Mexico’s Financial Inclusion Strategy

Global Payments Week 2010
Recently, financial authorities in Mexico have eagerly worked on enacting regulation that will foster the development of diverse business initiatives and novel products that will allow financial intermediaries to supply services to satisfy the needs of an important segment of the population that still lacks access to the formal financial system.

Access to electronic means of payment and transfers that allow for a transition from strictly cash-based economies is of particular relevance as it is one of the main unattended needs for financial services.

**Mexico’s Financial Inclusion Strategy**

- No branches (1,584 municipalities)
- Low (<1.03 branches per 10,000 adults)
- Medium (between 1.03 and 1.37 per 10,000 adults)
- High (> 1.37 branches per 10,000 adults)

57% of all municipalities in Mexico still lack access to even one bank or microfinance institution’s branch.
Mexico’s financial inclusion strategy encompasses several interconnected and complementary actions which seek to together address the different obstacles encountered for an expanded access to financial services among the population.

The latter includes:

- Developing saving and payment vehicles that adequately suit the needs of the underserved population (low transactional and mobile accounts)
- Facilitating sending and receiving international remittances as well as decreasing their costs
- Increasing the availability of points of access to financial services supply, thus decreasing transactional costs (introduction of banking agents)
- Introducing new business models based on the new supply channels and products in order to provide the necessary safety and protection for clients (mobile payments regulation)
New Products Suited to Serve the Needs of the Unbanked

- Mexico’s central bank is endowed, among others, with the responsibility of fostering an optimal operation for the national payments system.

- This mandate places special emphasis in promoting the use of modern payment instruments.

- In order to achieve this purpose, and as part of Banxico’s contribution to Mexico’s financial inclusion strategy, special accounts that fit the needs of the unbanked population have been introduced into the financial system.

- These accounts can be used to offer products through a mobile phone device, providing access to the electronic payment system by taking advantage of a widely used and accessible channel.
New Products Suited to Serve the Needs of the Unbanked

Mobile Accounts’ Main Features

1. **Easy to open.** Depending on transactional limits and the associated risks implied by the account, different opening requirements were established, allowing for the possibility of flexible, low value accounts to be opened without having to go to a bank branch, and with minimum ID requirements.

**Low Transactional Account**
- Data: name, address and date of birth
- Limit: around 600 USD/month on deposits
- Opening: agent or bank branch

**Unlimited account**
- Complete dossier
- Unlimited deposits
- Opening: only in bank branch
New Products Suited to Serve the Needs of the Unbanked

**Mobile Accounts’ Main Features**

2. **Easy to use.** They can be associated to a mobile phone line, reducing transaction costs by allowing all interaction between bank and client to be done through this channel.

3. **Interoperability.** Banks and TELCOs are required to interconnect in order to allow users to send and receive transfers to and from mobile and other banking accounts, regardless of the bank that issued the accounts or the mobile operator.

4. **Security.** Wire transfers must meet the security requirements and controls set by CNBV, guaranteeing that both users information and funds are safe.
Simultaneously to the introduction of the possibility of mobile accounts and mobile payments by Banxico, a corresponding change in the regulatory framework regarding the safety requirements in the supply of financial services through mobile phones was needed.

The latter was CNBV’s responsibility and in its fulfillment, a risk-based approach was chosen in order to take advantage of the widespread proliferation of mobile phones and avoid creating entry barriers for providers that, while unable to meet overly strict standards, are able to provide acceptable security conditions given the risk entailed by the transaction.

The latter is accomplished by applying increasingly rigorous standards as the transaction’s amount and potential risk rises.
Increased Supply Channel Availability

- In order for these products to be accessible, new supply channels and access points needed to be available.

- Accordingly, CNBV introduced banking agents allowing banks to establish contractual arrangements with commercial establishments in order to offer financial services to their customers on behalf of a bank.

- Banks may thus take advantage 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 of low transactional accounts and low risk accounts.¹/

- 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.

¹/ Low transactional accounts and low risk accounts are specific products tailored for the unattended segments of the population with flexible opening requirements as well as balance and transactional limits.
So how do banking agents and mobile payments complement each other to promote financial inclusion?
Current Challenges in the use of Remittances in Mexico

- A clear and significant example through which mobile payments and banking agents complement each other in order to provide cheaper and easily accessible financial services are remittances.

- P2P transfers are in significant demand in Mexico, mainly among the unbanked population in the country.

- Given their lack of access to electronic means to transfer money, each individual is faced with the need to satisfy this need through different channels, many of which represent high risks and transactional costs.
  - Relying on private bus companies’ drivers to deliver cash to distant locations
  - Using informal third-parties that collect and deliver funds for them
  - Cash transfer companies

- Furthermore, when funds are received through a cash-transfer company in the form of a remittance, regulation requires that they are distributed in a single cash withdrawal. This restriction:
  - Forces people to carry significant amounts of cash
  - Increases the risk and costs of handling the funds received
  - Decreases savings
To promote the development and supply of products suited to serve the needs of the population, the regulatory framework introduced mobile banking agents.

These agents can serve both as points of loading and withdrawing of cash to use for P2P transfers through mobile phones as well as to purchase goods and services.

For customer protection, a bank is required to be involved and be liable for the deposited funds.

Mobile account opening and loading can be done at a banking agent.

Mobile phones can be used for transfers and payments.

Buying goods

Payment Services

P2P Transfer
By introducing banking agents and mobile payments into the financial system’s regulatory framework, cash transfers associated with remittances can be turned into electronic P2P transfers.

The latter is not only expected to decrease remittances’ costs but will also provide an opportunity to link the supply of this service to other financial products, allowing for an gradual incorporation to the formal financial system.

When banking agents meet mobile payments:

- The number of establishments where remittances can be conducted increases, with lower costs for suppliers and higher accessibility for users.
- Clients are able to open mobile accounts subject to low transactional amounts under simplified due-diligence requirements at several establishments, without needed to visit a traditional bank branch which may be far away or not even present in the users’ community.
- Such accounts can then be used to transfer money to others, who can then either withdraw the money at a banking agent or likewise ask for a mobile account.
- The obstacles for a transition from a cash-based economy, found in traditional remittances’ mechanisms, are reduced, promoting instead an evolution toward more complex financial services and products.
Gracias, Thanks, Obrigados, Dankzij Merci, Grazie, спасибо, یә