FINANCIAL SECTOR ASSESSMENT PROGRAM

MEXICO

NEW TECHNOLOGY-ENABLED CHANNELS TO SCALE UP FINANCIAL ACCESS

TECHNICAL NOTE

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GLOSSARY

AFI	Alliance for Financial Inclusion
AFORE	Pension funds
Banxico	Bank of Mexico
CFE	Comisión Federal de Electricidad
CNBV	Comisión Nacional Bancaria y de Valores
COFETEL	National Commission of Telecommunications
CONAIF	National Financial Inclusion Council
CONDUSEF	Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros
ENIF	National Survey for Financial Inclusion
IADB	Inter-American Development Bank
INEGI	Instituto Nacional de Estadística y Geografía
KYC	Know your customer
PIN	Personal identification number
RENAPO	Registry of National Population and Personal Identification
RTGS	Real-time gross settlement
SHCP	Secretaria de Hacienda y Credito Publico (Ministry of Finance)
SMEs	Small and Medium Enterprises
SPEI	Sistema de Pagos Electrónicos Interbancarios
TESOFE	Tesorería Federal
UDI	Unidad de Inversión (Investment Unit)

Technical Note for the 2011 Mexico FSAP

II. New Technology-Enabled Channels to Scale Up Financial Access[1]

A. Introduction and Key Issues

A pro-inclusion policy environment

1. **Mexican banking authorities have taken a leadership role in financial inclusion, both nationally and internationally.** Mexico was a founding member of the Alliance for Financial Inclusion (AFI) and holds a Board position through the President of the CNBV. Mexico hosted AFI's third annual Global Policy Forum in September 2011. This event culminated with the presence of Mexican President Calderón, who announced the creation of a National Financial Inclusion Council (CONAIF) with the objective of devising a financial inclusion strategy and coordinating appropriate actions among the various government agencies.[2] Mexican authorities intend to make financial inclusion a major plank of its G20 presidency in 2012.

2. **Mexican banking authorities have long recognized that, in addition to concerns about costs, documentation, and confidence in financial institutions, an important barrier to greater financial access among the bulk of the population has been banks' lack of distribution channels within the territory beyond medium-sized urban centers.**[3] In order to broaden reach and stimulate competition, Mexican banking authorities authorized a number of retailers with a strong physical footprint to enter the banking business, most notably Banco Azteca a decade ago and Banco Walmart five years ago.

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[1] Ignacio Mas, consultant to the World Bank, and Lily Chu, World Bank, are the primary authors of this report. The report also drew on contributions from Juan Buchena, Fredevinda Montes, and Patricia Caraballo (all World Bank). This report is confidential. It contains commercially sensitive information from some of the institutions interviewed. Please do not distribute publicly without prior consent from the authors.

[2] The Financial Inclusion Council (CONAIF) was created by presidential decree in October 2011. It is composed of 10 members, chaired by the Minister of Finance, and including the Vice-Minister of Finance, CONDUSEF's president, CNBV's president, CNSF's president, CONSAR's president, IPAB's Executive Secretary, the Treasurer of the Federation, the governor, and one deputy governor of the central bank.

[3] According to FINDEX, other important barriers to entry include not having enough money to open an account, expenses related to opening an account, lack of necessary documentation, distance from providers, and lack of trust in the institutions.

3. **More recently, Mexican authorities were among the first in the world to recognize how the increasing spread and affordability of communications (especially using cellular technologies) enable new lower-cost banking models that might drive further expansion in access to finance.** These so-called *branchless banking* models were first developed a decade ago in Brazil (using lottery houses and post offices) and Philippines (using mobile payment platforms), and subsequently extended to countries such as Kenya, Pakistan, and South Africa.

4. **The banking regulator, the Comisión Nacional Bancaria y de Valores (CNBV), has addressed a number of areas that previously limited banks' ability to operate through electronic and third party channels.** The CNBV created an office charged specifically with monitoring and promoting financial inclusion and has developed a specialized inclusion report. At the same time, the Banco de Mexico (Banxico) took a number of steps to promote the efficiency of electronic payment systems. During 2005–08, there was a scheme to promote the deployment and usage of point-of-sale (POS) terminals, through tax rebates for merchants and lotteries for users. Mexico now combines a market-friendly, pro-inclusion regulatory framework, with a relatively advanced and fully interoperable core payments infrastructure—two key enablers for branchless banking models.

Harnessing technology for financial inclusion

5. **If transactions can be initiated remotely through a secure electronic channel (ensuring proper authentication of transacting parties and integrity of the data transmitted) and authorized in real time (ensuring that all transactions are pre-funded), then banking transactions can safely be taken outside of bank branches and into neighborhood stores (acting as banking correspondents) or right into customers' hands (with mobile banking as a self-service channel).** This reduces access costs for banks (who can switch from large fixed infrastructure costs (bricks and mortar") in poorer and rural areas to a per-transaction variable cost structure) and especially for customers (for whom greater proximity reduces the cost associated with traveling to and queuing).

6. **This can be implemented with a traditional card/POS terminal infrastructure. But now there is an opportunity to use mobile phones as the payment instrument, i.e., to securely authenticate users and capture transaction details.** Mobile phones that already exist in people's pockets can be used as virtual cards and POS terminals, thereby further reducing incremental per-customer and per-store costs. Beyond reducing costs, using mobile phones permits customers to interact more directly with their account, check balances and initiate transactions from wherever they are. Using mobile phones as access devices offers a level of convenience and control that no other channel can provide.

7. **Mexico has a population of 110 million, and has 94.2 million mobile phone subscriptions.**[4] It is estimated that around 64 percent of households have mobile phones, but only about half of those households[5] have access to bank accounts. This offers a theoretical opportunity to double the banking penetration by reaching people with a lower-cost, mobile-phone-based proposition. Many unbanked people are in fact accustomed to using their mobile phones to transfer value: 10 million people reportedly send prepaid airtime as a means of exchanging value. Telcel's airtime transfer service, Pasatiempo, handles 20 million transactions per month.

8. **Mobile phones thus represent: (i) a substitute technology to cards and POS terminals that can power the correspondent channel; and (ii) a self-service channel in its own right for purely electronic transactions.** Mobile phones offer the opportunity for scaling up financial access by enabling these channels and hence including people who otherwise would be too costly to reach. More fundamentally, the emergence of such mobile transactional platforms ought to create room for specialized financial institutions riding on them to offer financial services in innovative ways. The trend is toward a *horizontalization* of the financial services value chain, with retailers specializing in cash in/out, mobile operators and the larger banks running connected mobile transactional platforms, and a range of institutions with affinity to different segments developing and marketing financial products. Specialization of roles ought to create the basis for scalability while at the same time meeting diverse customer needs.

Scope of analysis and key issues identified

9. **While other aspects of financial inclusion are addressed in the FSAP Aide-Memoire, including, *inter alia*, (i) a discussion on traditional service providers; (ii) concerns about the handling of unregulated cooperatives; (iii) needed improvements in credit reporting; and (iv) retail payment systems.** This note is focused on the expansion of technology-enabled channels. The analysis is focused on three broad questions:

- How are banks, mobile operators, and retailers coming together to create new banking models that target the unbanked, and how pro-poor and scalable are these emerging models?

- What further regulatory steps can be taken, if any, to further permit innovation in these models within a risk-based framework?

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[4] Includes both monthly plans and pre-paid subscriptions, as of end-2011. Source is the International Telecommunications Union and Mexico's National Commission of Telecommunications (COFETEL).

[5] The Instituto Nacional de Estadística y Geografía (INEGI) estimates about 43 percent of households with mobile phones have accounts.

- How can the government foster the development of these new banking channels beyond regulation (i.e., as promoter, infrastructure provider or market participant)?

10. **We consider these questions in the context of tradeoffs in financial inclusion.** In an ideal world, universal access to financial services would be provided on an inexpensive, efficient basis, along with the delivery of sound financial education and consumer protection to ensure that consumers can make optimal financial decisions. However, a realistic approach to financial access must consider constraints on the side of both providers and customers. A large number of small institutions serving low income and rural customers do not have the capacity to provide sophisticated services, while customers need time to get acquainted with such services and to make proper use of them. Experiences in several countries have shown that an accelerated (or forced) expansion of financial services can have significant negative consequences for the very customers it intends to benefit:[6] institutions may fail if they do not follow sound practices, especially in lending, harming borrowers and depositors alike and creating social unrest. The failure of such institutions may also lead, in some cases, to costly bailout operations with significant fiscal cost. In addition, uninformed customers may use inappropriate services, such as taking on excess debt, or purchasing insurance or annuity products that are not well priced. Thus, transparency and financial literacy are important tenets that should be adhered to in developing sound and sustainable financial access.

11. **A worrisome aspect is that regulatory restrictions limit banks' pricing flexibility.** Mexican authorities have forbidden banks from charging their clients for making withdrawals from their own ATMs. The rationale for the restriction is that maintenance fees and minimum balance requirements should cover the costs of providing basic services. Nevertheless, this measure impedes banks from setting an optimal pricing strategy and it imposes the need for indirect pricing and cross subsidies, an already generalized practice in banking. Moreover, pricing restrictions may inhibit incentives for ATM network expansion which could affect precisely those customers that the regulation is trying to support. The authorities' might consider more flexible pricing policies to assure the longer-term sustainability of cash services provision.

12. **Another key element is that an open market, which allows for a relatively free entry of a variety of suppliers of financial services, is important to increase the supply of financial services for low- and mid-income households and small—and medium-sized enterprises (SMEs) , as it strengthens competition and innovation.** At the same time, in order to ensure that access grows in a safe and sound manner, it is also important to ensure that failing institutions can exit the market in an orderly fashion. The existence of appropriate mechanisms

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[6] See "Growth and Vulnerabilities of Microfinance," CGAP, February 2010, for cases from Bosnia and Herzegovina, Morocco, Nicaragua, and Pakistan. Also, "Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance," CGAP, November 2010.

to monitor the performance of the different providers, and to induce their exit at early stages of institutional failure, contributes to reduce negative impacts on customers and society.

13. **The prudential oversight of financial service providers is costly for both the supervisor and the supervised entity.** If a market encourages free entry and many different business models of differing scales, it is not realistic to expect full prudential supervision of all entities, including the same level of reporting, audit, and off-site and on-site examinations. Given that CNBV has limited financial and human resources, its approach to supervision of smaller entities must reflect the relative risks and costs. In addition, small entities do not have the capacity to bear the costs of supervision, if their volume of operation does not generate sufficient income to pay for the needed professionalized management and for appropriate technical infrastructure. Priority should therefore be placed on institutions that reach a minimum size of either assets or customers. A modular approach, in which small institutions have to comply with minimal reporting requirements (using standardized accounting and governance practices), which are scaled up (e.g., to include external audit) as the institutions grow, could be used to induce sound growth and adequate control before small entities reach the scale for prudential supervision.

14. **Taking this overall framework into account, and, based on extensive discussions with both policymakers and market participants, we have identified the following four key issues:**

- There is a need to promote the development of correspondent networks that go beyond the more established retail franchises (such as OXXO, Telecomm, 7/11) and reach into individual mom-and-pop shops. Otherwise, cash-in/cash-out prices may remain high due to insufficient competition, and correspondents will not spread into poorer and more rural areas where these franchises are not present. Given the tougher economics of serving these areas, it will likely require building multi-bank correspondent networks able to aggregate more transactions from more sources.

- Recent regulatory changes have paved the way for cell phone providers to operate mobile payment/banking schemes with or on behalf of banks. Given the monopolistic market structure of mobile telephony in Mexico,[7] there is a need to ensure that the leading mobile operator is not able to unduly transfer its dominance in the telephony market into the mobile payments realm (and back).

[7] According to the OECD Review of Telecommunications Policy and Regulation in Mexico (2012), Telcel (América Móvil) holds 70 percent of the market share (number of subscribers) and Movistar (Telefónica) holds 21.8 percent of the market.

- Millions of accounts are being and will continue being opened as a mechanism to receive payments, either from salaries or social welfare payments (such as *Oportunidades*). These accounts should be fully contestable by all banks to ensure that the clients get the best service. Moreover, seeking these accounts can be an important business driver for a branchless banking strategy for particular banks. Employees and welfare beneficiaries must either have an opportunity to select the bank they wish to collect their salaries and payments on in the first place, or they must have an easy way of transferring the account at will.

- The authorities have taken an active role in enhancing transparency and improving consumer rights, while fostering competition, including prohibiting commissions which are deemed unfair or anti-competitive or not transparent. However, the authorities may wish to review pricing of the two services that are currently regulated to allow for efficient provision of services, network sustainability and further expansion.

15. **The structure of this report is as follows.** The next section describes the new enabling policy framework that is emerging around branchless and mobile banking. It discusses various government interventions, including regulation and the distribution of government payments. The following section turns to the market participants and reviews to what extent and how they are taking advantage of this policy framework to build new scalable financial inclusion propositions. The final section pulls out the main recommendations for further improvement of the policy environment.

B. Enabling Policy Framework

New banking regulations for branchless banking

16. **Since early 2007, the authorities have issued enabling regulations in a number of areas that have been very progressive in permitting a broad range of options for regulated entities within a tight risk-based framework.** The key regulatory changes have been: (i) enabling the use of retail outlets as banking correspondents; (ii) differentiating minimum security standards (authentication, data encryption) on use of electronic/mobile channels based on transaction sizes; (iii) easing account opening requirements for low-value accounts (creating four levels of accounts with tiered know-your-customer (KYC) requirements); and (iv) more bank licensing options, with the introduction of a new *banca de nicho* license for deposit-taking institutions that do not wish to on-lend funds.

17. **The result is a broadly permissive, although somewhat complex[8] framework, which creates sufficient room for innovation while adequately controlling risks.** The authorities, led by the CNBV and with the full support of the SHCP and Banxico, should be commended for producing such a systematic and comprehensive review of regulatory practices.

18. **The rest of this section explains the building blocks of the branchless banking regulations in Mexico.** In essence, to create a new proposition aiming to serve millions more clients through technology-enabled channels that go beyond bank's branches, a provider would need to decide on the following key questions:

- What license to operate under? What is the balance between broader banking licenses that provide more business flexibility versus narrower ones that entail a smaller regulatory and capital burden?

- What types of accounts to issue? What is the balance between simpler and smaller accounts that provide for easy account opening and fuller accounts which give more flexibility to the customer?

- What electronic transaction mechanism to use? What is the balance between cost, usability, simplicity, and security?

- How to operate banking correspondents? What is the balance between expanding reach and controlling the conditions for delivery of services to customers?

- How much of the IT platform to outsource? What is the balance between the flexibility of running the core banking platform in-house versus the cost advantages of outsourcing it to specialists?

19. **The Mexican regulatory framework has been designed to be highly modular as regards each of these points.** A variety of options are available in each case, with clear rules in each case. The regulations do not prescribe specific models that banks ought to follow; they offer full flexibility in how banks piece together their model based on these choices.

20. **The rest of this sub-section explains the main choices that are open to banks wanting to implement a branchless banking proposition, in each of these areas bulleted above.** The following sub-section touches on certain additional regulatory aspects that represent restrictions rather than enabling options for a branchless banking scheme.

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[8] Complex in the sense that there are multiple dimensions for decisions. The "modular" approach works quite well in Mexico.

Types of licenses

21. **The Banking Law was modified in February 2008 to allow for a range of specialized banks (called *bancos de nicho*) to be created.** These niche bank licenses carry lower capital[9] and other regulatory requirements, commensurate with the more limited range of activities niche banks are allowed to conduct and hence the more limited range of risks they can assume. There are now four categories of bank license:

- **Universal bank** *(banca múltiple)*, authorized to perform any banking activity contemplated in the banking law. This carries a minimum capital requirement of US$34 million (formally this is specified as 90 million UDIs (Unidad de Inversión), a measure of value which is linked to domestic inflation).

- **Traditional intermediation bank**, focused only on domestic savings and lending and not conducting any services associated with payment instruments (other than debit cards), securities and other corporate treasury functions. This carries a minimum capital of US$20 million (54 million UDIs).

- **Fiduciary bank**, conducting a range of fiduciary functions for mainly corporate clients. This carries a minimum capital of US$13 million (36 million UDIs).

- **Payments issuer bank**, focused on issuing payment instruments and e-money accounts, without intermediation (on-lending) of funds. This also carries a minimum capital of US$13 million (36 million UDIs).

22. **There is also a five-tier licensing structure for nonbank deposit-taking institutions (Cajas and SOFIPOs), with minimum capital ranging from zero (for institutions with assets of less than US$1 million) to US$22.5 million.** However, these institutions are by law not authorized to engage as banking correspondents.

23. **There is at present in Mexico no nonbank e-money issuing license.** There is a separate nonbanking license for operators of money transfer services, who are differentiated from banks by the fact that the amount that is sent has to be claimed in full by the beneficiary. Since April 2012, money transmitters are required to be registered with CNBV. They have been subject to anti-money laundering rules since 2004.

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[9] This refers to the absolute level of capital, not risk-weighted capital. Those prudential standards are the same as for commercial banks.

Types of accounts

24. **In August 2011, the authorities (Banxico, SHCP, and CNBV, in concert) approved a new tiered scheme of accounts that provided for various degrees of customer identification requirements, based on the value of transactions involved, going from anonymous to full-fledged accounts.** This is a very innovative approach by world standards, which should facilitate the adoption of branchless banking schemes, including the development of more flexible payment instruments.[10] The new account opening framework consists of four levels:

- **Level 1**: This is an *anonymous* account: no account holder data needs to be captured at the point of sale or subsequently. The account can be purchased at any commercial establishment or through the web, and can be activated through any of a bank's channels (including call center and banking correspondents). The cumulative value of monthly deposits is capped at US$280 (750 UDIs), and the account balance may not exceed US$373 (1,000 UDIs). The account can be used to receive domestic (not international) transfers from other bank accounts, but customers cannot send funds out of the account—they can only cash out at any of the bank's cash channels (branch, ATM or correspondent). These accounts can back store-of-value cards, but they cannot be linked to mobile payment schemes.

- **Level 2**: This is a named account: customers must self-report their name, date and place of birth, gender and address. Account opening can be done remotely, i.e., it does not need to be face-to-face with bank staff, and can be delegated to banking correspondents. There is very limited verification requirement: if account opening is face-to-face, the name and date of birth reported by the customer must be checked against a valid ID; otherwise, the data must be cross-checked by the bank against the Registry of National Population and Personal Identification (RENAPO).[11] There is no need for the bank to maintain a hard copy of documentation. The cumulative value of monthly deposits is capped at US$1,160 (3,000 UDIs). Customers can send and receive funds to/from any other account, nationally or internationally, and the account can be linked to a mobile phone.

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[10] Allowing lower levels of data for some accounts does open up greater risks for fraud, tax evasion, money laundering, etc. However, as in all types of supervision, there must be a tradeoff between risks of lower supervision, versus the cost of supervision. The transaction levels appear reasonable for the different levels, and will facilitate the ease of expanding access.

[11] Administered by the Ministry of Interior, and including all national and foreign individuals residing in Mexico.

- **Level 3**: This is a fully documented account. The customer must submit additional information (occupation or economic activity, and phone number). Account opening must be done face-to-face, with bank staff checking the name and date of birth reported by the customer against a valid ID, but no hard copies need to be kept. The cumulative value of monthly deposits is capped at US$3,860 (10,000 UDIs). These accounts can be linked to a mobile phone.

- **Level 4**: This is a *full-fledged* bank account. The customer data requirement is the same as for level 3, but the bank needs to file copies of ID, proof of address and tax ID. These accounts must be opened face-to-face, and can be linked to a mobile phone.

Electronic transaction mechanisms

25. **The regulations distinguish security requirements for the internet (in which the device itself is not linked to accounts) and the mobile channel (in which the device is linked to or registered against accounts).** In terms of the use of mobile channels, the regulations provide for different levels of security on electronic transactions, based on the volume transacted. The main characteristics for use of the mobile channel to conduct financial transactions are:

- **Customer authentication requirement to initiate transactions:** When initiating a transaction, customers must be authenticated based on two factors: (i) the phone number they use to initiate the transaction must be the one registered against their account; and (ii) they must employ a five-digit PIN, one-time password, or a biometric feature. Banks can accept transactions of an amount less than US$25 (70 UDIs) on accounts with a balance of up to US$25 (70 UDIs) without the second authentication factor, but in this case the bank must be responsible for any transactions not recognized by its customers and these must be refunded within 48 hours of any customer request.

- **Security controls for money transfers:** For transactions exceeding US$90 (250 UDIs), the beneficiary account must be pre-registered by the sender. For transactions exceeding US$520 (1,500 UDIs), the sender must be notified of the transaction through a separate channel. Money transfers of less than US$90 (150 UDIs) can be done to any account without pre-registration or notification.

- **Encryption and PIN masking:** Masking of the customer's PIN on the user's mobile phone screen and end-to-end encryption of transactions are generally required. The exception is that USSD or unencrypted SMS is permitted for checking balances or initiating money transfers not exceeding US$520 (1,500 UDIs), but in this case the bank must be responsible for any transactions not recognized by its customers.

- **Process for linking phone numbers to accounts**: Customers can register their phone number to their account remotely by calling a call center, as long as (i) they transact in an amount of up to US$90 (250 UDIs) at a time; (ii) the cumulative value of their

transactions does not exceed US$520 (1,500 UDIs) daily or US$1,400 (4,000 UDIs) monthly; and (iii) there are up to two accounts linked to the same mobile number (and only one of these can accept micropayments not requiring the second authentication factor). To exceed these limits, the bank must obtain either the customer's physical signature or the customer's authorization online using a two-factor authentication channel.

Use of banking correspondents

26. **The banking correspondent regulations issued in December 2008 impose certain requirements on banks wishing to utilize nonbank retail outlets for basic transactional services:**

- All transactions between the bank's customer and the store acting as the bank's retail correspondent must be done on a fully funded (i.e., pre-paid) basis. Correspondents must operate through an account with the bank that they serve.

- All transactions must occur through the bank's technology platform, on a real-time basis, which must meet the technical standards for electronic channels discussed above.

- The bank is responsible for the integrity of all transactions undertaken by its correspondents. Correspondents are considered to be an extension of the bank, rather than an outsourcing service.

- The bank must have a contractual relationship with its correspondents, requiring correspondents to, among other things, post terms of services and maintain the privacy of customer data.

- Banks are required to have adequate processes in place for risk management, customer complaint handling and reporting of correspondent activities.

- Banks require prior approval from the CNBV before engaging with banking correspondents, though individual authorizations for each new correspondent are not necessary.

27. **There are some degrees of freedom in how banks structure their correspondent activities:**

- Banks are authorized to engage correspondent network managers ("administradores de redes de corresponsales"), to whom they can delegate the identification, training and management of individual banking correspondents.

- While the regulations envision that banking correspondents should transact on-line (i.e., with real time updating of the bank's account management system), the CNBV is willing

to consider requests for off-line solutions (where transactions are authorized in real time from the card rather than the bank's server), on a case-by-case basis.

Outsourcing of operations/IT platforms

28. **An important element of an enabling environment for low-balance accounts is the possibility of outsourcing the operation of account management platforms and various related activities such as card issuance and call centers.** Commercial banks may choose to take these activities out of the normal operation of the bank in order to offer a lower-cost proposition for a particular customer segment that has lower revenue-generation potential for the bank.

29. **The Mexican Banking Law and its implementing regulations accommodates this outsourcing as long as:**

- The bank remains responsible in front of the customer and the supervisory authorities, and the rights and responsibilities of the bank and its outsourced partners are contractually clear.

- These outsourcing arrangements do not impinge on the CNBV's ability to supervise the regulated entities, and the supervisor maintains right of access to the relevant premises, systems and databases.

- The bank maintains a consolidated view of customers who may have multiple accounts with the bank (including some operated by the bank directly and some operated by the outsourced partner) for particular purposes required by law. These include: (i) calculation of the IDE tax (see below); (ii) ensuring customers don't have more than one level 2 account in the same bank; (iii) developing a consolidated client view for anti-money laundering (AML) purposes; and (iv) reporting total depositor balances to the deposit insurance agency (IPAB) so that they can assess their contingent liability.

Other regulations affecting branchless banking propositions

30. **There are three further aspects that need to be taken into account by branchless banking providers.** These are: pricing restrictions, consumer protection, and market conduct regulations, and taxation.

Pricing norms

31. **The Transparency Law of 2007 created two mandates on Banxico to regulate banking commissions.** (See Box 1 for summary of key measures).

32. **First, deposit-taking banks were required to offer a basic account intended for the low-income segment under a regulation issued in July 2007.** Banks are not allowed to charge basic account holders any commissions for: (i) account opening and debit card issuance;

(ii) deposits from any source; (iii) withdrawals and balance inquiries at own branches and ATMs; and (iv) merchant payments using the debit card or direct debits. The cumulative value of monthly deposits into these accounts is capped at 165 times the minimum daily wage in the Federal District. As of January 2012, any employee can open a payroll account.[12] On normal (nonpayroll) basic accounts, banks can require a minimum average savings balance, and they can close the account if the minimum balance is not met for three consecutive months.

33. **In May 2010, the regulations on basic accounts were further tightened as follows:** (i) banks were not allowed to charge for any service associated with these accounts; and (ii) banks who offer credit cards were required to offer a basic credit card on which they could not charge any kind of commissions, with a credit limit of 200 times the minimum daily wage in the Federal District. There are now some 24 million basic accounts, with the majority being associated with payroll collection.

Box 1. Policies to Enhance Transparency in the Financial System

The authorities implemented several measures to increase transparency, foster competition, and improve consumer rights. In the second half of 2009, the central bank established the following measures:

New regulations on commissions. These established three principles meant to guide regulators in prohibiting unfair or anti-competitive practices: (i) commissions should only be charged when a service is provided; (ii) only one commission should be charged per act or event; and (iii) commissions impeding customer mobility should be prohibited. Examples of the application of these principles include: simultaneous charges for low balance and account management, charges for actual or attempted overdrafts from credit or debit cards, and charges for closing deposit accounts, credit or debit cards, and bill paying or online banking services.

Disclosure of borrowing costs. The new rules unified the criteria to calculate annual total borrowing costs (CAT), inclusive of commissions, and to simplify its disclosure on publicity, contracts, and account statements.

Credit card effective rates. The central bank stated publishing a bimonthly report on the effective interest rate on credit cards by bank and type of client.

Bill paying services (Direct Debits). The new regulation established uniform formats to hire and cancel these services, as well as to object related charges. It also prohibited cancelation charges, and reduced the limit to rescind the service to three days.

Rate comparison. Since April 2010, monthly credit card statements include a table comparing of the cost of credit cards among different providers. This practice is being extended to other loans.

ATM charges. The measures established that only one bank can charge a commission when using an ATM card with a card issued by another bank, and that the total commission should be disclosed on the ATM screen before the requested transaction is authorized.

[12] Banxico Circular 1/2012 (issued January 2012)

34. **Second, Banxico was required to regulate commissions and interchange fees charged by financial institutions. In July 2010, it issued a Circular (22/2010), which banned some pricing practices that were deemed to be abusive or not transparent to customers.** In addition, it issued the following requirements:

- Deposits, withdrawals and check balances at a bank's own ATMs or branches: banks cannot charge a commission.
- Not-on-us ATM transactions: the issuing bank cannot charge a fee, but the ATM owner can impose a charge to the customer payable through the issuing bank. The ATM charge imposed by the ATM owner must be the same for all customers of all issuing banks, it can vary by the characteristics of the ATM, such as risk or location of ATM, an interchange fee must be paid by the ATM owner to the issuing bank due to the authorization process.
- Cash transactions at banking correspondents: banks can charge their customers a commission, but it must be a flat rate, i.e., independent of transaction size, though banks can set a limit on transaction sizes allowed at banking correspondents.
- Electronic funds transfers: only the sender can be charged a commission, and this commission must be a flat rate, i.e., independent of transaction size. The charge can be differentiated by type of account.
- Bill payment (Direct Debits): originating banks can charge the biller a commission but the commission must be a flat rate, i.e., independent of transaction size. (Note that this only applies to regulated entities, not to nonbank bill payment companies.)

Consumer protection and market conduct regulations

35. **The *Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros* (CONDUSEF) is a decentralized agency under the umbrella of Hacienda.**[13] In 2009, the Transparency Law gave CONDUSEF regulatory and supervisory functions in protecting consumers of banking service, though its capacity to fulfill its mission remains limited.

36. **Responsibility for consumer protection and market conduct regulations continue to be shared between the CONDUSEF (which leads on consumer protection matters), the Banco de Mexico (which sets rules on pricing and commissions), and, residually, the**

[13] CONDUSEF was created by the Law for the Protection and Defense of Financial Services Users that was passed in 1999 and reformed in 2000, 2007, 2009, 2010, and 2011.

CNBV. In addition, Hacienda has worked on a financial literacy agenda. There is no comprehensive framework in place in Mexico today which can be used to define their respective roles, assess overlaps and identify gaps. CONAIF has established a working group on consumer protection which, inter alia, is working on the development of coordination mechanisms.

37. **There are no specific market conduct regulations governing banking transactions occurring outside of traditional banking infrastructure.** As new methods of transactions develop, such as mobile banking or new types of correspondents, CONDUSEF may need to adapt regulations to reflect these new channels. This is an area that was not investigated in depth during the mission, but it deserves fuller attention from the authorities.

Taxation

38. **There are two tax provisions that affect the operation of savings accounts and banking correspondents, but these do not have a large incidence on the operation of low-value transactions and accounts.**

- There is a tax on cash deposits (*Impuesto a los Depósitos en Efectivo* or IDE), which sets a withholding rate of 3 percent on cumulative monthly cash deposits that exceed Mex$15,000. (The IDE tax has been increased, as it was originally a withholding rate of 2 percent on cumulative monthly cash balances that exceed Mex$20,000). The IDE does not apply to reduced KYC (level 2) accounts since the cumulative transaction limit on those accounts is Mex$13,800, and hence under the threshold to qualify for IDE.

- The commissions earned by banking correspondents are subject to payment of value added tax (IVA).

Government as operator of payment systems

39. **Since the adoption of the Payments System Law in 2002, Banxico acts as regulator and supervisor of payment systems.** In addition, it operates an inter-bank clearing and settlement system called *Sistema de Pagos Electrónicos Interbancarios* (SPEI). The SPEI is a real-time gross settlement (RTGS) switch through which banks and nonbanks are connected. Inter-bank transactions take on average around 20 seconds to clear through SPEI, though sending institutions may delay transaction processing by a minute or two to do appropriate checks based on the transaction amount. SPEI's switching cost is a maximum of 0.5 pesos, and banks typically charge their customers 4-5 pesos for a SPEI transaction. The SPEI handles transactions for any amount. Banks are not allowed to set limits.

Government as payor

40. **There is also much interest from Hacienda to make all government disbursements (G2P payments) through electronic means, in order to increase the efficiency of government payments and reduce opportunities for fraud.** The Tesorería Federal (TESOFE)

at Hacienda is embarked on a project to consolidate funds for onward payment and disperse the payments electronically through the SPEI. TESOFE is now processing around 17 million payments on an annual basis.

41. **Hacienda has set a target to complete electronification of all government payments by the end of 2012.** This is already very advanced for payments to suppliers and pensions. Payment of public sector salaries is lagging partly because of an old labor law which specifies that workers have a right to get paid in cash at their place of work. Another area that requires much attention is the distribution of welfare benefits. The largest program is Oportunidades with 6.5m beneficiaries, each collecting an average of Mex$1,500 every other month, and BANSEFI is the entity in charge of paying these benefits. About half of Oportunidades benefits are already being paid into an electronic account with a card, as follows:

- There are 2.8 million beneficiaries who have been issued a biometric card, and they must withdraw their benefits at one of the approximately 7,000 locations that have a biometric POS terminal:
    - Half of these beneficiaries, or 1.4 million, collect their payment at any of Telecomm's 1,580 offices;
    - 860,000 do so at BANSEFI's network of 472 branches, of which 296 are in rural areas with a population of less than 50,000 people;
    - 450,000 beneficiaries can cash out at one of 5,170 DICONSA stores that have been enabled (out of a universe of 22,000 DICONSA stores); and
    - the remaining 70,000 beneficiaries withdraw their funds through 200 outlets of Red de la Gente, belonging to 60 Cajas. The Red de la Gente is a network of 2,354 outlets belonging to 288 Cajas, through which remittances and bill payments can be made.
- There are 350,000 beneficiaries who have normal debit cards, and they can collect their benefits by withdrawing from their account at any BANSEFI branch, any ATM, or at any store that offers cash-back.

Government's efforts in promoting measurement and research

42. **There are a number of initiatives underway from various governmental agencies to assess conditions on financial exclusion and shed light on opportunities to tackle it.** The most significant one is the National Survey for Financial Inclusion (ENIF) which will be used as a baseline to measure the progress of actions which promote this subject. CONAIF has led the efforts for this initiative and the *Instituto Nacional de Estadística y Geografía* (INEGI), with advice from the World Bank, conducted the survey in May 2012. The survey results will provide data at the national level on the access to and the usage of savings, credit and insurance instruments, as well as indicators related to remittances, retirement plans, and the usage of

financial channels, which will serve to support the design of policies aimed at balancing the population's opportunities in the financial field. The results will be finalized by September 2012. The plan is repeat this survey every three years, though at present only the first edition of the survey is funded.

43. **The CNBV has been publishing a lot of information relating to financial inclusion.** Its *Reporte de Inclusión Financiera* (RIF) collects a range of access and usage indicators. Most of its quantitative information (e.g., on number and break-down of accounts and on the distribution of banking outlets) comes from reports from banks and is therefore supply-driven. Thus, the INEGI survey will be a very useful complement to the bank data reported in the RIF. The RIF has been published every six months, and is currently in its third edition.

44. **The CNBV has also published three handbooks designed to enhance the understanding of the banking correspondent model and provide new relevant data.** These three reports have provided analyses of the retail sector in Mexico, the state-owned retail chains, and banking correspondent models in four countries in Latin America.

45. **There are two other relevant surveys underway, both with support from the Inter-American Development Bank (IADB).** One is a study on national remittances, which includes in-depth interviews with 500 people and which is expected to be completed by March 2012. There is also an *Encuesta Nacional de Empresas* looking into the financing of enterprises, being conducted with the support of Banxico and the CNBV.

46. **With BANSEFI's help, a financial diaries exercise is being planned in Mexico, which will accompany the publication in Spanish of the book *Portfolios of the Poor*.** The book has carefully and vividly documented the financial lives of poor people by employing financial diaries, and its translation is being funded by the Bill & Melinda Gates Foundation. The book and the new financial diaries being conducted in Mexico should help financial service providers in Mexico gain deeper awareness of the needs of the poor and to construct more targeted, relevant products for the base of the pyramid.

C. How the Market Is Shaping Up

47. **A range of market actors are now beginning to construct new business propositions based on the new policy environment.** As of July 2011, 14 banks had been authorized to sign up correspondents, and they were operating through 10,030 stores. That amounts to about 1.2 correspondents per 10,000 adults, or about 64 percent of the number of branches in the country. Correspondents are present in 48 percent of municipalities in the country, and of these, 18 percent do not have a single bank branch. Figures 1 and 3 show the breakdown of correspondents by type of store and by region.

48. **The correspondent business has evolved relatively slowly.** Figures 2 and 4 show stagnant growth in the number of correspondents in operation and in the number of transactions

they process during the first seven months of 2011. Figure 5 also shows that the volume of transactions is dominated by credit card and loan repayments.

49. **The correspondent business is at this point dominated by the larger banks: BBVA Bancomer, Banamex, and Banorte have taken the lead.** They are indeed in the best position to leverage a recognized brand and to exploit economies of scale in both marketing and operations. Of the 4.2 million transactions that occurred through correspondents in July 2011 (amounting to 14 transactions per correspondent per day), BBVA Bancomer leads with 53 percent. Among the major banks, HSBC and Santander have remained lukewarm to the opportunity with correspondents.

50. **Most players anticipate having 30-40,000 retail outlets within a few years, from the 10,000 or so that exist today in aggregate.** This appears to be under-ambitious, as it represents only 2–3 times the number of bank branches, or the same number of ATMs which exist today in the country. As a benchmark, Telcel is thought to offer prepaid airtime (in itself a form of cash-for-electronic value conversion similar to what banking correspondents do) at 100,000 retail outlets, without counting informal street sellers.

51. **The banking correspondent model so far is developing as a negotiation between major banks and major retail chains**. Retail chains are all likely to go multi-bank: retailers do not want to serve only the customers of a particular bank, and no bank is in a sufficiently strong position to demand exclusivity. In fact, retail chains appear to be in the stronger negotiating position, and this creates a number of limitations in the banking correspondent model:

- **Limited service set:** The major retailers (such as OXXO and 7-eleven) are not interested in facilitating account opening as they feel such activity slows down their tellers. In any case, it is complex to do on a multi-bank basis when each bank has different account opening processes.[14] Retailers are also today not prepared to conduct cash withdrawals, since their in-store cash management involves cash boxes which take the store's excess cash but which for security reasons are not accessible by store clerks.[15]

- **Expensive service**: The major retailers have negotiated commissions from banks in the order of Mex$13-15 (around US$1) per transaction. This high cost is sometimes partly absorbed by the bank and sometimes passed on entirely to the bank customer. Bank

[14] The Bankers Association may wish to consider promoting standardized processes, which can lead to cost-reduction.

[15] Retailers can reload debit cards. However, the desirability of electronic payments versus cash will depend on the expansion of POS terminals or other access points in remote areas.

customers can face different charges based on the retailer they go to, which can cause pricing confusion in the market.

- **Limited territorial reach:** Most retail correspondent chains do not extend into slums or peri-urban areas, or into smaller towns. Instead, they tend to be present in areas where people are more likely to be banked. Today, Telecomm is the only banking correspondent chain that reaches smaller towns; some hope that DICONSA stores and PEMEX gas stations can be turned into extensive correspondent networks as well.

- **Low visibility and limited promotion.** Retail chains do not appear to do much to promote the correspondent business with their customers. There is often no visible signage to advertise the service, since in-store advertising is heavily contested by many distributors and retailers are weary to further visually clutter their establishments.

52. **In addition, three mobile payment/banking schemes linked to the new class of reduced KYC (level 2) accounts have been or will be announced: by BBVA Bancomer, Banamex/Inbursa/Telcel and Banorte/Rev.** These schemes are still in their infancy: it remains to be seen whether these new platforms and channels will become commercially viable (for both banks and retailers involved) and whether banks are able to construct and market product propositions that appeal to those who are currently unbanked. The next section summarizes these schemes (See Annex 1 for more detail on the channels for these Banks, as well as information on other channels.)

D. Mobile Banking Schemes

Banamex

53. **Banamex was an early mover among the major banks in three areas.** In terms of retail distribution, it signed up the Soriana chain of stores as a retail partner even before banking correspondents were enshrined in the law, and is the only bank to have developed its own correspondent network of mom-and-pop shops. In terms of low-balance accounts, it issued prepaid cards, first co-branded with Soriana (the Mi Ahorro card) and later with own product (Cuentas Perfiles Ya). In terms of mobile banking, it was the first to partner with a mobile operator, Telcel.

54. **Banamex and Telcel's joint involvement in the mobile banking space started in 2009, when Telcel offered to provide its customers access to various banks directly from their Telcel SIM cards.** Partner banks can embed their own security key in their customers' SIM cards, and their customers can launch a SIM browsing session directly from the Telcel menu on their mobile phone. The top level of the banking menu is resident on the SIM card and shared by all banks using the SIM service, but lower-level menus are specific to each bank and are downloaded each time they are used. The data channel used is SMS, so there can be some delays in using the service.

55. **Banamex was the principal launch partner bank for Telcel's SIM-based service, and subsequently Banco del Bajío, Inbursa and more recently BBVA Bancomer (see below) have signed up.** HSBC had signed up but subsequently withdrew. Usage of this channel has been very low; Banamex claims only 50,000 users.

56. **On October 7, Telcel, Banamex, and Inbursa announced an entirely different mobile payment scheme.** They are creating a joint venture company in Mexico called Transfer, with an initial investment capital of US$50 million. Transfer intends to work with multiple banks (as account issuers) and mobile operators (as mobile channel partners). Transfer will operate a low-value account platform, which will host the accounts issued by all member banks under an outsourcing model. Transfer will also manage the mobile banking/payments application including transaction authorizations and the clearing functions associated with inter-bank payments. The service will be jointly marketed and branded by Transfer and the participating banks.

57. **Customers will interact with their Transfer-hosted account via SMS.** There will be four basic operations from the start: send money, check balance, purchase airtime, and cardless ATM withdrawal. In each of these cases, the customer will give the instruction by sending a text message with the appropriate information (e.g., to send money: phone number or account number, space, amount), to a short code. This will trigger a parallel USSD session, which will prompt the user to enter their personal identification number (PIN). These two channels do not offer end-to-end encryption, but the use of dual channels enhances the security. The transaction will be authorized and a text message will go to the sender and (if the transaction is successful) to the receiver confirming the transaction.

58. **Customers of Transfer-hosted accounts will have three liquidity mechanisms.** First, customers will be able to cash in and out at correspondents of their issuing bank or at Telcel's customer service outlets (*Centros de Atención al Cliente Telcel*). Over time, Transfer itself may become a correspondent network manager for its participating banks, effectively also acting as an outsourced partner for cash in/out for its participating banks. Second, Transfer customers can optionally apply for a debit card, which they can then use at ATMs and POS devices. Third, customers that hold a regular bank account in a participating bank will be able to fund their Transfer-hosted account from their regular bank account in real time. This will help bring already bankarized customers to Transfer, offering them a complementary mobile transactional account.

59. **Transfer is considering prices of under 2 pesos per money transfer (one peso money transfer fee plus 0.80 pesos for the initiating SMS).** There will be no account opening fee, monthly rental fee or minimum account balance. Moneys will be exchanged among the key players (the issuing bank, Telcel as a carrier providing connectivity, and Transfer as authorizing entity and switch-cum-clearinghouse) through a relatively complex wholesale pricing and revenue sharing arrangement.

60. **The Transfer service will launch in Mexico in 2012, initially with Banamex and then opening up to other banks.** The Telcel/Banamex partnership is being extended regionally throughout Latin America, as a partnership between America Móviles (TelMex's regional brand) and Citi (owner of Banamex).

61. **The market power of Telcel makes it important for banking and competition regulators to monitor this platform carefully.** While there is value to encouraging innovation and expansion, the authorities will need to ensure that there is true interoperability for other players in this market. Otherwise there is a strong risk that the mobile market will develop into a monopolistic market, with long-term negative consequences for entry, pricing, and competition in services.

BBVA Bancomer

62. **BBVA Bancomer has been the first bank to market reduced KYC (level 2) accounts**, **under the name *Cuenta Express*.** Since launch, it has been selling 100,000 new accounts per month, and by mid-October 2011 it had opened 700,000 accounts. The bank is heavily marketing the *Cuenta Express*, with above-the-line advertising in all media.

63. **All Cuenta Express accounts come with a debit card employing magstripe technology.** BBVA Bancomer is not comfortable with customers using their personal identification number (PIN) at retail shops due to the bad security experience with magstripe cards in Mexico, and therefore does not allow withdrawals at correspondents. Instead, it **structures withdrawals as store cash back.**

64. **Since September 2011, any BBVA Bancomer account, including the *Cuentas Express*, can be linked to a mobile phone, using either a downloadable JAVA applet or the menu embedded in Telcel SIM cards (the same platform pioneered by Banamex discussed above).** This allows for checking balances and transferring money between any two BBVA Bancomer accounts. When using the Telcel SIM-based service, customers pay 2 pesos as a transaction fee plus an additional peso for the SMS.

Banorte

65. **Banorte is rolling out an integrated strategy that links four elements: (i) issuing a new brand of reduced-KYC (level 2) accounts with a linked debit card; (ii) providing customers with a simple mobile banking/payments channel; (iii) deploying a low-cost merchant acquiring network; and (iv) signing up banking correspondents as a prime mechanism for cash in/out.** This proposition is being tested in Jalisco, and early signs are encouraging: they have now acquired 200,000 new accounts in less than six months in Jalisco alone. Banorte's scheme is expected to be formally announced in November 2011.

66. **Banorte's technology partner is Rev, which is part of the MPower Group.** Rev will host all accounts in its own platform, and will operate the mobile payment platform. In addition, Rev provides the card readers for the low-cost merchant acquiring network. While Banorte will be the issuer of the accounts, the proposition will be co-branded by Banorte and Rev under terms that are yet to be finalized.

67. **All customers will be issued a debit card, which they can use at any ATM or POS in the system.** In order to reduce the amount of transactions that terminate in cash (and hence its dependency on banking correspondents), Banorte intends to roll out a large number of low-cost acquiring devices that will go into smaller merchants. This will consist of the RevCoin card reader which can be attached to feature phones and smart phones through the audio jack. These phones need to be JAVA-capable and have a data plan, and the entry cost for such an acquiring device (phone + card reader) can be as low as US$50.

68. **The mobile interface will be native SMS, which is the most widely used data channel but has important security shortcomings (principally, the outgoing transaction request message typed by the customer containing the PIN is stored in the clear inside the customer's mobile phone).** It will therefore only be used for smaller transactions, and so far it is not enabled for inter-bank payments.

E. Recommendations

69. **Based on our analyses, we would suggest that the authorities consider the following actions.** Each is classified by their importance and urgency (ranked as low, medium or high).

Review pricing policies on transactions *(importance MEDIUM, urgency LOW)*

70. **Monitor the effects of pricing policies on transactions, particularly cash transactions.** Transporting and safeguarding cash, particularly in remote or insecure areas, is costly. The authorities should continue to work with financial service providers to encourage expansion of services, with sufficient cost-recovery.[16] Pricing regulations should support the development of new, cheaper channels and product offerings. Some issues to consider are:

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[16] No charges on withdrawals at own ATM's, were already an industry practice before the regulation (the average charge before the regulation was 0.4 pesos, that is, U.S. 3 cents per transaction). Before the regulation, Mexican banks saw the ATM network as part of the services associated to the deposit account. Deposit accounts do have associated a maintenance fee, which includes some basic services like ATM withdrawals, and other fees that allow for cost recovery through cross-subsidies. Therefore, commissions' regulation can hardly be seen as an obstacle for the development of other channels. This has not been a binding constraint, as most banks would choose little or no fees as a competitive decision anyhow. However, it is important to keep in mind that,

(continued)

- **Not having a direct transaction fee on some cash transactions, may distort the choice of transaction instrument.** For example, since making cash deposits and withdrawals at a bank's own ATM or branch does not have a direct transaction fee, there may be a perception that cash is costless. In reality, it may be more cost-effective for many transactions to be carried out through debit cards or electronic payments. So far, there has been a strong trend toward increased use of debit cards at points of sale, but authorities should remain vigilant that this trend continues.

- **The development of new outlets may be constrained. Banks may have a disincentive to expand its network of ATMs or branches in remote areas, where restocking cash, safeguarding the cash, and picking up deposits may be much more costly than in densely concentrated urban areas.**[17] Hence, in some areas, customers might have only the option of using a higher priced correspondent who can charge fees, rather than using an ATM, which might be a more efficient delivery system. While most banks will continue to choose to forego fees for basic transactions in order to attract more accounts, there may be some need for flexibility in pricing to allow expansion in less attractive market areas.

- **Since there is a flat rate charge for transactions at correspondents (regardless of the transaction size), correspondents may not be adequately motivated to serve larger transactions, which place a more onerous burden on their liquidity.** This may be manifested at lower than desirable cap levels for transactions.

- **Duplication of ATM networks.** Customers cannot be charged for transactions at their own bank's ATMs but may be charged at 'foreign' (or third party) ATMs. High ATM fees at foreign-owned bank subsidiaries (which range between 15–30 pesos per transaction) and banks' **i**nability to set a uniform charge across all ATMs is likely to push customers to avoid third party ATMs, thereby undermining the benefits of ATM interconnection.[18] While regulations have greatly improved transparency, customers

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especially in remote or insecure areas moving cash could be costly and therefore there should be scope for different approaches to encourage expansion of noncash transactions.

[17] The network of most banks has kept on growing after the regulation was issued. However, two important banks have reduced the number of ATMs due to insecurity and changes in their strategy, not to the regulation.

[18] The problem of interconnection has been addressed by a Banxico regulation allowing for the formation of ATM sub networks (Circular 3/2012, Art. 84 and 85).

prefer banks who are members of large ATM networks, leading to placement of many ATMs from different banks in the same locales.

Develop policies to nurture innovation and competition in the emerging mobile payment platforms

(importance HIGH, urgency MEDIUM)

71. **The mobile payment platform proposed by Transfer (the joint venture between Banamex, Inbursa and Telcel) has the potential for transforming the market for low-value payments, and in so doing may become a powerful driver for adoption of bank accounts by millions who at present may not find sufficient value in the services of banks.** While this is a positive development, the authorities will need to watch closely the competitive dynamics that are created by mobile money schemes, especially those that are controlled by dominant players on either the banking or mobile operator side or both (such as Transfer, the new joint venture between Telcel, Banamex, and Inbursa). Because Transfer is multi-bank, it allows for competition between member banks. But its size might prevent competition at the scheme level: other banks or mobile operators (such as Movistar) might not be able to compete effectively with their own schemes.

72. **Scale might confer strong advantages to Transfer if payments between bank accounts within the scheme are a lot cheaper, faster and more convenient than payments across schemes.** This might happen if: (i) intra-scheme payments can be settled internally within the scheme while inter-scheme payments must go through SPEI, which carries a higher cost and takes longer to complete; and (ii) intra-scheme payments can be addressed by using the mobile phone of the recipient, while inter-scheme payments must be addressed to a full debit card or CLABE number (which people will have a harder time remembering and entering in their mobile phones).

73. **The authorities should plan for the eventuality where they need to agree on:**

- **A cheap high-volume, low-value, real-time settlement mechanism for inter-scheme payments.** Banxico may decide to use SPEI for this purpose, but then Banxico will need to ensure that the SPEI is able to handle a large volume of low-value transactions at quasi-real time (e.g., under 10 seconds). Immediacy will be essential if multi-bank correspondent networks emerge, as the customer's bank and the correspondent's bank will need to settle while the customer is physically at the store. If SPEI is not fast or scalable enough, industry players will set up parallel clearing arrangements to handle correspondent and mobile payment transactions, which would undermine the development of an integrated national payments system.

- **A national database mapping phone numbers to bank account numbers (CLABE and/or debit card number), which any bank or mobile payments scheme operator can consult to route transactions appropriately.** Given the

concentration of the mobile telephony industry in Mexico, this is a particularly important issue to resolve. Banxico should think about the mechanisms it might put in place to allow people to link their mobile phone number to an account. This could take the form of a national directory referenceable by all mobile payment/banking service providers.

74. **It is important to not stifle innovation and early investments in mobile payments, and hence competition aspects should be addressed, but should be balanced against the need for expansion.** Authorities might define a size threshold (e.g., 5–10 million customers) before such pro-competitive interventions are implemented.

Permitting Cajas to operate through banking correspondents

(importance MEDIUM, urgency MEDIUM)

75. **In order to promote the spread of banking correspondents in poorer peri-urban areas and in smaller towns, the authorities ought to consider allowing deposit-taking Cajas (SOFIPOs and Cooperatives), who are present in those areas, to sign up banking correspondents on the same terms as banks (i.e., on a fully funded, real-time basis).** This would allow Cajas to expand geographically and offer more convenient service to their customers. Two Cajas have over two million customers, and hence can be highly relevant in pushing the financial access frontier further. Permitting SOFIPOs and Cooperatives to engage banking correspondents would require changes in their respective governing laws.

Creating greater mobility of payroll accounts *(importance MEDIUM, urgency HIGH)*

76. **Banxico should revise the mechanism for *portabilidad de nóminas*.** The market practice in Mexico is for employers to choose the bank in which their employees receive their salary payments. Employees can subsequently switch bank and request that the employer or the employer's bank transfer their salary payments directly to their new bank. Banks often dissuade employees from switching bank by making it procedurally difficult, in large part because portability weakens the recourse on payroll credit (*crédito de nómina*).

77. **Under existing CONDUSEF regulations, people wanting to switch bank can process the request for account transfer directly with their new bank (which then deals with the old bank to transfer the balance and close the old account).** This is analogous to how transfers of pension funds (AFORE) and mobile numbers work. However, regulations are silent on whether the customer can delegate to their new bank the request to have recurrent salary transfers made from the old bank. This needs to be clarified in regulations, and advertised widely so that employees become aware of this right.

More choice for beneficiaries of social welfare payments *(importance HIGH, urgency MED)*

78. **The vast majority of Oportunidades payments are channeled through BANSEFI, which is in the midst of an aggressive campaign to open accounts and distribute cards to as many beneficiaries as possible.** This offers the possibility of Oportunidades payments becoming a *gateway* into financial inclusion, but given that BANSEFI's prime correspondent/payment channels are Telecomm (which is also used by other banks) and DICONSA (which could be used by other banks as a correspondent as well), there could in principle be effective choice of banks by welfare recipients. Competition between banks would increase their incentives to market additional products to beneficiaries and extend correspondent networks deeper into poor and rural communities. Greater competition could be achieved in one of two ways: (i) Oportunidades recipients could be given an easy portability option (again, by processing a request of benefit portability with their new chosen bank); or (ii) TESOFE could take over the disbursement of Oportunidades benefits into beneficiaries' account of choice through the SPEI, as it does for most other government payments. While portability will decrease BANSEFI's role in distribution, Bansefi can support its role in driving financial inclusion by taking advantage of these social payments, rather than being merely a captive channel for distribution of the payments. BANSEFI needs to create more compelling offerings, that motivate people to keep balances in their accounts rather than withdrawing earned amounts immediately and in full. This can be achieved through a mixture of savings and electronic payment services.

79. **BANSEFI accounts opened for Oportunidades beneficiaries are underutilized in large measure because Oportunidades benefits are not paid into these accounts, even though they are using the bank's infrastructure (cards and POS terminals) to effect the payments.** As a result, Oportunidades is not letting their beneficiaries delay or fragment the collection of their benefits, or to use moneys paid into their account to purchase goods electronically at retail stores. Oportunidades should pay the benefits directly into their beneficiaries' bank accounts, and beneficiaries should be allowed to administer their funds as they see fit.

80. **The utilization of biometric cards only for Oportunidades presents a competitive problem,** since many banks may not be interested in (i) contesting for Oportunidades recipients if that means incurring the cost of giving new biometric cards to beneficiaries; or (ii) rolling out additional correspondents with more costly biometric POS terminals. It would be cleaner to separate the biometric card that is required to participate in the Oportunidades program from the bank card that is utilized by clients to withdraw the money that is paid into their savings account.

Streamlining regulation and authorization of new banking correspondents

(importance MED, urgency LOW)

81. **The regulatory processes involved in signing up banking correspondents could be significantly lightened up**, now that there is experience with this channel on both the banks' and the supervisors' side. **The scope of supervisors' on-site technical checks prior to authorization of new retail chains to operate as correspondents needs to be tightly defined**. For example, this could be restricted to:

- Compliance with data security requirements, in terms of proper implementation of encryption protocols and secure access to cryptographic key management systems.
- Adequate disclosures on transaction receipts, as a key element of consumer protection.
- Proper recording of transactions initiated at correspondents in the bank's account management system.

82. **All the other aspects (such as proper training of store clerks) could be handled through the normal on-site bank inspection processes and cycles, and should not necessarily be part of the up-front correspondent authorization process.**

83. **There seems to be some confusion in the market as to the regulatory treatment of correspondent network managers (*administradores de redes de corresponsales*).** The possibility of banks engaging such correspondent network managers was added to the regulation in a revision, but the conditions under which they could do so was not sufficiently spelled out. The regulations governing the use of banking correspondents needs to be clarified, especially as regards two key points:

- Network managers do not need prior authorization from the CNBV themselves to set up or contract with stores as sub-agents, though they need to be approved when a bank decides to engage them.
- Banking correspondents attached to a network manager can operate through a single bank account while serving many banks, as long as the network manager itself holds an account with each of the banks they serve. In other words, network managers can settle with each of their correspondents through an account with a single bank, but the network manager must settle separately with each bank it serves.

84. **The regulations can also be streamlined by eliminated certain provisions which seem unnecessarily intrusive.** For instance, banking correspondents are required to have a business continuity plan [Art. 318(IVe)]. Moreover, banks are required to take into account the need to replace correspondents that close down [Art. 318(VIIb)]. These provisions are unnecessary as long as customers have enough back-up liquidity options in the case of failure

or closure of particular banking correspondents. Access to a banks' branches, other correspondents in the area, and (for banks with few branches and correspondents) the nationally interconnected ATM network should suffice as back-up in the event that correspondents cease functioning.

Creating a new category of nonbank e-money issuer license

(importance LOW, urgency LOW)

85. **In Mexico, e-money issuance is considered a banking service and thus requires a bank license.** The CNBV made it easier for specialist e-money issuers to enter the market by creating a special license as a *banco de nicho*. As explained earlier, this carries lower regulatory requirements since it does not allow for intermediation of funds. However, the minimum capital requirement of US$14 million is still very high and limits the potential for innovation in this space. It might be appropriate to consider a licensing regime for nonbank e-money issuers, following the model of the European Union's e-money directive.

86. **This licensing gap –between the current *banco de nicho* and the money transfer license— should be filled in time.** There is not a big demand at the present time for this license in the Mexican market, though its existence might stimulate players to experiment and innovate with payment services targeting the unbanked. Mobile operators could be interested in being the issuers of mobile money accounts under an e-money license, but the two major operators appear to have decided that they will partner with banks instead and have the bank be the issuer of record. This change would require a legal change, and it might be dealt with in a package when other changes to the banking law are being considered.

Measuring progress in financial inclusion *(importance MEDIUM, urgency MEDIUM)*

87. **The authorities should be encouraged to continue their efforts to measure the extent and quality of financial inclusion in the country.** In this respect, the INEGI survey will be very useful, as it offers comparators over time and internationally. It's funding for subsequent rounds needs to be assured.

88. **While setting goals for financial inclusion may galvanize policy makers and market participants, goals must be realistic; unrealistic goals may lead to incorrect incentives, as public servants may strive to attain these goals at the cost of long-term efficiency or consumer protection.**

89. **The newly created "Consejo Nacional de Inclusión Financiera" (CONAIF) referred to in the introduction ought to be an excellent platform for achieving buy-in from all the relevant authorities on the goals and metrics for financial inclusion.**

Table 1. Mexico: Key Recommendations

Recommendation	Importance	Urgency
Review pricing policies on transactions	Medium	Low
Develop policies to nurture innovation and competition in the emerging mobile payment platforms	High	Medium
Permitting Cajas to operate through banking correspondents	Medium	Medium
Creating greater mobility of payroll accounts	Medium	High
More choice for beneficiaries of social welfare payments	High	Medium
Streamlining regulation and authorization of new banking correspondents	Medium	Low
Creating a new category of nonbank e-money issuer license	Low	Low
Measuring progress in financial inclusion	Medium	Medium

ANNEX I. THE CURRENT PLAYERS

This annex describes the initiatives planned or underway from current players in financial access, starting with banks, then retailers, and finally mobile operators. This is not meant to be an exhaustive review,

Banamex, the pioneer

90. **Banamex was an early mover among the major banks in three areas.** In terms of retail distribution, it signed up the Soriana chain of stores as a retail partner even before banking correspondents were enshrined in the law, and is the only bank to have developed its own correspondent network of mom-and-pop shops. In terms of low-balance accounts, it issued prepaid cards, first co-branded with Soriana (the *Mi Ahorro* card) and later with own product *(Cuentas Perfiles Ya)*. In terms of mobile banking, it was the first to partner with a mobile operator, Telcel.

91. **Banamex currently has some 4,000 correspondents:** Telecomm (1580 stores), Farmacias Guadalajara (~900 stores), Soriana (~500 stores) and its own network of smaller shops called Banamex Aquí (~1,000). Banamex does not charge customers for deposits at its correspondents but charges 10 pesos on withdrawals. Its account-to-account money transfer charge is 1 peso.

Figure 1. Mexico: Number of Retail Outlets Operating as Correspondents

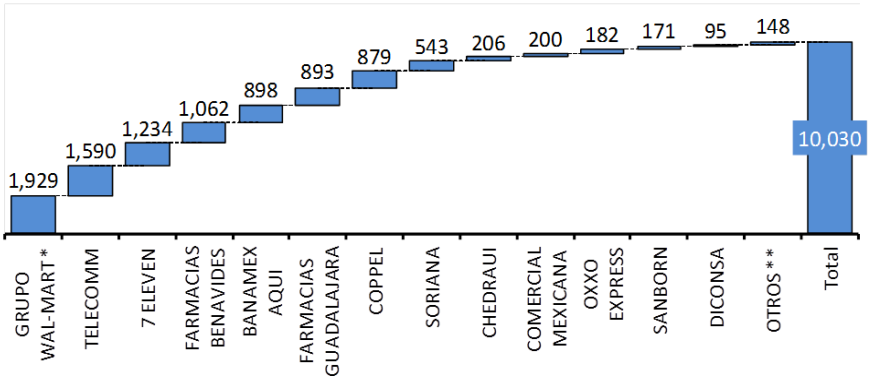


Figure 2. Mexico: Growth in Correspondent Outlets by Quarter

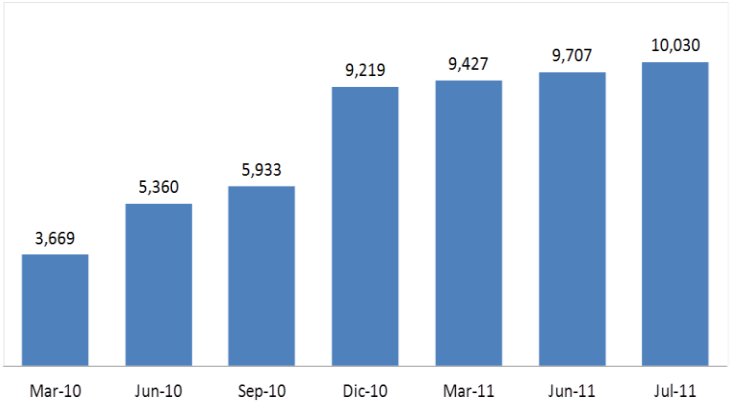


Figure 3. Mexico: Regional Distribution of Correspondent Outlets

(as of July 2011)

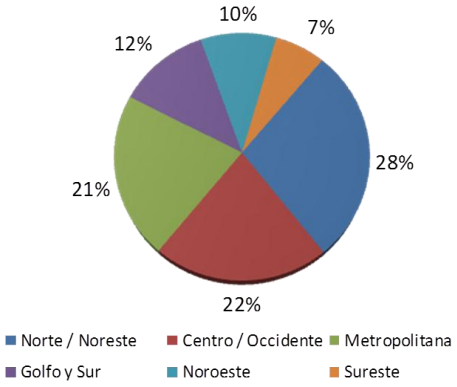


Figure 4. Mexico: Number and Type of Transactions Through Banking Correspondents

(In millions)

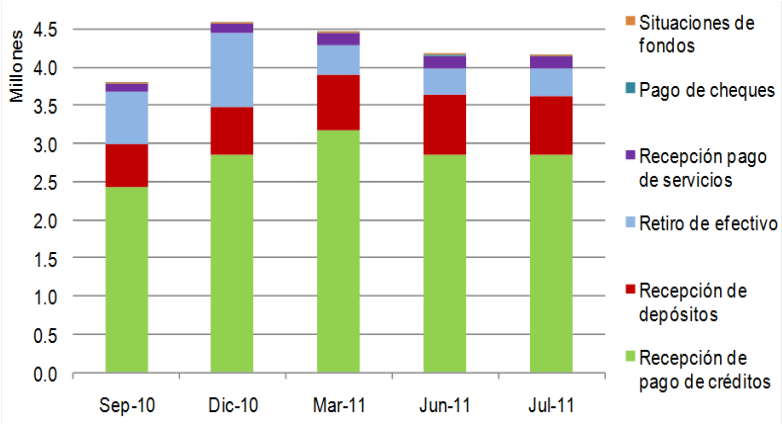
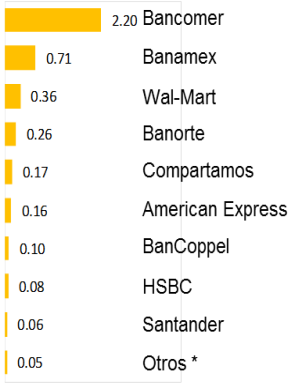


Figure 5. Mexico: Transactions at Banking Correspondents

(by bank, as of July 2011)



Source: CNBV, Comisionistas Bancarios: Estadísticas, Julio 2011.

92. **Banamex and Telcel's joint involvement in the mobile banking space started in 2009,** when Telcel offered to provide its customers access to various banks directly from their Telcel SIM cards. Partner banks can embed their own security key in their customers' SIM cards, and their customers can launch a SIM browsing session directly from the Telcel menu on their mobile phone. The top level of the banking menu is resident on the SIM card and shared by all banks using the SIM service, but lower-level menus are specific to each bank and are downloaded each time they are used. The data channel used is SMS, so there can be some delays in using the service.

93. **Banamex was the principal launch partner bank for Telcel's SIM-based service, and subsequently Banco del Bajío, Inbursa and more recently BBVA Bancomer (see below) have signed up.** HSBC had signed up but subsequently withdrew. Usage of this channel has been very low; Banamex claims only 50,000 users.

94. **Going forward, Banamex's strategy for financial inclusion is centered squarely on the Transfer initiative it recently announced with Telcel (see below).**

BBVA Bancomer's big push with the Cuenta Express

95. **BBVA Bancomer has been the first bank to market reduced KYC (level 2) accounts, under the name *Cuenta Express*.** Since its launch, it has been selling 100,000 new accounts per month, and by mid-October 2011 it had opened 700,000 accounts. The bank is heavily marketing the *Cuenta Express*, with above-the-line advertising in all media.

96. **Cuenta Express accounts are intended to be operated from banking correspondent or mobile channels.** They carry a monthly fee, but this is waived if customers do not carry out deposits or withdrawals at the bank's own branches or ATMs. In this fashion, BBVA Bancomer discourages the use of the higher cost channels for which it cannot charge per Banxico's rules.

97. **BBVA Bancomer leads the sector in terms of number of correspondents, and has a plan to have 14,000 correspondents by the end of the year.** BBVA Bancomer's strategy is to sign up a broad range of retail chains. It has signed up OXXO (~2,000 of their ~9,000 stores are now online as correspondents), Telecomm (1,580). The network will also include 7-Eleven (~1,200 outlets in seven states), Farmacias Guadalajara (~900) and Farmacias Benavides (~800) and Soriana (~500).

98. **All Cuenta Express accounts come with a debit card employing magstripe technology.** BBVA Bancomer is not comfortable with customers using their personal identification number (PIN) at retail shops due to the bad security experience with magstripe cards in Mexico, and therefore does not allow withdrawals at correspondents. Instead, it structures withdrawals as store cash back (with Telecomm; OXXO does not support either withdrawals or cash-back).

99. **BBVA Bancomer is in a pilot with FEMSA (the local Coca Cola distributor) in the state of León to turn FEMSA's distribution chain into an acquiring network for BBVA Bancomer's cards.**

100. **Since September 2011, any BBVA Bancomer account, including the *Cuentas Express*, can be linked to a mobile phone, using either a downloadable JAVA applet or the menu embedded in Telcel SIM cards (the same platform pioneered by Banamex discussed above).** This allows for checking balances and transferring money between any two BBVA Bancomer accounts. When using the Telcel SIM-based service, customers pay 2 pesos as a transaction fee plus an additional peso for the SMS.

101. **Currently, *Cuenta Express* accounts can be opened at the bank's own branches or at kiosks that it is installing in shopping malls and other busy locations.** These kiosks are called *Módulo Express*, and so far there are 21 deployed. There is an account opening fee of Mex$50, and customers must deposit an additional Mex$50 into their account at the time of account opening. BBVA Bancomer expects to broaden account opening by partnering with a number of business associations (such as cooperatives and sales networks such as Avon). Eventually, it intends to distribute account opening packs through normal retail mass market channels.

102. **Accordingly, the bank has developed a streamlined account registration process.** At the point of sale, the customer provides his/her name and phone number, signs a form, and receives a package which includes a bank card. To activate the card, new customers need to call BBVA Bancomer's call center, where additional KYC information is captured: address, date and state of birth. At this point, the customer is also given an opportunity to link his mobile phone to the account through an interactive voice response (IVR) procedure, so that he/she can use the mobile banking capability.

103. **BBVA Bancomer is planning a range of services to be offered as an up-sell on *Cuenta Express* clients:**

- BBVA Bancomer offers a microinsurance product for life and medical assistance which costs Mex$30 per month.

- BBVA Bancomer can offer credit to fund consumer durable purchases to a value of up to Mex$10,000 and for a term of up to 24 months. Credit scores are based primarily on the customer's domicile, though in future credit scores might incorporate a heavier reliance on balance and transaction histories.

- BBVA Bancomer is seeking to develop a product targeting the widespread practice of tandas (informal rotating savings and credit associations).

- BBVA Bancomer is also planning a money transfer product where the recipient can collect the money in cash (not into an account) from its banking correspondents.

Banorte's broader ecosystem play

104. **Banorte is rolling out an integrated strategy that links four elements: (i) issuing a new brand of reduced-KYC (level 2) accounts with a linked debit card; (ii) providing customers with a simple mobile banking/payments channel; (iii) deploying a low-cost merchant acquiring network; and (iv) signing up banking correspondents as a prime mechanism for cash in/out.** This proposition is being tested in Jalisco, and early signs are encouraging: they have now acquired 200,000 new accounts in less than six months in Jalisco alone. Banorte's scheme is expected to be formally announced in November 2011.

105. **Banorte's technology partner is Rev, which is part of the MPower Group.** Rev will host all accounts in its own platform, and will operate the mobile payment platform. In addition, Rev provides the card readers for the low-cost merchant acquiring network. While Banorte will be the issuer of the accounts, the proposition will be co-branded by Banorte and Rev under terms that are yet to be finalized.

106. **So far Banorte has signed up Telecomm and 7-Eleven as banking correspondents, providing a footprint of some 2,800 correspondents.** 7-Eleven handles the highest volume of transactions, equivalent to 7 transactions per store per day. Banorte is finding it difficult to incentivize Telecomm outlets to promote the correspondent business. As is the case with OXXO, 7-Eleven only does cash in; for that service it gets paid just under 10 pesos on average, of which 7 pesos are paid by the customer and the rest are absorbed by the bank.

107. **Banorte is now talking to a range of other retail chains, which should add another 2,700 correspondents to its footprint.** However, the longer term strategy of Banorte will be to limit the amount of cash in/out by developing a dense merchant acquiring network within the communities it serves. Banorte is taking a broad ecosystem perspective, but it is not clear whether it will have the clout and resources to drive toward a cash-lite ecosystem.

108. **All customers will be issued a debit card, which they can use at any ATM or POS in the system.** In order to reduce the amount of transactions that terminate in cash (and hence its dependency on banking correspondents), Banorte intends to roll out a large number of low-cost acquiring devices that will go into smaller merchants. This will consist of the RevCoin card reader which can be attached to feature phones and smart phones through the audio jack. These phones need to be JAVA-capable and have a data plan, and the entry cost for such an acquiring device (phone + card reader) can be as low as US$50.

109. **The mobile interface will be native SMS, which is the most widely used data channel but has important security shortcomings (principally, the outgoing transaction request message typed by the customer containing the PIN is stored in the clear inside the customer's mobile phone).** It will therefore only be used for smaller transactions, and so far it is not enabled for inter-bank payments.

110. **The Comisión Federal de Electricidad (CFE) is sponsoring the service.** CFE has 34 million clients, and 66 percent of payments are made in cash at its own stores, at a high cost to itself. CFE will market the Banorte/Rev proposition within its stores as a fast and convenient way of paying CFE bills, and will offer a discount on electricity bills to customers paying them through their Banorte account. CFE will also provide access to Banorte promoters to open up Banorte accounts and to Telecomm to open up kiosks within CFE stores through which they can act as banking correspondent of Banorte (see section on Telecomm below).

BANSEFI's rural payment needs

111. **BANSEFI has almost 10 million savings accounts, of which over 3 million belong to Oportunidades beneficiaries.** Many of these customers are in smaller cities or rural areas, so BANSEFI has a need to get deeper into the territory than any other bank. Its correspondent strategy is therefore focused on retail networks with broad coverage. So far, BANSEFI has only signed up DICONSA as a correspondent network. 5,170 of DICONSA's 22,000 stores have so far been equipped with biometric POS terminals and are utilized to make payments to beneficiaries. Their purpose is mainly cash out: enabling beneficiaries to collect their social payments. Only 95 of these stores have been enabled as banking correspondents to take deposits, and a further 120 have been certified but are not yet offering full cash in/out services.

112. **Although the bulk of BANSEFI's Oportunidades payments are paid through Telecomm, this is structured as a cash-back and Telecomm is not officially a banking correspondent of BANSEFI.** The other opportunity BANSEFI has in principle is to turn a substantial part of the Red de la Gente into a correspondent network, so that the Red can offer a fuller range of banking services. So far, La Red de la Gente is used for bill payment, collecting international remittances, sending and collecting national remittances, collection of Oportunidades benefits (as described above), and purchasing microinsurance.

113. **BANSEFI is interested in signing up PEMEX as a correspondent network, though it is generally acknowledged that PEMEX's fragmented franchising structure makes it difficult to onboard stores scalably.**

Sitting it out: Banks attached to retailers

114. **Over the last decade, a powerful model has emerged of major retail chains spawning banks, and placing the bank's branches within the retail formats of their parent company.**[19] The innovator in this space was Banco Azteca which opened over ten years ago and now has around 12 million savings accounts and a similar number of credit accounts. Bancoppel has around 7.7 million savings accounts and 1.7 million active loan accounts. The latest entrant, Banco Walmart, has come in below expectations with around one million savings accounts in the two years since launch.

115. **Banco Azteca now has a branch in each of Elektra's ~1400 stores (plus ~200 stand-alone branches); Bancoppel has 765 branches in 863 Coppel department stores, and Banco Walmart has 263 branches in all their major formats.** Similarly, Banco Fácil has opened within Chedraui stores and Banco FAMSA within FAMSA stores.

116. **The banks that are attached to retail groups do not appear to be interested in signing up correspondents in order to expand their banking network beyond their own retail footprint.** Their model is strongly focused on the one hand on bringing foot traffic to their stores and on the other on granting credit on store purchases, so the banks' activities remains firmly grounded inside their stores.

117. **There are, however, three different models in terms of how they use the correspondent model within each of these groups, which in turn depends on how they divide the business between the bank and the store.** Banco Walmart has signed up all the Walmart stores in their group as banking correspondents, totaling 20,000 counters. Customers can deposit and withdraw from their account at either the teller in the branch-within-the-store or at the store check-out counters (today the volume is roughly evenly split between the two). Walmart customers can get credit from Banco Walmart's personal lending products, Banco Walmart's own credit card, the credit card Walmart runs with BBVA Bancomer, or from Walmart's own store card. This is not the case within the Elektra group: Banco Azteca runs all credit and payment services within Elektra stores. In fact, Banco Azteca operates as a kind of 'reverse correspondent,' where the Banco Azteca tellers receive payment for all the purchases made at the store (i.e., the store does not operate separate check-out counters). Bancoppel maintains separation between the two businesses, with customers doing banking transactions at the Bancoppel teller and paying for purchases at the store's check-out counters.

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[19] These banks pose different challenges for supervisors. Since their banking services are closely linked with the retail operations, supervisors should consider concentration risks.

The retail chain with largest footprint: OXXO

118. **OXXO (which is fully owned by FEMSA, the local Coca Cola distribution company) is the leading retailer in Mexico, with some 9,000 stores in 500 cities across Mexico.** It is opening around 1,000 new stores per year, and aims to reach 15,000 in the next few years. OXXO already processes a range of electronic services: bill payment, mobile airtime, on-line lotteries, mass transit tickets and prepaid cards, etc., through in-store computer terminals. Together with Walmart, OXXO in fact accounts for about 60 percent of Telcel airtime sales. OXXO now is entering the financial services space with two initiatives: it plans to become a multi-bank correspondent, and it is planning to launch a new prepaid card issued by and co-branded with Banamex.

119. **Today OXXO only serves as a banking correspondent to BBVA Bancomer at around 2,000 stores in four cities, but intends to carry the service to all its stores by the end of the year.** Once that is completed, it will roll out the service to other banks, starting with Banamex. HSBC, Scotiabank and Banco del Bajío have also requested to become correspondents. Today OXXO does not support account opening of BBVA Bancomer Express accounts, as it intends to promote its own prepaid cards with Banamex.

120. **So far, OXXO only supports two services as a correspondent: deposit and repayment of credit cards.** It does not open accounts or offer withdrawals, but some OXXO stores have an ATM inside the store. On deposits, OXXO makes around Mex$12–15 (around US$1) per transactions independently of transaction size, and BBVA Bancomer passes on a charge of Mex$7 to its customers (and absorbing the difference itself). ATM withdrawals generally cost Mex$20–30 (up to US$2). OXXO is therefore an expensive channel for low-value transactions. Stores do an average of 22 transactions per day, of which around 60 percent are deposits, with an average deposit size of Mex$1,400.

The retail chain with widest reach: Telecomm

121. **Telecomm is a public company that operates public telecommunications and payment systems through 1,580 offices in 1,100 municipalities (out of the 2,500 in the country).** 620 of its offices are in municipalities with no banking presence, and in addition it has a fleet of mobile vans through which it is able to pay social welfare benefits at an additional 5,000 points across the country. Telecomm is now processing around Mex$90 billion in cash payments, and the distribution of payments by value in 2010 was as follows: 43 percent social benefits, 26 percent banking correspondent transactions, 23 percent remittances and 9 percent bill payment and payments to enterprises.

122. **Telecomm acts as a correspondent for seven banks: Banorte, Banamex, BBVA Bancomer, Scotiabank, Santander, Inbursa, and HSBC.** All its offices are now enabled as banking correspondents. Telecomm charges its partner banks around Mex$10 per cash in/out transaction (for transactions under Mex$3,000).

123. **Telecomm is seeking to expand its correspondent footprint beyond its normal offices, and is running several pilots in this direction.** In Jalisco, Telecomm is establishing a physical presence within 70 CFE stores, so that it can capture the transaction business of customers going to CFE stores to pay their electricity bills (see section on Banorte/Rev). In Sinaloa, Telecomm is in a pilot to become a correspondent network manager in order to convert some PEMEX gas stations into banking correspondents. The more ambitious experiment is in Santiago Nuyoo in Oaxaca, where Telecomm is building a locally switched mobile telephony network offering very cheap communications services between the citizens in the town. Telecomm will implement a mobile payment platform using simple mobile phones, through which Telecomm will experiment with trying to convert the town to entirely cashless payments.

Piecing a retail footprint together: Aggregators of mom-and-pop shops

124. **Today, most banks are signing up retail franchises (mainly convenience stores, department stores and pharmacy chains) that bring a substantial number of retail outlets as correspondents under a single contract.** Only Banamex has developed its own network channel of ~1,000 small shops, which it calls Banamex Aquí.

125. **No independent correspondent network managers *(administradores de redes de corresponsales)* have yet emerged, since banking regulations were modified to allow this figure.** One potential player is PagaTodo, which manages a range of electronic sales and services (principally mobile airtime, bill payment and store loyalty programs) at around 50,000 retail shops. PagaTodo has presence in mom-and-pop shops, but it may struggle to convert a substantial number of their retail base as correspondents due to the higher liquidity needs and cash management logistics involved in the correspondent business.

126. **An interesting case to watch is Yastás, a wholly owned subsidiary of Compartamos Group, which intends to create and operate a network of cash in/cash out at independent mom-and-pop shops that reach deeper into peri-urban areas and smaller villages.** Yastás is conceiving a multi-bank network, which could become the retail network of choice of banks in poorer areas. This network is still at the pilot stage (consisting of ten stores in Coatzacoalcos), and neither Yastás nor Banco Compartamos have yet applied for the necessary licenses (as a manager of correspondents and to trade through banking correspondents, respectively).

A potential game changer: Transfer's mobile payments platform

127. **On October 7, Telcel, BBVA Bancomer and Inbursa announced an entirely different mobile payment scheme.** They are creating a joint venture company in Mexico called Transfer, with an initial investment capital of US$50 million. Transfer intends to work with multiple banks (as account issuers) and mobile operators (as mobile channel partners). Transfer will operate a low-value account platform, which will host the accounts issued by

all member banks under an outsourcing model. Transfer will also manage the mobile banking/payments application including transaction authorizations and the clearing functions associated with inter-bank payments. The service will be jointly marketed and branded by Transfer and the participating banks.

128. **Customers will interact with their Transfer-hosted account via SMS.** There will be four basic operations from the start: send money, check balance, purchase airtime, and cardless ATM withdrawal. In each of these cases, the customer will give the instruction by sending a text message with the appropriate information (e.g., to send money: phone number or account number, space, amount), to a short code. This will trigger a parallel USSD session which will prompt the user to enter their personal identification number (PIN). These two channels do not offer end-to-end encryption, but the use of dual channels enhances the security. The transaction will be authorized and a text message will go to the sender and (if the transaction is successful) to the receiver confirming the transaction.

129. **Customers of Transfer-hosted accounts will have three liquidity mechanisms.** First, customers will be able to cash in and out at correspondents of their issuing bank or at Telcel's customer service outlets (*Centros de Atención al Cliente Telcel*). Over time, Transfer itself may become a correspondent network manager for its participating banks, effectively also acting as an outsourced partner for cash in/out for its participating banks. Second, Transfer customers can optionally apply for a debit card, which they can then use at ATMs and POS devices. Third, customers that hold a regular bank account in a participating bank will be able to fund their Transfer-hosted account from their regular bank account in real time. This will help bring already bankarized customers to Transfer, offering them a complementary mobile transactional account.

130. **Transfer is considering prices of under 2 pesos per money transfer (one peso money transfer fee plus 0.80 pesos for the initiating SMS).** There will be no account opening fee, monthly rental fee or minimum account balance. Balances stored on accounts will accrue interest. Moneys will be exchanged among the key players (the issuing bank, Telcel as a carrier providing connectivity, and Transfer as authorizing entity and switch-cum-clearinghouse) through a relatively complex wholesale pricing and revenue sharing arrangement.

131. **The Transfer service will launch in Mexico in 2012, initially with Banamex and then opening up to other banks.** The Telcel/Banamex partnership is being extended regionally throughout Latin America, as a partnership between America Móviles (TelMex's regional brand) and Citi (owner of Banamex).

132. **The market power of Telcel makes it important for banking and competition regulators to monitor this platform carefully.** While there is value to encouraging innovation and expansion, the authorities will need to ensure that there is true interoperability

for other players in this market. Otherwise there is a strong risk that the mobile market will develop into a monopolistic market, with long-term negative consequences for entry, pricing, and competition in services.

Movistar/MasterCard, the laggard

133. **Telefonica de España's mobile subsidiary, Telefonica Móviles (which uses the brand Movistar), has long expressed interest in entering the mobile payment space.** The Telefonica group had selected Trivnet as its region-wide supplier for the mobile money platform, and the Mexican subsidiary had been talking to Mexican banks to build a joint mobile money product. These early plans had to be shelved when Telefonica and MasterCard agreed to form a 50:50 joint venture in January 2011, which included forming a joint company based in Miami. Under the agreement, a special-purpose company was to be created in each country with an equal 50:50 ownership between the two partners, and this company would develop the mobile money proposition locally on behalf of the operator. The platform used by Smart Communications of the Philippines for its Smart Money service was selected as the platform for the JV.

134. **The Mexican JV has been slow to build up, and is still thinly staffed.** Its plans are still under development, though it appears that they are searching for a local bank with whom they can launch a mobile money service. It is at this point not clear whether they are envisioning a service with one lead bank as the account issuer of record, or whether they will follow Transfer's approach of letting as many banks as possible get on their platform**.**