



Fintech in Mexico

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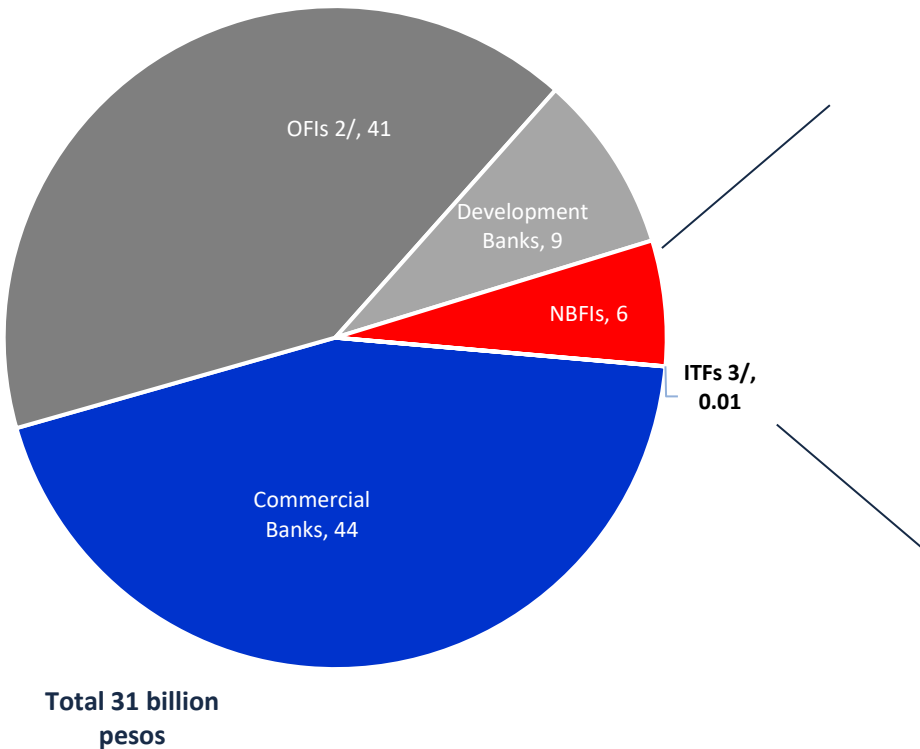
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The Mexican Financial System

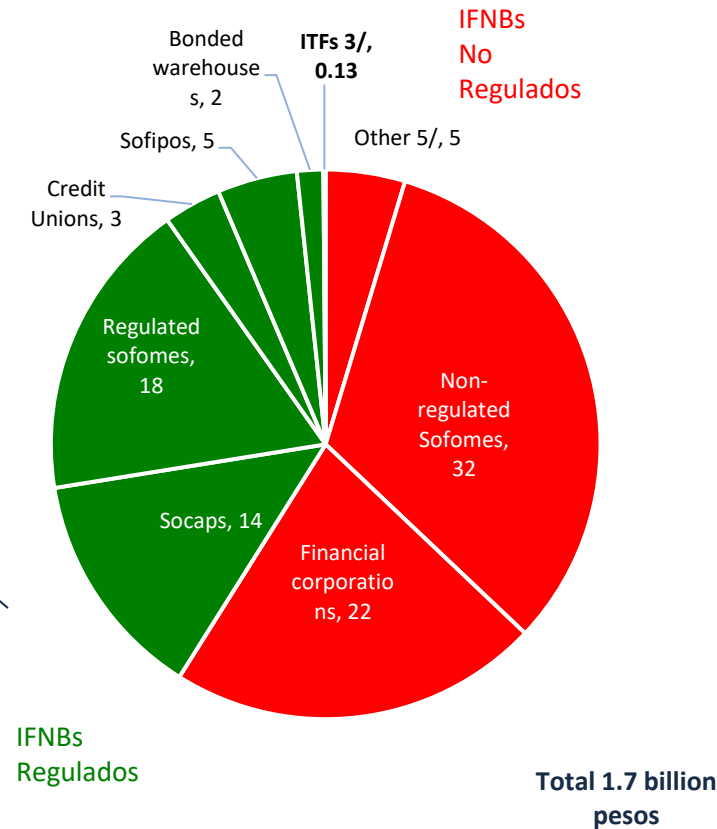
The Mexican Financial System ^{1/}

Per cent of total assets



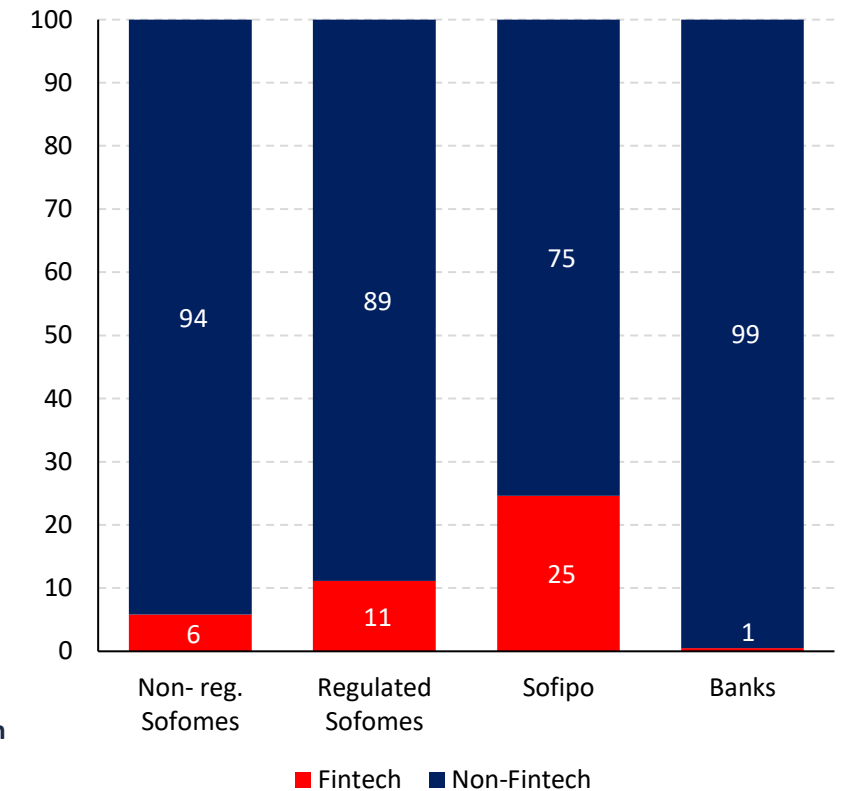
The NBFI Sector ^{4/}

Per cent of total NBFIs assets



Fintech entities which operate under an existing NBF legal framework (preceding Fintech Law)

Per cent of assets



Preliminary figures as of December 2023. Sources: Bank of Mexico, CNBV, Condusef, BMV, and Credit Bureau. **1/** Includes financing granted by departmental stores and financial corporations that are not financial institutions. **2/** Other Financial Institutions includes pension funds, Investment Funds, Broker Dealers, and Insurance Institutions. **3/** Loans outstanding by ITFs (Fintech in a narrow sense) at the end of 2023. **4/** Regulated Non-Bank Financial Institutions: includes regulated Sofipos (Popular Savings and Loans entities), Socaps (Coopertatives), Credit Unions, Bonded Warehouses, and Finance companies (Sofomes) regulated due to their equity ties with banks, as well as Sofomes regulated for issuing debt registered in the National Securities Registry; Non-regulated Non-Bank Financial Institutions: includes non-regulated Sofomes, plus financing granted by department stores (through their credit cards) and financing by finance corporations outside the Financial System, for which information is available (if either listed or with domestic public debt issuances outstanding, which obliges them to disclose information to the public). **5/** Includes financing granted by departmental stores through credit cards.

Legal Framework Overview

- Fintech in a **broad sense** is defined as **technology-driven innovation in financial services** that could result in new business models, applications, processes or products with an associated material effect on the **provision of financial services**. ^{1/}
- In March 2018 the Mexican regulators including the National Banking Securities Commission (CNBV), the Ministry of Finance (SHCP), and Banco de México, unveiled a draft of the **Financial Technology Law, commonly referred to as the Fintech Law**, and its final passing was in October 2019.
 - The Fintech sector in Mexico can be defined in a **broad sense**, but also on a **narrow sense in alignment with the Fintech Law passed (narrow scope)**.
 - The main objective of the Fintech Law was to **create a legal framework that provides certainty and protection to its users**, and at the same time promote the sector.
- While lending activities are permissible outside the Mexican Financial System, taking deposits from the general public is prohibited. Thus, it is important to keep in mind that digital lending **may lay outside the financial system**.
- The **taxonomy of Fintech credit entities** in Mexico in a **broad sense** is the following:
 1. Certain entities engaging in digital financial services that are **required to obtain a license- a Fintech license- given their undertaking of a reserved activity as per the Fintech Law**.
 2. Some **other Fintech entities operate under a pre-existing regulatory framework (preceding the Fintech Law)**, acting as a traditional non-bank financial entity under Mexican regulation, and undertaking **credit activity before the Fintech Law and then going digital**.
 - **These are already captured in EF2 in FBS- NMEG's monitoring exercise. Some of these licenses have been acquired recently as they are attractive in strategic terms to Fintech challengers. An additional complication is that some of these traditional licenses are non-regulated non banks.**
 3. Other lending entities function as **merchant firms, operating outside the scope of financial regulation and supervision as they do not fall under the regulatory perimeter**.
 4. Finally, there are **foreign Fintech entities operating but not legally domiciled in Mexico**.

^{1/} Financial Stability Implications from FinTech: Supervisory and Regulatory Issues that Merit Authorities' Attention. June, 2017. Available [here](#).

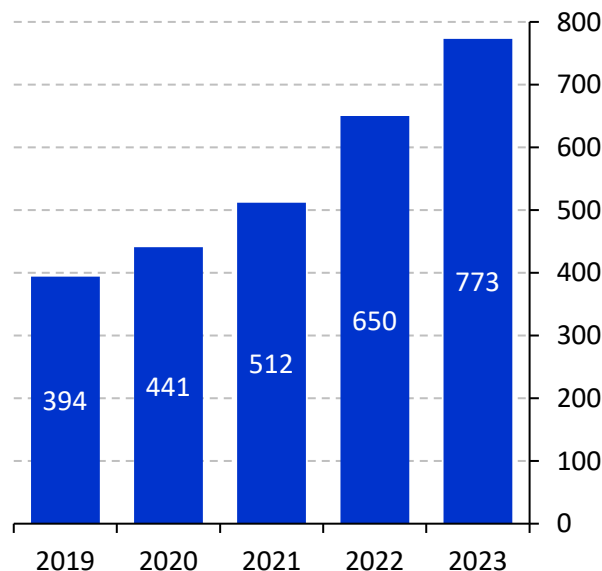
Fintech Credit Data Sources and Gaps

1. Certain entities engaging in digital financial services that are **required to obtain a license- a Fintech license- given their undertaking of a reserved activity**.
 1. For Collective Financing Institutions (Crowdfunding, CFIs):
 - The CNBV has issued a **regulatory annex** with information that CFI Fintechs should publish for the public on their websites. **In practice, not all CFIs publish this information on their websites.**
 - The Annex varies depending on whether the CFI is a lender or is specialized in royalties, donations or equity.
 - The Annex-published information is not systematically collected, registered nor made available through any regulatory report by CNBV.
 - Banco de México currently manually compiles this information and has an on-going Project that will compile the complete Annex information (**direct requirement to entities**).
 - For Electronic Payment Funds Institutions (E-money or EPFIs):
 - Some have been known to lend
2. Some other Fintech entities **operate under a pre-existing regulatory framework (preceding the Fintech Law)**, acting as a traditional non-bank financial entity under Mexican regulation, and undertaking credit activity before the Fintech Law and then going digital.
 - Information is available from supervisory and regulatory reports (Balance sheet and Income statement Reports, and a detailed credit registry for Banks and Sofipos and regulated Sofomes).
 - Other liability side information could be exploited to determine funding sources, but data is not sectorized (i.e. not readily available for the NMEGs exercise as catalogues are non existent to be able to do so exhaustively).
 - For non-regulated non-banks (Sofomes -not deposit takers-) there is no information except on their loan portfolio (Current and NPL balances).
3. Other lending entities function as **merchant/commercial firms, operating outside the scope of financial regulation and supervision as they do not fall under the regulatory perimeter**.
 - Would only be captured if these become listed (public companies) or issue debt in the local market as they would face disclosure requirements; none have been identified to be in this situation yet.
4. Finally, there are **foreign Fintech entities** operating but not legally domiciled in Mexico.
 - There is a list of names from the Finnovista Report that comprises those which participated in the 2023 Survey. No other information available.

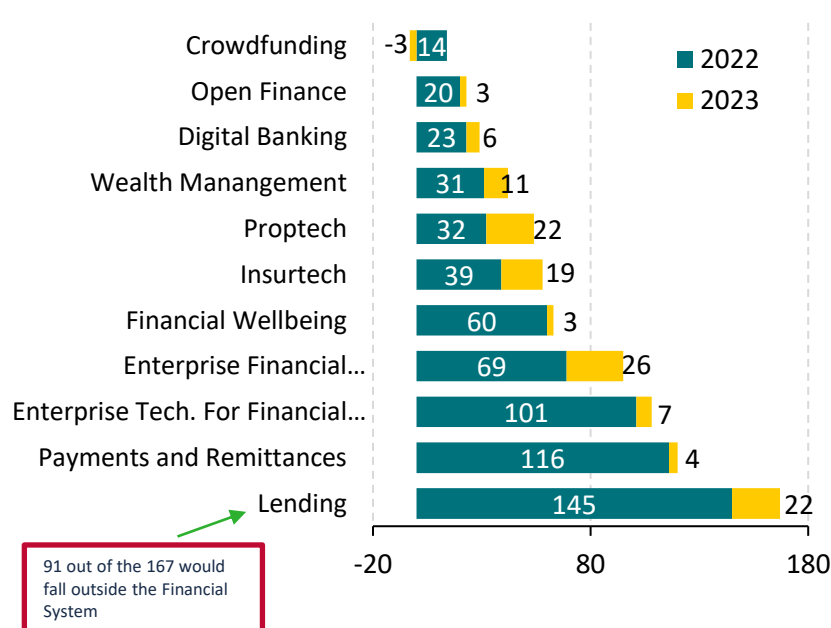
The Fintech sector in a narrow and broad sense

- Thus, the regulatory perimeter limits the scope to **entities whose activities are legally reserved** to either one of the following categories:
 - Collective Financial Institutions (CFIs) and Electronic Payment Funds Institutions (EPFIs).**
 - These are authorized, regulated and supervised by the Ministry of Finance, Banco de México and the National Banking and Securities Commission (CNBV) with a market integrity and consumer/financial services protection perspective, along with AMLTF regulations. The role of each authority is different. Banco de México oversees EPFIs as part of the Payment System infrastructure.
 - The Law creates a **registry of entities within the regulatory scope (narrow), differentiating between CFIs and EPFIs.**
- The Fintech landscape in Mexico, in a **broad sense – broader than the set encompassed by the Fintech Law**- exhibits heterogeneity, with diverse types making their entry as classified by an industry specialized association (Finnovista) which runs a yearly survey and publishes an annual report.

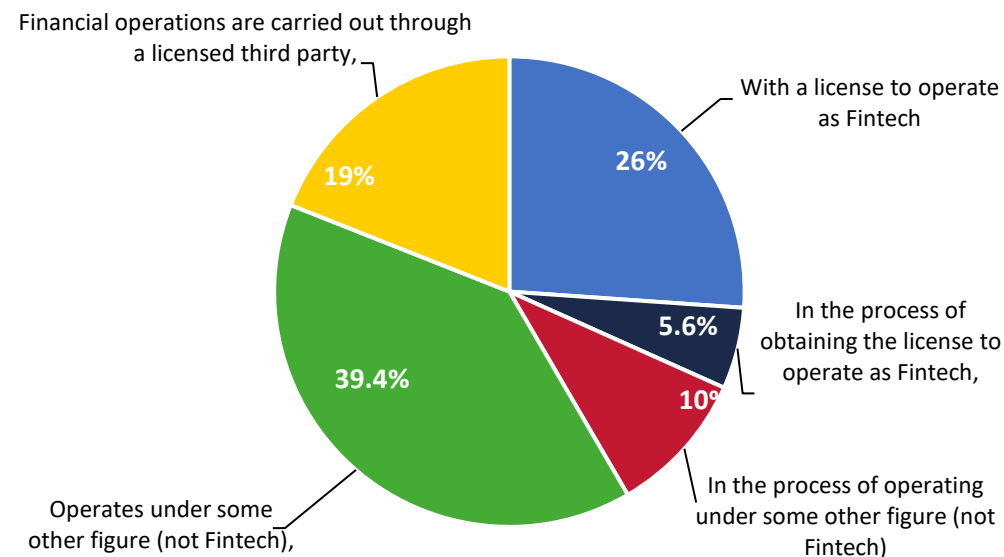
Fintech companies in Mexico (broad sense)
Number



Fintech companies in México by type (broad sense)
Number



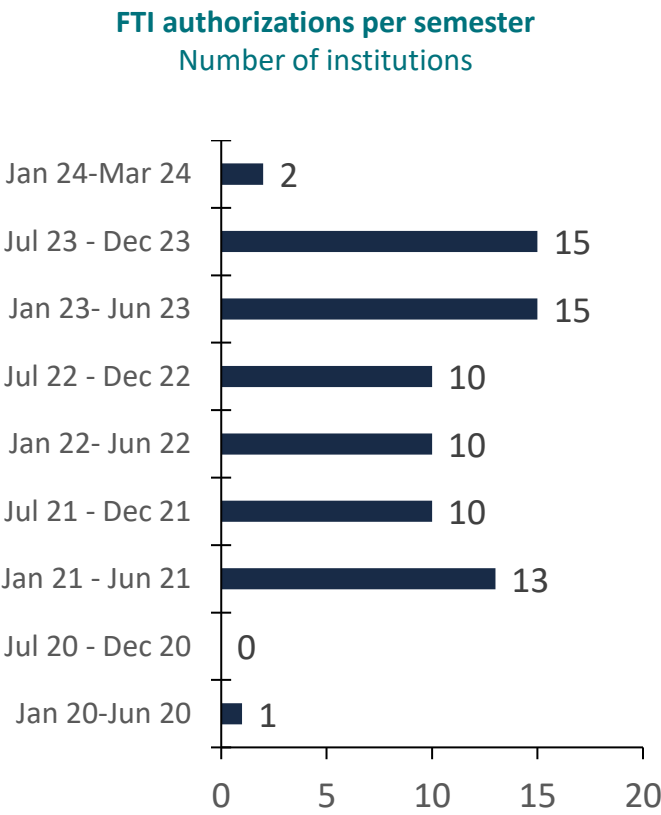
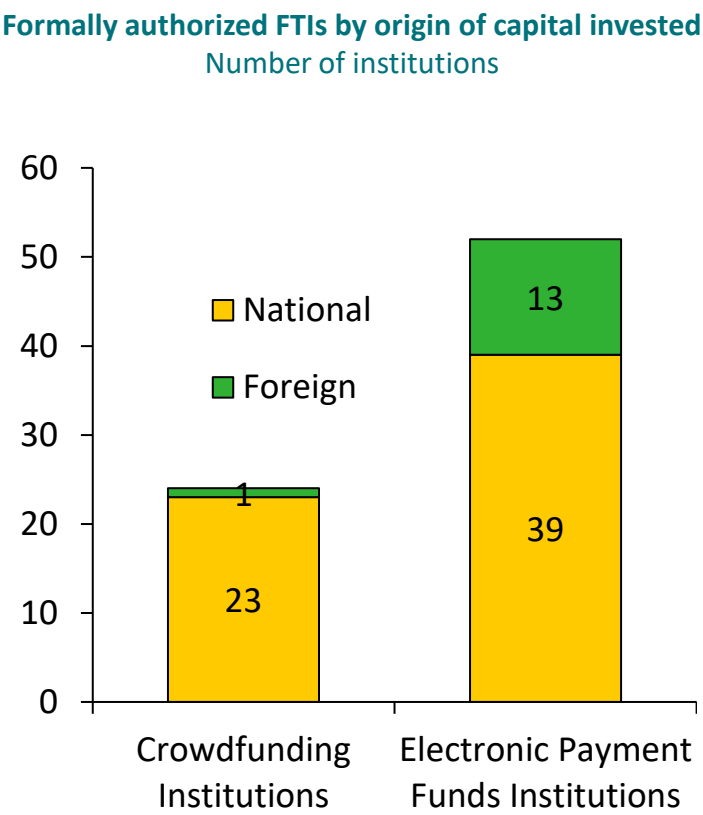
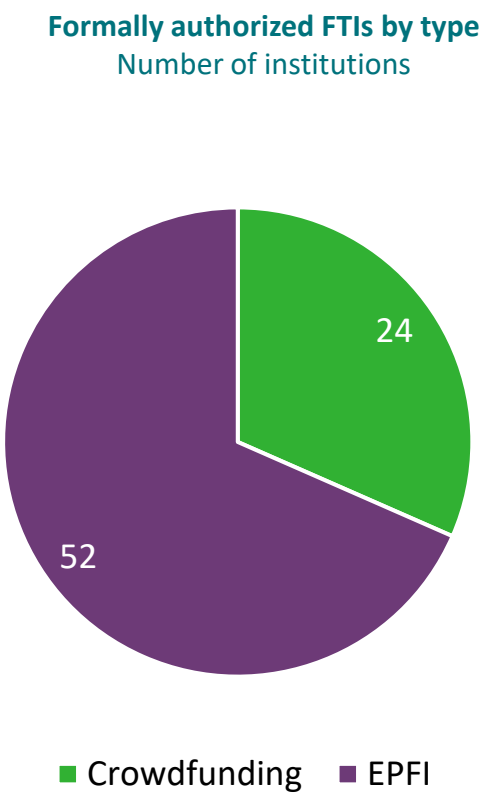
Regulatory status of Fintech companies (broad sense)
Percent



Source: Finnovista Fintech Radar México 2023

Thee Fintech sector in a narrow sense as per the Fintech Law: Financial Technology Institutions (FTIs)

- There are currently 76 authorized/licensed FTIs: 24 are Crowdfunding Institutions (CFI), out of which 12 are lenders (the rest are royalties/donations/ related); 52 are Electronic Payment Funds Institutions (EPFIs). From September 2023 to March 2024, 11 FTIs have been authorized (9 EPFIs and 2 CFIs).



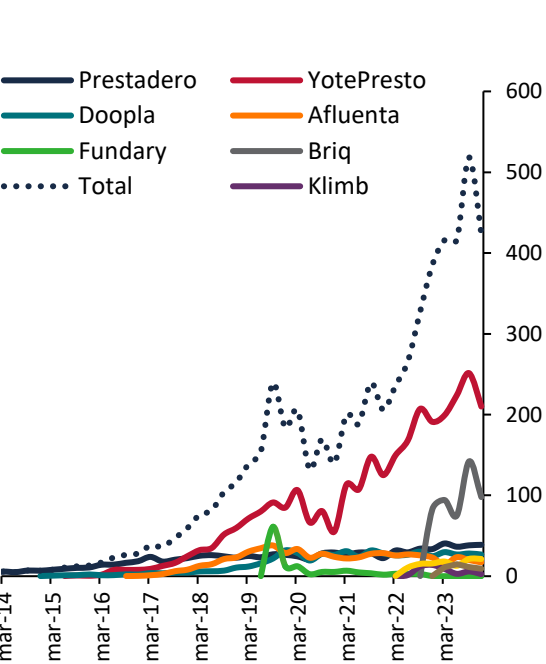
Source: CNBV, Official Gazette, Crunchbase and institutions' websites.

Source: Official Gazette.

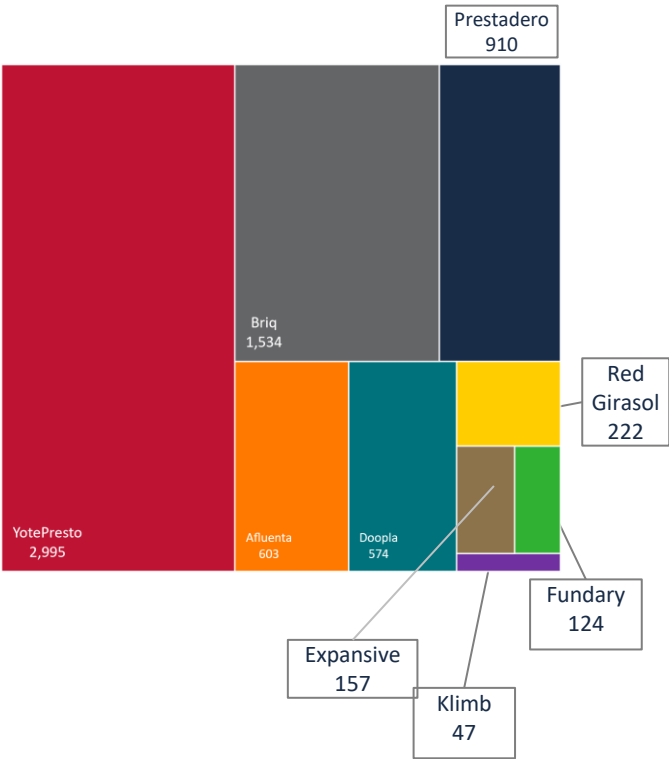
Authorized Crowdfunding Institutions (CFI): lending data

- Information is obtained directly from the website of such institutions. According to secondary regulation on the matter (Fintech provisions, Annex 17), CFIs must maintain an “easily accessible site for public consultation”, within the platforms they use to operate with their clients, with information related to: the amount and number of loans granted (cumulative, current and non-performing), average yield, number of investors and applicants, etc.
- Additionally, CFIs must provide CNBV with regulatory reports such as: financial statements, bank loans, reclassifications in the statement of financial position, consolidation of financial statements, and claims (Fintech provisions, Annex 18). We do not have access to this information.

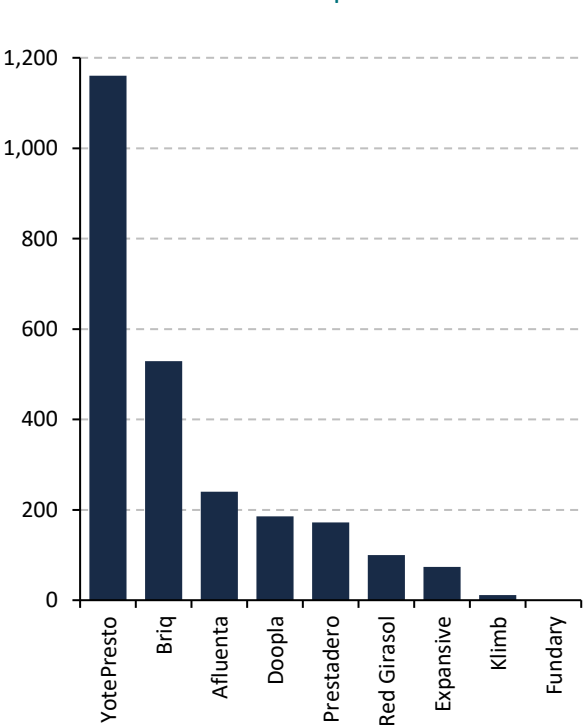
Debt CFI - Quarterly loan placement by institution^{1/}



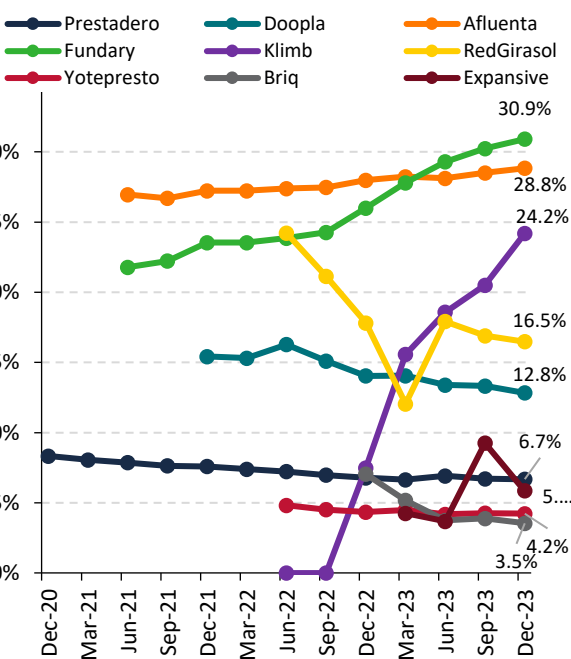
Cumulative loan placement Market Share



Current loan portfolio as of 4Q-2023 Millions of pesos



Debt CFIs - Non-performing loans / cumulative loan placement ratio^{1/} Percent



Data as of December 2023.

Source: Institutions' website.

1/ Afluenta does not have an FTI license, it is operating under the 8th transitory provision of the LRITF.

Fintech credit sector recent trends

- One large Fintech/digital lender operating as a Sofipo has requested a bank license. This will permit them to offer clients more products under a more robust regulatory framework and this opens their funding options as well.
- Additionally, given the rise of Fintechs and digitalization, some banks (8) have created or are in the process of setting up smaller digital banks within their financial group. Some have traditional Universal Banking business already and will have in parallel a digital bank.
- Some Fintech lenders are affiliated with larger companies (mainly e-commerce) in order to offer "Buy now, pay later" modes of payment. These operations have shown a lot of growth in the last year.
- A Leasing and Factoring firm (outside the financial system) investing in digital product (mobile client request and upon approval quick disbursement); expect to see this strategy become more popular.
- According to Finnovista's Annual Radar Report, there are over 217 foreign Fintech companies in a broad sense, ie not lenders necessarily, from 22 different countries operating in Mexico (not legally domiciled).
 - The data shows that around 25.8% of these foreign FinTech companies in Mexico come from the United States.
 - Chilean startups make up the next highest percentage at 20.3%, followed by Colombia and Argentina at 16.1% and 13.4% respectively.
 - In total, Fintech companies from these three Latin American countries contribute to 49.8% of foreign startups in the industry with operations in Mexico. However, there is no other official data available for these entities, making it difficult to establish an interconnection between Mexico and foreign FinTech.

Summary of main issues to answer

- **The fintech credit market in Mexico: who is providing fintech credit (which intermediaries and which auxiliaries, types of platforms):**
 - Answer: some pre-existing legal NBFI lenders going digital (some are regulated and supervised, not all); some commercial banks adopting digital models, lending crowdfunding entities, and non-financial corporations outside the Financial System (blind spot);
- **Regarding Volume:**
 - Answer: increasing quarterly loan placements but still a tiny share of total lending.
- **Process followed to compile data:**
 - Answer:
 - Identification of fintech entities: as per the taxonomy presented, there are blind spots!
 - Source of data: for the traditional legal entities very good coverage and very good data (already counted in EF2); for the Lending Crowdfunding entities, data is still very limited (incomplete); for non-financial corporations with digital lending no data available (blind spot)!
 - Project by Banxico (ongoing) to correct for the limited data for Lending Crowdfunding entities.
- **Recent trends:**
 - Answer:
 - New challengers going for Sofipo Licences (Popular Savings and Loan entities) as these are deposit takers with a regulation that is less strict than that of banks (Basel III) but a sector historically serving unbanked population in non-urban areas and so digitalization and mobile access is having an impact;
 - A major digital Sofipo (NU México, the Brazilian neo-bank operating in Mexico) requesting a bank license in order to expand services, operations and access deeper funding; Banks feeling uneven playing field!
 - Banks going fully digital or setting up a digital bank in its group;
 - Observed a fierce competition by the new digital Sofipos to attract borrowers, but also depositors by offering high deposit rates on liquid deposits, as they focus on rapid market share growth;
 - Some digital Sofipos entering alliances with commercial e-platforms offer "Buy now, pay later" modes of payment although with low credit limits.



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The Mexican Fintech Law

Main aspects regulated by the Fintech Law include:

1. Fintech Institutions (FTIs):

- **Collective Financing Institutions (Crowdfunding, CFIs):** These entities facilitate the collaboration of investors with debtors and entrepreneurs, allowing the exchange of equity, co-ownership, or royalties through electronic or digital means, often via internet platforms.
- **Electronic Payment Funds Institutions (E-money or EPFIs):** These institutions provide services for the issuance, administration, and redemption of electronic funds transfers through applications or digital means.
- Limited scope: There are 202 authorized financial technology institutions (CFIs+EPFIs), while according to a survey published by Finnovista (2023) there were 773 Fintechs (in the broad sense) operating in Mexico in 2023.

2. Operations with virtual assets (crypto-assets):

- Virtual assets are a representation of a verifiable digital value, used among the public as a means of payment and whose transfer can only be carried out through electronic means.
- The Mexican Fintech Law states that the Bank of México is in charge of regulating the use of virtual assets. They are **not issued or backed by the Mexican Central Bank**, they do not have legal tender.
- However, the Bank of Mexico's regulation has pointed out that banks and fintech institutions will not be authorized to offer their clients direct exchange, transfer or custody services of virtual assets. They can only operate with some virtual assets in internal operations with the authorization of Banco de México. Meanwhile, crypto-asset exchange platforms that fall outside the regulatory perimeter may offer these type of products.

The Mexican Fintech Law (continued)

Main aspects regulated by the Fintech Law include:

3. Temporary authorizations for testing innovations (regulatory sandbox):

- Allows companies to conduct regulated activities under a limited regulatory regime for a specified period to test their models.
- These temporary authorizations are granted with the purpose of facilitating innovation while ensuring consumer protection and regulatory compliance.
- The duration of temporary authorizations is capped at a maximum of 2 years for firms and 1 year for financial entities. However, there is the option to request an extension for both types of entities, subject to regulatory approval.
- The CNBV has received 8 applications for testing innovations. However, none have been authorized.

4. Standardized application programming interfaces (APIs):

- APIs are a set of rules and specifications that allow technological applications to communicate with each other, in order to share information.
- The Fintech Law obliges financial institutions, money transmitters, clearinghouses, and financial technology institutions to establish APIs to share their financial, aggregate and transactional data.
- Authorities are still in the process of writing the APIs' secondary regulation.