

FIGI Symposium 2021

**

Digital Financial Inclusion in Mexico: Experiences and Key Learnings

Mexico City, 10 June 2021



HACIENDA
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO



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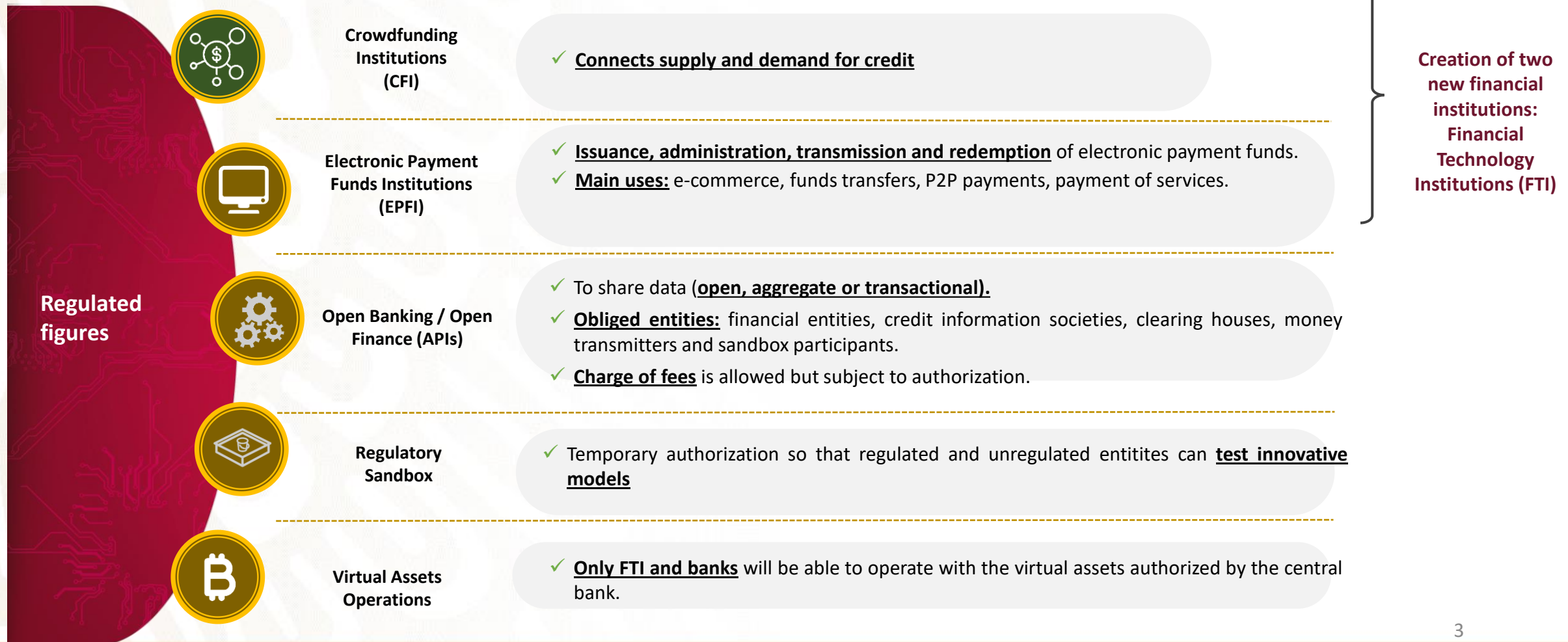


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Regulated figures in FinTech Law

Given the sustained and accelerated growth of the FinTech sector and the inherent risks that this industry poses, the Mexico's FinTech Law was built on 6 governing principles that provide flexibility to the secondary regulation, which will be updated according to the sector needs.



FinTech expected benefits



FinTechs offer **lower financial costs** and provide **better investment returns**, compared to traditional savings and investment options.



FinTechs offer **options** to SMEs and entrepreneurs that are looking for **funding sources** to start their businesses to expand their current ones.

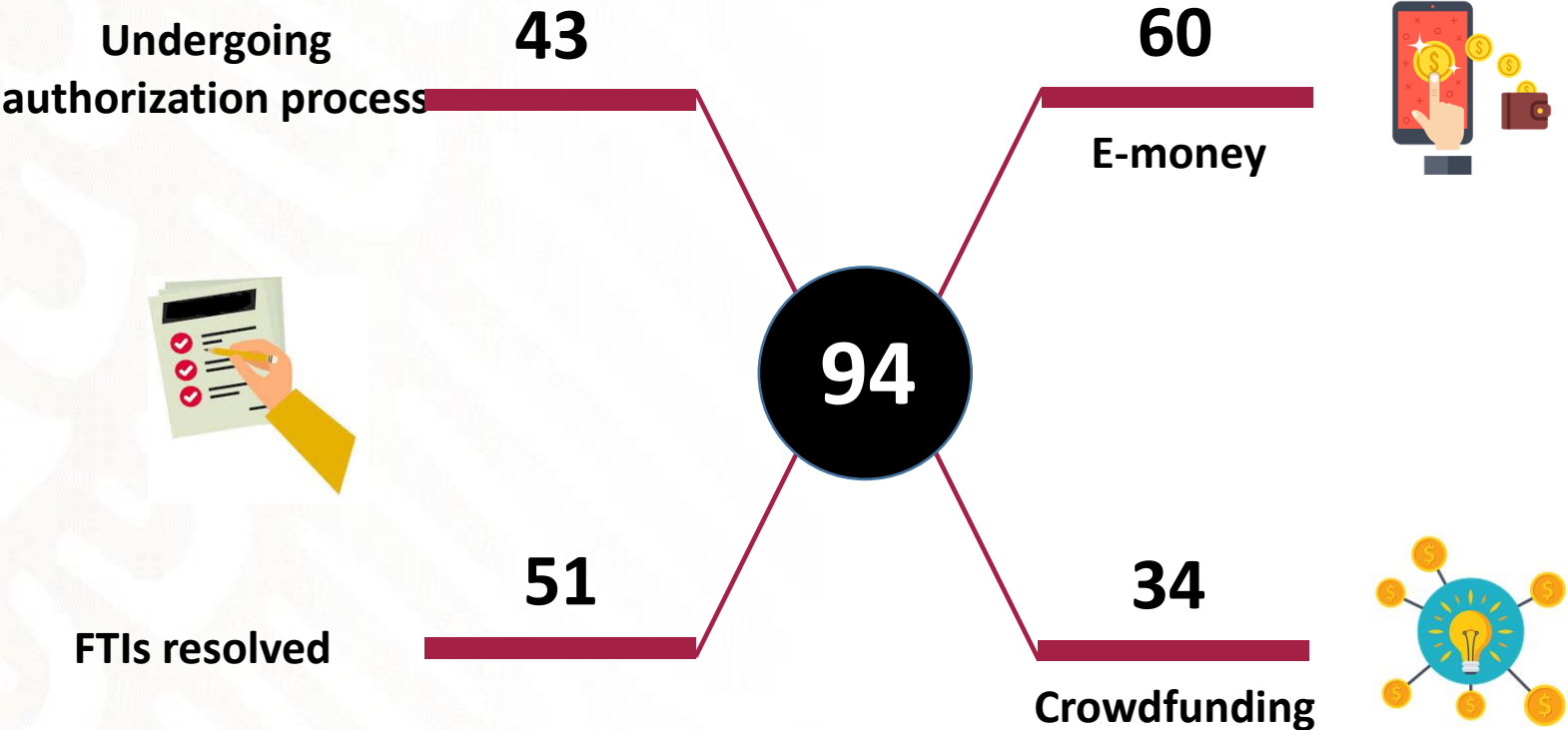


FinTechs address **people's need** to receive and transfer money, as well as to pay services and buy groceries to **unbanked and underserved people**.



FinTechs are an **alternative for people to receive their remittances** in an easier and faster way, thus helping lower people's cost of moving and traveling long distances to receive their cash.

Statistics – Authorization process



Banking Institutions and Digital Innovation



With the arrival of the first FinTechs in Mexico, several banking institutions noticed the importance of these enterprises, thus they tried to transform their business models to become more digital and customer focused.



Bank digitalisation along with new financial technologies, allow banking institutions provide better customer experience, as well as offer them innovative and efficient products and services.



In order to reach the unbanked and underserved, banking institutions and FinTech enterprises are working together in order to improve access to financial services, promoting Mexico's economic development and boosting financial inclusion.



Timeline of Digital Onboarding

Non-face-to-face Identification processes have allowed the implementation of controls to mitigate the identity theft risk using new technologies and allowing better financial services and greater client convenience.

August 2017

October 2020

May 2021

Increasing Digitalization in Financial Services

- Must have authorization of CNBV.
- Real time video recording is mandatory to validate client's data previously filled-out in a Form.
- A client's photo must be taken directly from the online banking application.
- Validation of identity. Facial recognition (selfie vs. ID's photo vs image in video).

Non-face-to-face identification is allowed for account opening and credit-granting to legal entities.

1. Must have authorization of CNBV.
2. Specific processes for clients and not clients, it's easier for the case of clients, as they will only validate their biometrics.
3. Biometric validation are strengthened: clients' fingerprints will be compared to that in possession of the voting authority (INE).

- New official IDs are allowed for biometric verification (passports and consular registration issued by the Ministry of Foreign Affairs).
- Exceptions to the authorization process: Microcredits (maximum 1,000 USD) and the opening of bank accounts with limits (maximum 10,500 USD) and commercial credits up to 21,000 USD.

Increased soundness, security & flexibility of digital processes for greater client convenience & protection



Fintech law and banking agents

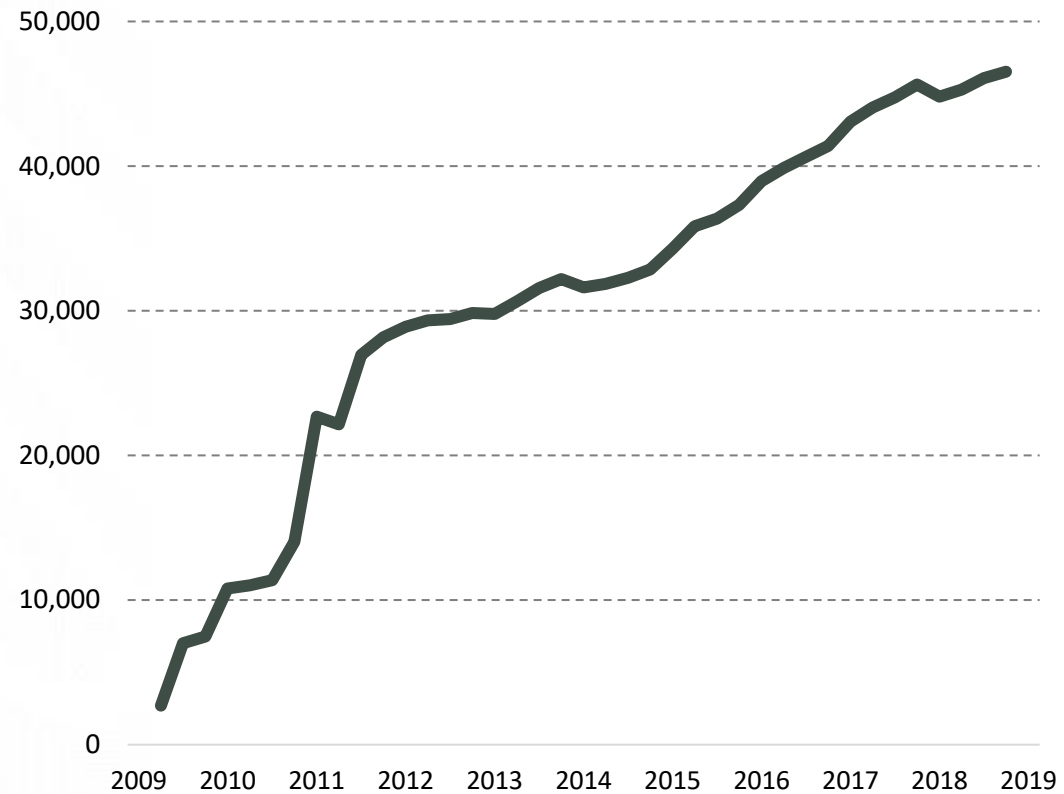


- ❑ The number of banking agents in Mexico **has grown steadily** since 2009.
- ❑ Currently, **more than 70% of municipalities have at least one banking agents**, in contrast with Banking branches, which is roughly 50%.



- ❑ The majority of banking agents are **retailers**.
- ❑ Some of them have shown **interest in applying for a Fintech license**, as a IFPE (wallet).

Number of banking agents



Municipal coverage

74%

Digital ID and Financial Inclusion



Identification is a requirement to contract some financial services, and digital identification facilitates the procedure allowing more people to access those services. In Mexico, the **National Policy on Financial inclusion** published in March of 2020 includes two strategies on ID mechanisms:

3.2.1

- The National Council on Financial Inclusion (CONAIF) will coordinate with the competent authorities in the design of an ID with biometric data.

- A reliable ID, with biometric information and linked to a unique record of the population, **allows people to participate in the different stages of the application**, contracting and using formal financial services that require it as a prerequisite.
- It can **facilitate the acquisition of fast issuance and low-risk accounts**, receive public social benefits, as well as access financial and non-financial digital services, such as electronic commerce, but that requires the completion of transactions through means of payment linked to an identification.
- It also makes possible to **better understand bank customers and identify money laundering and terrorist financing schemes**, contributing to **reducing risks and identity theft and strengthening security**.

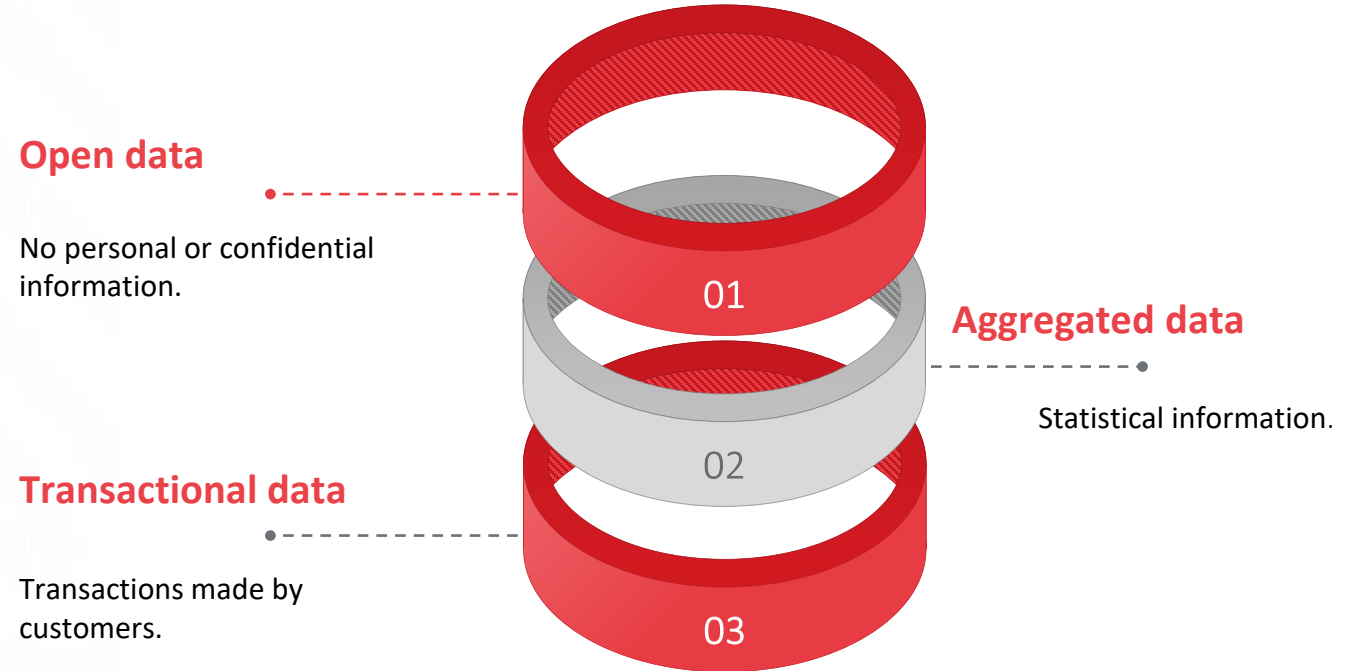
Open Finance

Represents a model of financial services in which the exchange of data between financial institutions and third parties is allowed.

Legal basis

Article 76 of the FinTech Law, mandates all financial entities, financial technology institutions, regulatory sandboxes, money transmitters, credit information societies and clearing houses, to establish standardized APIs that enable connectivity and access to other interfaces developed or administered by the same obligated subjects or by third parties specialized in information technology.

Data that can be shared according to Article 76 is:



Benefits of Open Finance

Consumers can discriminate and choose more easily between services, being able to select those that fit their needs.

People who currently do not have access to financial services may have more options.

Small businesses could have better conditions to access loans, with greater ease and lower cost.

FinTech companies and other financial institutions can be more competitive and reach new markets.

More people can be included financially because financial institutions are able to gather more information about the potential risk of default.

Open Finance Risks

The security of transactional data may be at risk if information leaks occur and may affect both the entity that shares them and the entity that consumes them.

The use of methods that are not considered safe to consult information (such as screen scraping).

Authorities' lack of technical and supervisory skills to keep API standards and supervision criteria up to date.

Open Banking / Finance Project

First phase

- Exchange of **open data** information through APIs (specifically the standard for ATMs), which will allow to know the location of these, as well as the products and services that can provide. This regulation came into force on 05-jun-2021.



Second phase

- Standardization of the **transactional data** of banking deposits through APIs. The regulation will establish the guidelines on security and architecture for the exchange of data and to obtain the consent of the client.

Fourth phase

- Issue regulation for other types of data, tentatively aggregated data, as defined in the FinTech Law.

Third phase

- Standardize the exchange of **transactional information** through APIs for credit accounts and for the stock market (will start in 2022).



FinTech Ecosystem Covid-19



Covid-19 pandemic accelerated digital transformation in the financial sector, which led to an increasing demand for off-site financial services in order to keep social distancing.



Due to social distancing, people have reached out towards FinTechs, which have helped them solve their financial needs..



FinTechs must take advantage of this new financial context and benefit from the flexibility of their business models.



In Mexico, people and SMEs are searching for alternative channels to perform financial transactions, without going to bank's branches.



FinTechs could play an important role in Mexico's economic recovery, through innovative and disruptive financial products.



Covid-19 pandemic could be a catalyst to increase the usage of financial products and services offered by FinTechs, which could in turn promote financial inclusion in Mexico.

Impact of COVID-19 on digital transformation



During the pandemic, the **Mexican consumer has shown a preference for using remote means of payments**, and conduct payments with cards at point-of-sale terminals (POS).



The number of **ATM transactions decreased 10%** from the 4th quarter of 2019 to the 4th quarter of 2020, even though the number of ATMs increased **2%**.



The number of **transactions in POS increased 5%** from the 4th quarter of 2019 to the 4th quarter of 2020, just as the **number of POS increased 12%** and the **establishments with POS terminals 10%**.



SPEI transfers increased 10% annually in 2020 and 32% in transfers of less than 8 thousand pesos (Bank of Mexico).

Cards Payment System

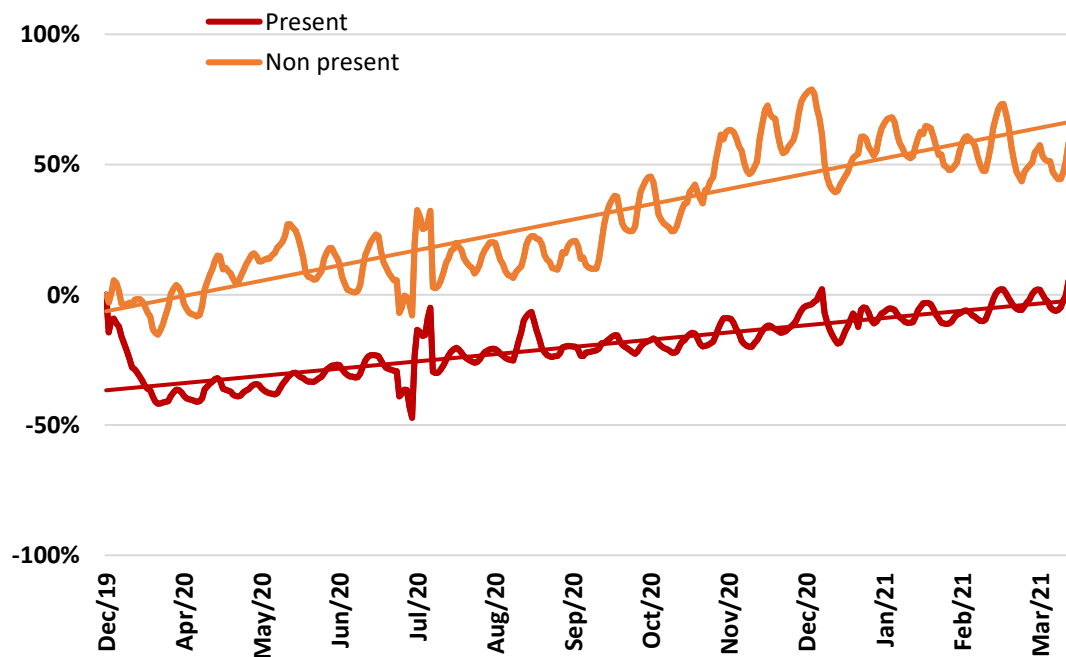


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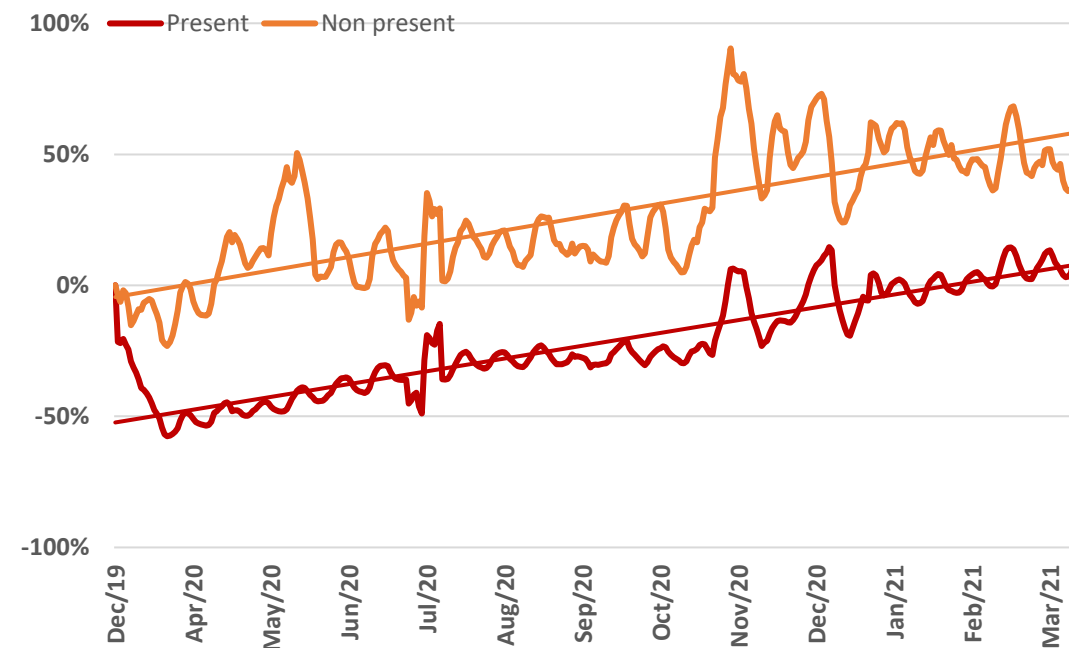


- During the pandemic consumers turned to remote purchases through digital channels.
- This can be seen in the growth of operations carried out with non-present-card (e-commerce).
- At the end of March 2021, there was an increase of 57% in the amount operated and 58% in transactions, compared to data from March 2020.

Transactions

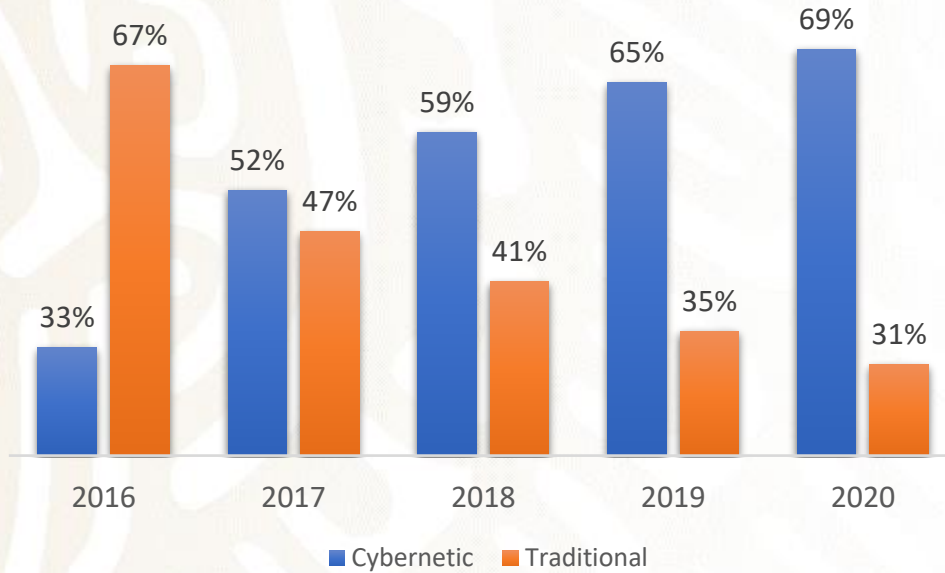


Amount



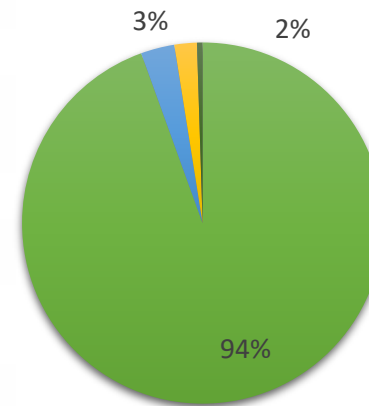
Cyber and traditional fraud

Cyber and traditional fraud, % of total



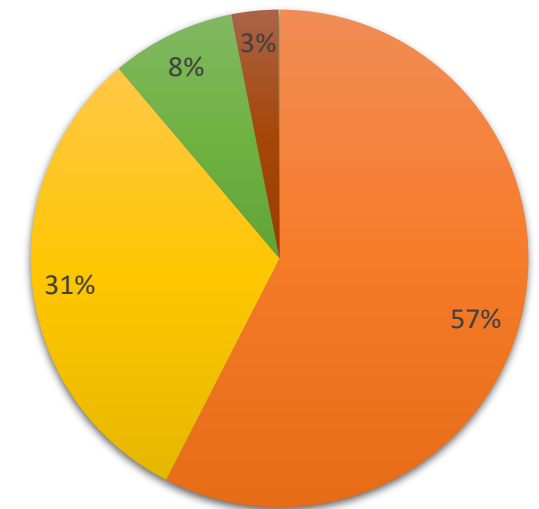
	2016	2020	Var. 2016-2020 (%)
Cybernetic	1,765,654	5,866,524	232%
Traditional	3,525,246	2,614,348	-26%
Total	5,297,588	8,480,873	60%

Cyber frauds, 2020



- E-commerce
- Mobile banking
- Internet transactions (physical persons)
- Internet transactions (legal persons)
- Mobile-phone payments

Traditional frauds, 2020



- Point-of-sale (POS)
- Telephone commerce
- Automated Teller Machine (ATM)
- Subsidiaries
- Bank movements
- Bank correspondents
- Other banks
- Telephone banking

Source: CONDUSEF from the claims with monetary impact presented by the clients of banking in Mexico contained in the Regulatory Report R27 (CNBV).

Main messages



Mexico has adopted policies to increase financial inclusion through digital means. Among these efforts stands out the FinTech Law, enacted in 2018 and currently under implementation. The FinTech Law regulates APIs and electronic funds institutions, among other crucial aspects.



Covid-19 has accelerated the pace of adoption of digital financial services, as data on digital payments using cards shows. At CNBV, we have worked hand-in-hand with financial services providers to facilitate it. As a result, we amended regulations regarding digital onboarding.



In 2020 the National Policy for Financial Inclusion was launched. This Policy considers digital services as a very relevant enabler of financial inclusion. Several strategies are currently being developed.



However, we acknowledge that **access and usage of financial products and services pose several risks** for customers, financial institutions, and financial authorities. We are addressing the challenges arising from cybersecurity, fraud, and illegal activities.

Thank you!



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