fiorella Puh	México	Consulting,
Tania Sánchez	EY Law	EY CA
Gabriel Gutiérrez	Paraguay	Business
Martín Aliaga	Consulting,	EY Uruguay
Ana Lucía Maeda	EY Uruguay	
Evelyn Montoya		
Sonia Rengifo		
Miya Mishima		
Paulo Pantigoso		
David De la Torre		
Paul Mendoza		
Karla Ramirez		
Lucia Tumes		
Lissette Torres		
Stephanie Lopez		
Dany Baca		
Mauro Ugaz		
Cecilia Melzi		
Alvaro Arbulú		
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Lucas García		

Public sector, private sector and unions

- ▶ Superintendencia de Banca, Seguros y AFP
- ▶ Superintendencia del Mercado de Valores
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- ▶ AgenteBTC
- ▶ Inversiones.io


Abbreviations and Acronyms

- ▶ **BCP:** Central Bank of Paraguay (PAR)
- ▶ **BCRA:** Central Bank of the Argentine Republic (ARG)
- ▶ **BCRP:** Central Reserve Bank of Peru
- ▶ **IDB:** Inter-American Development Bank
- ▶ **BIS:** Bank for International Settlements
- ▶ **CAF:** Andean Development Corporation
- ▶ **CONATEL:** National Telecommunications Committee (PAR)
- ▶ **Concytec:** National Science and Technology Council
- ▶ **CTI:** Science, Technology and Innovation
- ▶ **EMPEs:** Banking Agents (PAR)
- ▶ **FED:** US Federal Reserve System
- ▶ **FinCEN:** Financial Crimes Enforcement Network
- ▶ **IGV:** National Sales Tax
- ▶ **INDECOPI:** National Institute for the Defense of Competition and Intellectual Property
- ▶ **INEI:** National Institute of Statistics and Data Processing
- ▶ **ITAN:** Temporary Net Assets tax
- ▶ **FTT:** Financial Transaction Tax
- ▶ **ML/TF:** Money Laundering and Terrorist Financing
- ▶ **LAVCA:** Latin America 2021 Industry Data and Analysis
- ▶ **MINJUSDH:** Ministry of Justice and Human Rights
- ▶ **MSMEs:** Micro, Small and Medium-sized Enterprises
- ▶ **MSB:** Money Service Business
- ▶ **ONGEI:** National Directorate of E-Government and Information Technology Office
- ▶ **UN:** United Nations Organization
- ▶ **PML/TF:** Prevention of Money Laundering and Terrorist Financing
- ▶ **POLCTI:** National Science, Technology and Innovation Policy
- ▶ **PECAP:** Peruvian Association of Seed and Venture Capital
- ▶ **RENIEC:** National Vital Statistics and Civil Registry Office
- ▶ **RUC:** Peruvian Taxpayer Identification Number
- ▶ **SBS:** Superintendency of Banking, Insurance, and Private Pension Fund Management Companies

- ▶ **SEPRELAD:** Secretariat for the Prevention of Asset or Money-Laundering (PAR)
- ▶ **SGTD:** Secretariat of E-Government and Digital Transformation
- ▶ **Sinacti:** National System of Science, Technology and Innovation
- ▶ **SMV:** Peruvian Superintendency of the Securities Market
- ▶ **SUNAFIL:** National Superintendency of Labor Rights
- ▶ **SUNARP:** National Superintendency of Public Registries
- ▶ **SUNAT:** National Superintendency of Tax Administration
- ▶ **FIU:** Financial Intelligence Unit
- ▶ **UIT:** Tax Unit
- ▶ **USD:** US Dollars
- ▶ **AI:** Artificial Intelligence
- ▶ **UYU:** Uruguayan peso (Uruguay's national currency)
- ▶ **ML:** Machine Learning



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