



Financial Inclusion in Mexico

Miguel Angel Garza C.
Executive Vice-President (Supervision)
magarza@cnbv.gob.mx

GPII, FSI
October, 2012



1. Background
2. Mexico's Financial Inclusion Strategy
 - a) Banking Agents
 - b) Mobile Payments Model
 - c) Accounts
 - d) New Intermediaries
3. Measurement Framework
 - a) Access Points
 - b) Impact of Banking Agents
 - c) Demand-side Survey (ENIF)
4. Authorities Coordination Scheme (CONAIF)
5. Final Remarks



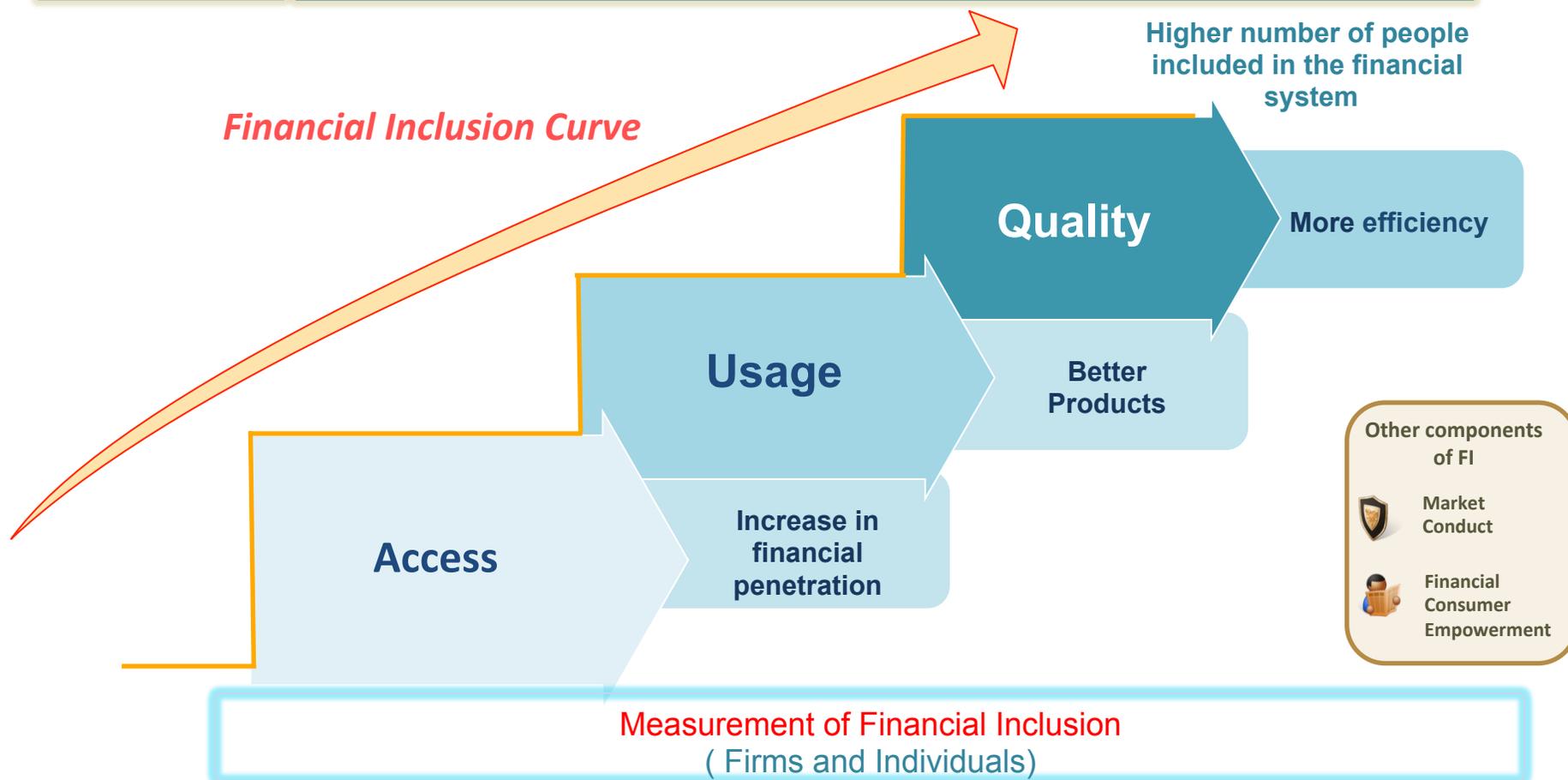
1. Background

A Framework for Financial Inclusion



Working definition of Financial Inclusion

The access and usage of a portfolio of financial products and services for the population, under an appropriate regulatory framework that protects the interests of users and promotes its financial capabilities.

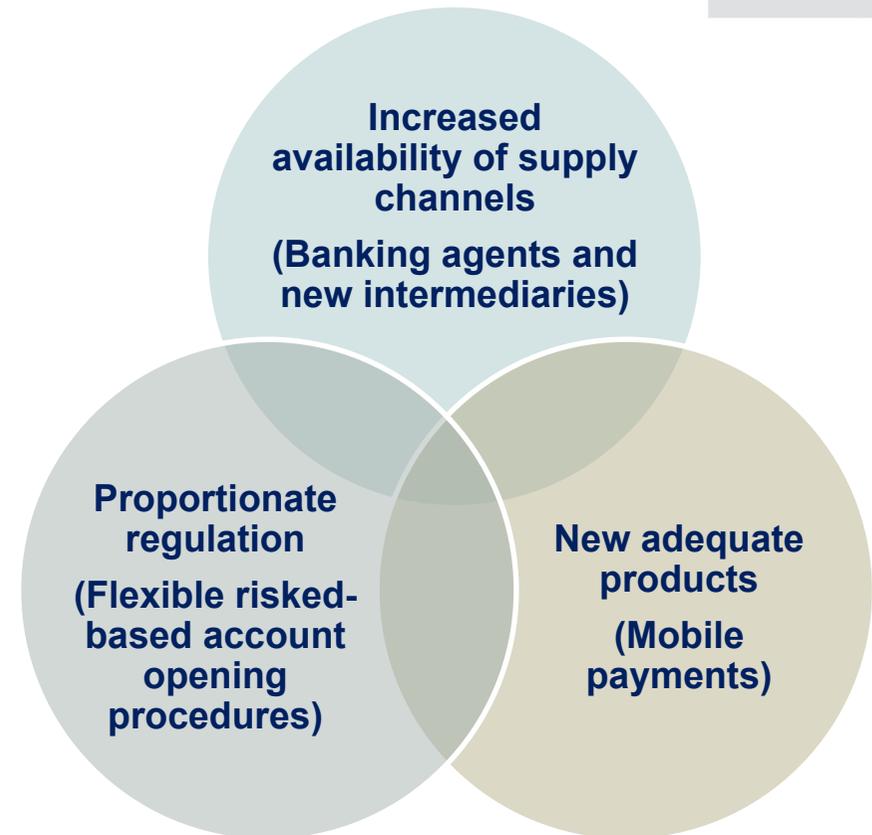




2. Mexico's Financial Inclusion Strategy



- Mexico's financial inclusion strategy encompasses several interconnected and complementary actions which seek to address the different obstacles encountered for an expanded access to financial services.
- The following main measures have been implemented:
 - ✓ **Banking Agents:** Increasing the availability of points of access to financial services supply, thus decreasing transactional costs.
 - ✓ **Mobile payments:** Developing saving and payment vehicles that adequately suit the needs of the underserved population.
 - ✓ **Flexible risk-based account opening procedures:** Introducing new saving accounts that can be opened over-the-air as well as at agents.
 - ✓ **New intermediaries:** Niche banks and popular loans and savings institutions.





a) Banking Agents



- Banking agents are entities that offer financial services in their establishments on behalf of a bank.
- By taking advantage of the physical infrastructure of third parties such as commercial establishments, agents offer the possibility for banks to instantly expand their reach, without incurring in significant costs associated with the deployment of traditional bank branches.
- Furthermore, by bringing financial services to establishments where people might feel more comfortable than with banks and that they visit often, agents provide an attractive channel for the unbanked population to access the financial system.
- Thus, agents can offer a solution to several issues that have been identified as obstacles to financial inclusion:
 - ✓ They increase, at lower costs and faster rates, the available banking infrastructure.
 - ✓ They reduce transactional costs for clients and are a more attractive channel for those that find branches to be inaccessible or unfamiliar.
 - ✓ They promote the development of products suited to fit the needs of new market segments that have so far been left unattended by traditional supply channels.



a) Banking Agents



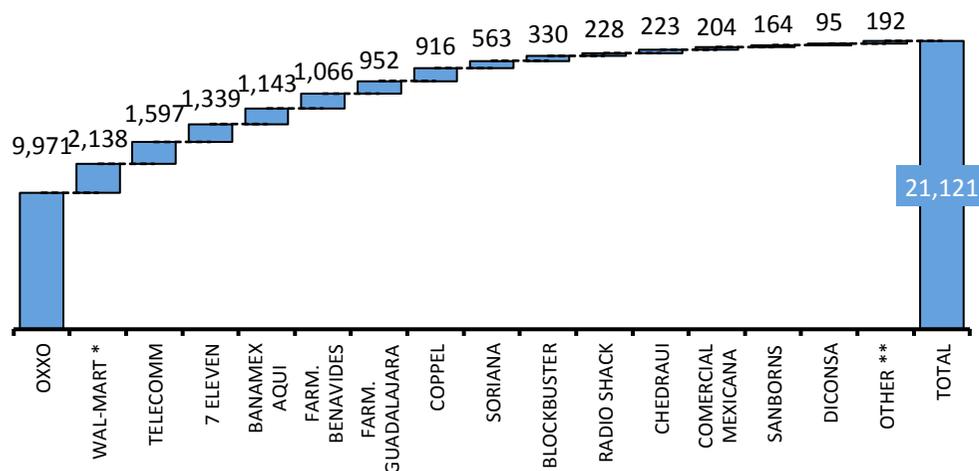
- Through the use of agents, banks take advantage of commercial establishments' existing infrastructure to offer the following services:
 - ✓ Cash deposits and withdrawals.
 - ✓ Credit and utilities payments.
 - ✓ Cashing checks.
 - ✓ Transfers and distribution of prepaid cards.
 - ✓ Balance Inquiries.
 - ✓ Opening accounts with flexible KYC procedures
- Banking agents allow for the expansion of these products and services to lower income segments of the population, making them viable by reducing supply costs when compared to traditional distribution channels.

a) Banking Agents

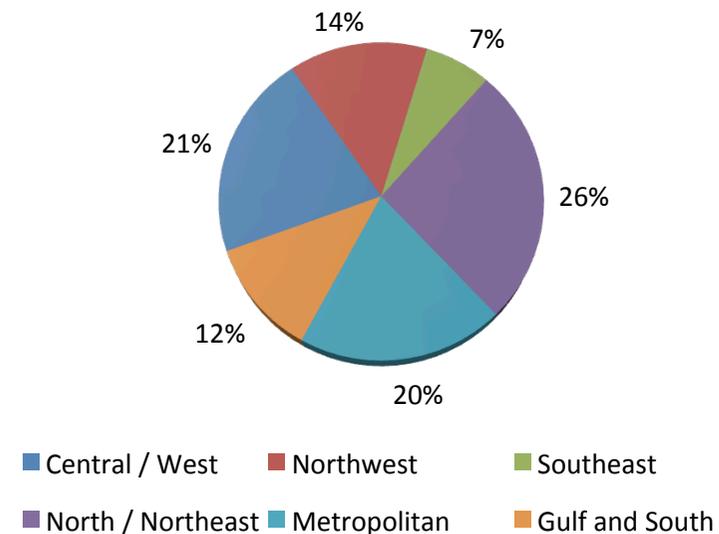


- In Mexico, the banking agents model was introduced in regulation in 2010, with the primary objective of increasing the supply of basic financial services to the population that currently does not have financial services access.
- After these reforms, 15 banks have been authorized, as of January 2012, to operate through banking agents, reaching a total of 21,121 retail outlets.

Number of retail outlets operating as banking agents



Regional distribution of banking agents



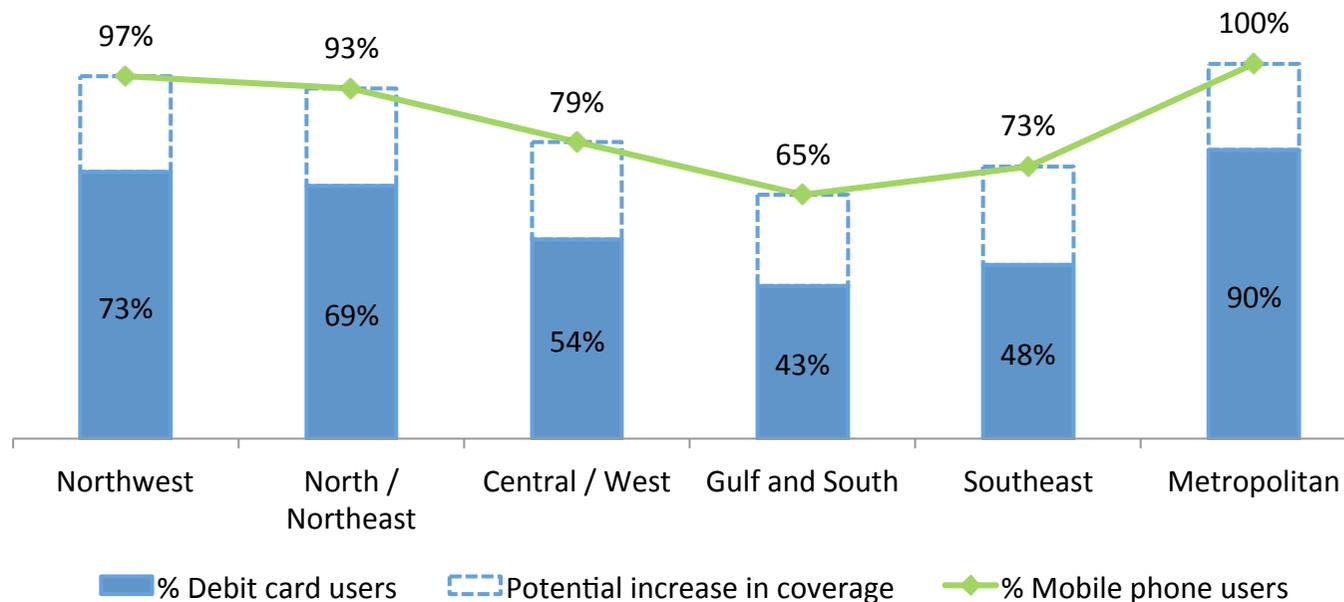
* WAL-MART includes: Walmart stores, Suburbia and Vips / **OTHER includes: Sears, Productos de consumo Z, Afirme Pequeños Comercios, Assis tu Vestir, Crédito Firme, Surtifirme, Bodegas California, Regio Mecasa, Mercantil H S, Proveedorora Comercial de Monclova y Super Rams

b) Mobile Payments Model



- The percentage of mobile users (81%) compared with the percentage of population using at least a debit card (56%), shows that the implementation of a mobile payments model has a potential of increasing the coverage of financial services by 25%.
- The potential impact according to geographical distribution shows that the greatest impact would be in the northwest region of the country with a potential increase of 26%.

Potential increase in the coverage of financial services using the mobile payment model



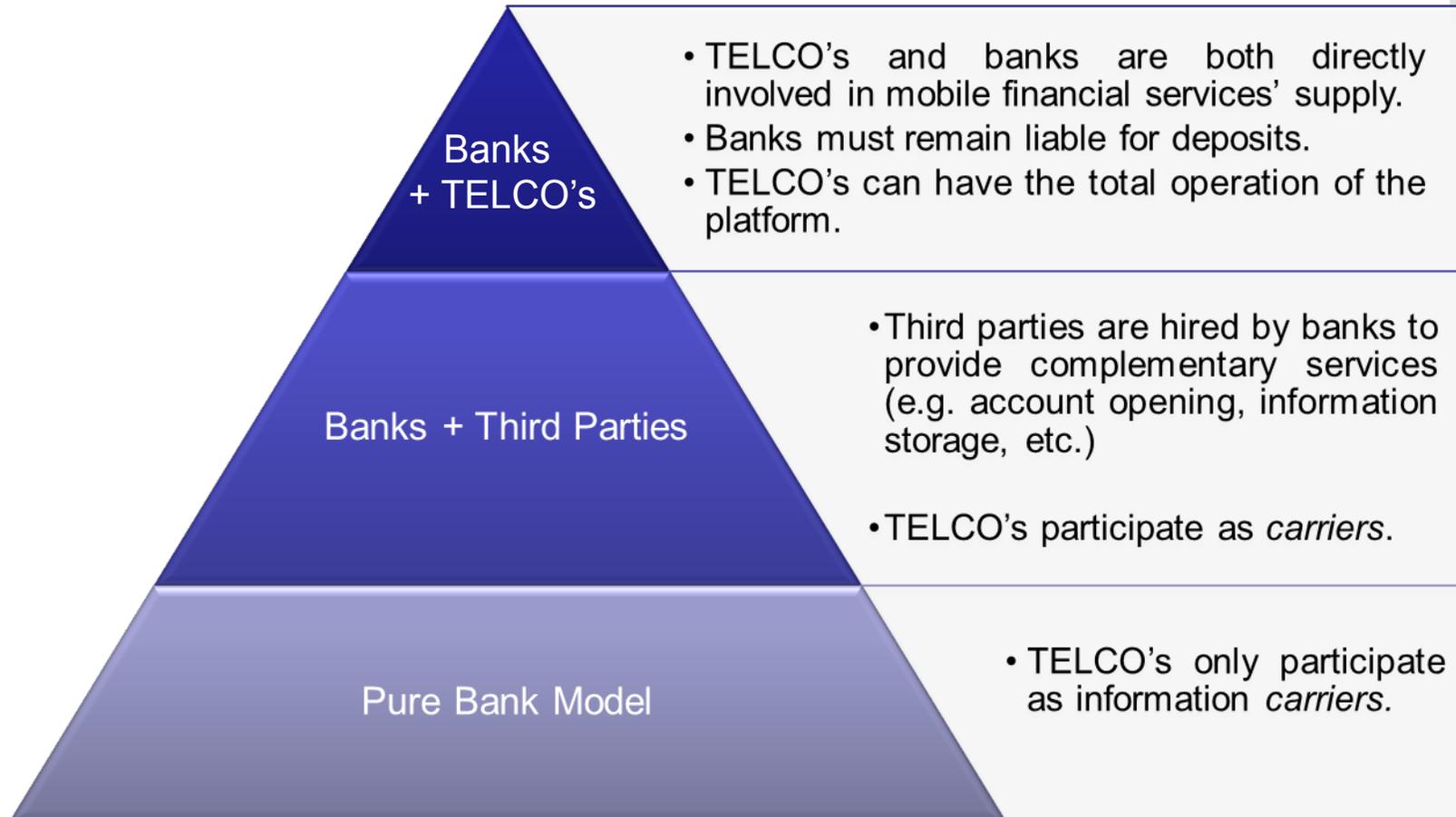
b) Mobile Payments Model



- The rules for the launching and operation of several new business models based on innovative strategies for expanding access to financial services are now fully incorporated into the Mexican regulatory framework.
- Unlike the experience of other countries, where the private sector was the main driver of regulatory adjustments by approaching the authorities seeking to make their new business models viable, in Mexico, regulatory modifications were drafted in a joint manner between financial system participants, potential new entrants, and the relevant authorities.
- The resulting regulatory framework encompasses the remarks and queries from the financial sector and potential new entrants to the market as well as the concerns regarding consumer protection and safety expressed by the financial authorities.

b) Mobile Payments Model

- In order to enable different supply models to prosper, the regulatory framework allows for **different business arrangements** between banks, TELCOs and third parties.



- It is important to note, however, that in all cases a prudentially regulated bank is involved and ultimately liable for the deposited funds.



b) Mobile Payments Model

- In addition to technical requirements, banking institutions must have in place **mechanisms and procedures that allow for the detection and prevention of irregular activities** through mobile financial services, such as:
 - Fraud prevention schemes.
 - Detailed record-keeping of all event, services, and transactions conducted through mobile phones.
 - Channels and procedures for clients to report lost or stolen means for verifying their identity during transactions (authenticating factors)
 - Regulatory reports to CNBV include detailed information regarding mobile financial services' supply.
 - The information received through regulatory reports is then analyzed to determine whether observed transactional patterns are consistent with orderly operation through agents and/or mobile phones.
 - Banks must also maintain a centralized data base that includes all unacknowledged transactions claims by clients.
 - Safety check-ups must be conducted at least once a year.



c) Easily-opening Accounts



- To further enhance access to financial services through banking agents and mobile phones, a new type of deposit account was introduced in bank's regulatory framework. These new accounts have flexible opening procedures and are subject to limits regarding transactions' amounts.
- Given flexible opening procedures, these new accounts make viable several business models that focus on serving unattended market segments and have a great potential for expanding financial inclusion. This is so because low-income population find it difficult to comply with more restrictive requirements and this has been identified as an important entry-barrier.
- Given limited transaction amount, these new accounts protect both clients and institutions, as the risk incurred in operations is controlled.



c) Easily-opening Accounts



Level 1 accounts	Level 2 accounts	Level 3 accounts
Anonymous accounts No information requirements	Name, place and date of birth, gender and address	Name, place and date of birth, gender, address, nationality, occupation, phone number and valid ID
Remote opening		Face-to-face opening
No access to funds through cell phones	Access to funds through cell phones	
Restricted to US\$290 monthly.	Restricted to US\$1,160 monthly.	Restricted to US\$3,860 monthly.



c) Easily-opening Accounts

- In order for these new accounts to move forward from just transactional purposes to providing a more comprehensive access to the financial system, authorities are seeking to promote that other services are offered through this channel, like the following:
 - ✓ Micro-credit
 - ✓ Micro-insurance
 - ✓ Remittances
 - ✓ Investment
 - ✓ Government transfers (G2P)
 - ✓ Pension funds (voluntary savings)



d) New Intermediaries

- Recognizing the importance of having additional intermediaries for the supply of financial services to the population, Mexican authorities promoted the establishment of new banking institutions, securities firms and popular loans and savings institutions.
- In particular, minimum capital requirements for certain types of banking institutions were lowered, so as to make the entry to the market more accessible.
- These banking institutions are banned from conducting the wide array of activities reserved for fully capitalized banks, and are intended for certain niches or economic segments of the population.
- Same regulatory and supervisory standards are applied to those activities effectively conducted by these type of institutions. Up to know, four licenses have been granted, with an additional six to be in the process of being granted soon.
- Authorities have continued with the process of regularization of popular loans and savings institutions.



3. Measurement Framework

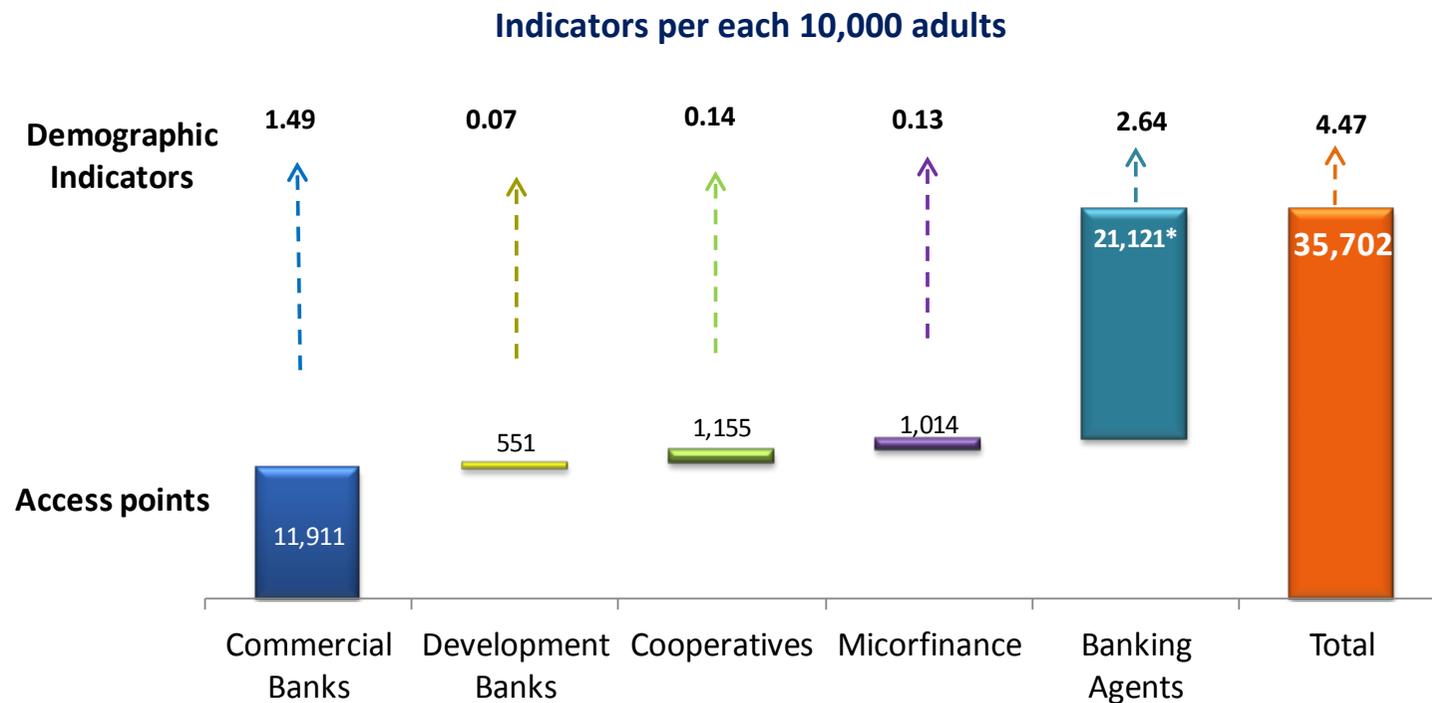


Dimension	Indicators	Source
Access	<ul style="list-style-type: none"> • Number of branches and banking agents per 10,000 adults • Number of ATMs/POS per 10,000 adults • % of adult population living in a municipality with at least one access point 	<ul style="list-style-type: none"> • CNBV: financial inclusion reports. • ABM (Bank Association of Mexico). • ENIF (National Survey of Financial inclusion) 2012. National Survey.
Usage	<ul style="list-style-type: none"> • Number of deposit accounts/loans per 1,000 adults or • Number of depositors/borrowers per 1,000 adults • % of adults with an account at a formal financial institution • % of products that correspond to banks/other financial institutions • % of adults with at least one financial product 	<ul style="list-style-type: none"> • CNBV: financial inclusion reports. • BANXICO (Central Bank). • ENIF (National Financial inclusion Survey) 2012. National Survey.
Financial Literacy and Consumer Protection	<ul style="list-style-type: none"> • New financial capabilities data • % of financial institutions with financial literacy programs • % of complaints and claims that are solved 	<ul style="list-style-type: none"> • World Bank/CNBV/Condusef • Commercial banks, Condusef (Commission for the Protection of the Users of Financial Services)

a) Access Points



- Up to December 2011, there are 35,702 access points, of which 11,911 are bank branches and 21,071 banking agents. Altogether, there are 4.47 access points per each 10,000 adults.
- In 45% of municipalities there are at least one branch, while 55% of municipalities have at least one banking agent module.



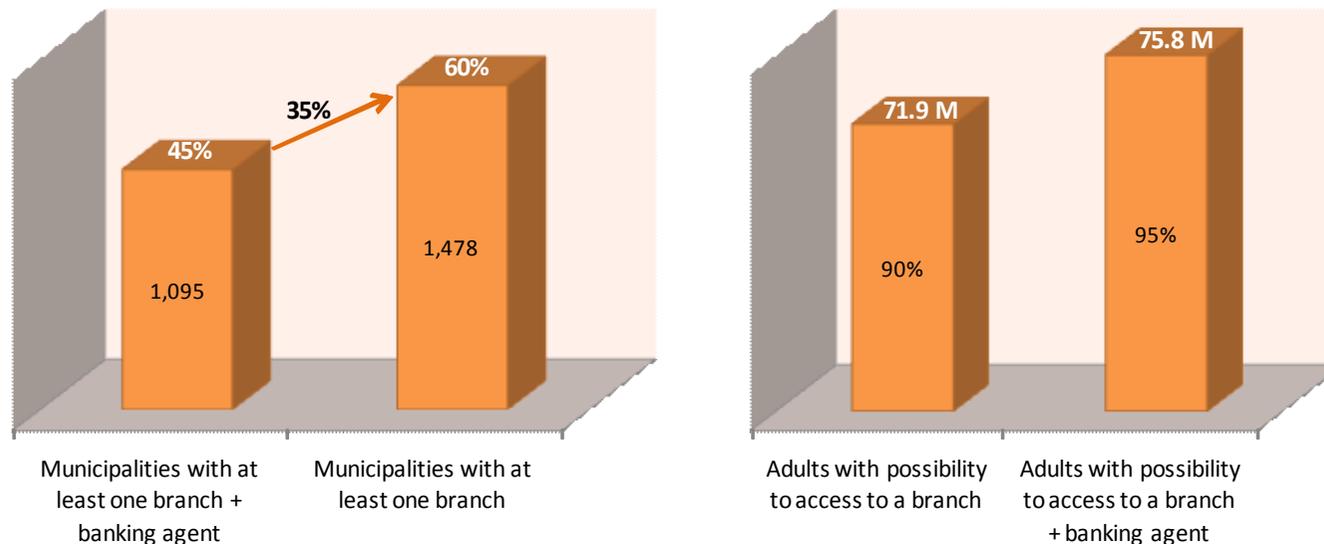


b) Impact of Banking Agents



- 90% of adults in the country have the possibility to access financial services through branches of different financial institutions, however, with the figure of banking agents, the percentage rises to 95%. Similarly, bank branches are present in 45% of the municipalities, but in conjunction with the banking agents, Mexico has a coverage in 60% of all municipalities (without taking into account ATMs and POS).

Impact of banking agent strategy





c) Demand-side survey (ENIF)



- In 2010 – 2012 CNBV developed, in collaboration with the Ministry of Finance and other stake holders, the conceptual framework and design of the first National Financial Inclusion Survey (ENIF 2012).
- The National Institute of Statistics (INEGI) participated providing technical assistance (sampling design & selection) and conducting the survey at the field in May 2012.
- The results will be available by year-end 2012.



c) Demand-side survey (ENIF)

The main objectives of the ENIF 2012 were:

- To identify the needs of adult population with respect to access & usage of financial services in rural/urban area and in different levels of income
- To provide information on the formal usage of certain basic financial services as savings, credit, investment, pension funds and the financial channels
- To understand the main profiles of users and non users of formal financial services
- To explore main barriers that prevent adults from accessing and using financial products and services



4. Authorities coordination scheme (CONAIF)



Mexico's Federal Government created the National Council for Financial Inclusion (CONAIF, by its Spanish acronym) in 2011, as a collegiate board for consultation, advice and coordination between domestic financial authorities.

Members of the Council

- The Minister of Finance (President of the Council)
- Deputy Minister of Finance (SHCP)
- The Presidents of: National Financial Protection and Defense of Users of Financial Services Commission (CONDUSEF); National Banking and Securities Commission (CNBV), National Insurance and Bonds Commission (CNSF); National Retirement Savings System Commission (CONSAR), National Institute for the Protection of Bank Savings (IPAB); and, Treasurer of the Federation (TESOFE).
- The Governor and Deputy Governor of the Central Bank (BANXICO).
- All relevant SSB's are incorporated in the council.

4. Authorities coordination scheme (CONAIF)

The CONAIF main purpose is to propose measures for designing, planning, implementing, executing and monitoring the National Policy on Financial Inclusion. Considering this, its main functions are the following:



- To establish Financial Inclusion goals, both medium and long-term.
- To formulate policies related to Financial Inclusion.
- To issue official opinions related to Financial Inclusion.
- To propose criteria for execution of national programs on this matter.
- To coordinate efforts among the different member authorities.
- To coordinate with other Governmental agencies (such as the Financial Literacy Committee) and with private sector stakeholders.
- To propose the necessary changes to the regulatory framework in order to further develop Financial Inclusion in Mexico.

4. Authorities coordination scheme (CONAIF)



To carry out the CONAIF functions in order to achieve its goals, the members established the following specialized thematic working groups and sub-groups:

- I. Measurement, diagnosis and disclosure of financial inclusion working group

- II. Business models to promote financial inclusion working group
 - a) Financial inclusion payment systems business models subgroup
 - b) Financial inclusion government payments (G2P) business models subgroup

- III. Financial consumer protection working group



- After hard work to foster access to the financial system, Mexican financial authorities have succeed on enacting regulation, enabling new business models and developing initiatives to create novel products that will allow financial intermediaries to supply services to the population that still lacks access to the formal financial system.
- Even though, there are important challenges to overcome in the near future, which might be addressed with different measures, such as promoting the expansion and growth of specialized banks (niche banks), microfinance entities and social financial institutions (like cooperatives and rural intermediaries), making sure that adequate regulation and supervision are in place, in order to maintain financial sector integrity, soundness and stability.
- Constant assessment of all these new schemes is of paramount importance, so as to be in the possibility to undertake the necessary adjustments.



Financial Inclusion in Mexico

Miguel Angel Garza C.
Executive Vice-President (Supervision)
magarza@cnbv.gob.mx

GPII, FSI
October, 2012