

## Banks - Mexico

## Credit Card Primer: Underpenetrated and highly desired

Primer

## A primer on the Mexican credit card industry

We provide essential data to understand the Mexican credit card landscape and main trends. In a nutshell, i) credit cards remain largely underpenetrated – their balance represent less than 2% of GDP, and there are only 48mn cards outstanding (34mn from banks, 7mn from departments stores and 7mn from fintechs); ii) credit cards are responsible for about c.30% of banks' core revenues; iii) the market is dominated by the incumbent banks, with the top 5 accounting for 85% of the balance and 70% of cards issued; and iv) the sector is facing increased competition from new fintech entrants as well as from smaller banks.

## Card penetration stalled over the last decade

Mexico has the lowest credit card penetration among LatAm at only 1.7% of GDP, a ratio that has remained stagnant for more than 10 years. From another angle, there are only 48mn credit cards outstanding in Mexico, which compares to an adult population of 94mn, which represents one card for every 2 adults. In comparison to Brazil, credit cards represent 5.3% of GDP and there are 430mn cards outstanding, or 2.7 cards per adult.

## Incumbent banks have a leading role, but for how long?

The five largest retail banks in the country account for about 85% of the industry's credit card loan book. This is explained by the fact that the largest banks have the largest infrastructure (ATMs and branches) and have a long history building a client relationship. BBVA and Citi concentrate 54% of the credit card market share. Having said that, smaller players started to become more relevant, such as Invex by offering business credit cards, and banks with a retail franchise, such as BanCoppel and Azteca.

## New entrants are looking for a piece of the pie

Nonbank lenders are tapping Mexico's underserved credit card market, including Brazil's Nubank, Argentina's Uala (which acquired Mexico's ABC Capital bank in June 2023), Mexico's Stori (which acquired MasCaja), Mercado Pago (supported by Mercado Libre), Colombia's Rappi (joint venture with Banorte) and Mexico's Klar. As a way to attract clients, such new entrants have increased the remuneration on their deposits to c.15% per year, which is well above market rates of 11.25% and those offered by incumbent banks (c. half of market rates).

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ATMs: Automated Teller Machines

INEGI: National Institute of Statistics and Geography

CNBV: National Banking and Securities Commission

Banxico: Mexican Central Bank

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Refer to important disclosures on page 15 to 16.

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## Credit cards are highly underpenetrated

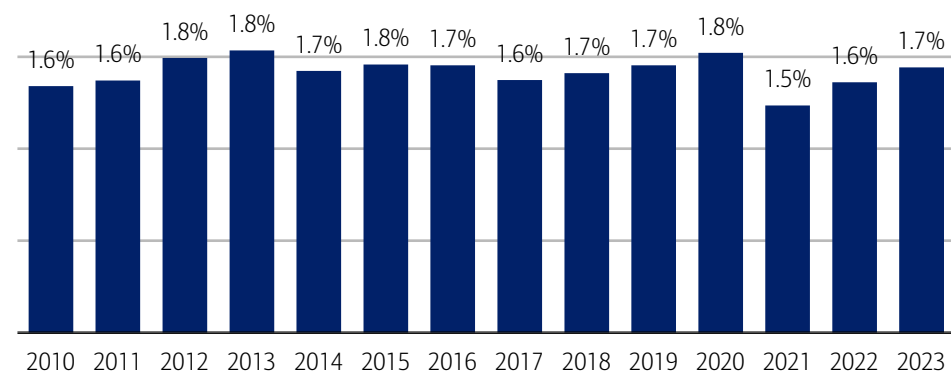
Credit card balances have grown at an 7% CAGR since 2010 and reached Ps538bn (US\$29.8bn) in October '23. Nonetheless, credit card balances have remained relatively unchanged as percentage of GDP over the past 13 years, at around 1.7%. This level is the lowest in LatAm and compares to 5.3% in Brazil.

Furthermore, there are roughly 48mn credit cards outstanding in Mexico (+34mn from banks, 7mn from department stores and roughly 7mn from fintechs), representing one card for every two adults. This figure is very low, especially when compared to Brazil, which has 431mn credit cards outstanding, representing 2.7 cards per adult.

Excluding department stores and fintechs, the number of cards outstanding in Mexico has grown at 3.5% CAGR since 2010. However, the sector has experienced some periods of boom and bust. The number of cards more than doubled from '04 to '07, to 30mn, but was followed by a sharp decline to 22mn in 2009 as part of the Global Financial Crisis. This was then followed by steady growth of 5% per year through 2017, to a new peak of 33mn cards, which was followed by a sharp drop to 27mn in 2018 impacted by the earthquake in Mexico. The number of cards remained steady throughout the Covid pandemic. However, over the past 2 years, there has been an acceleration in growth again, to a new high of 34mn.

### Exhibit 1: Evolution of credit card penetration (credit cards / GDP)

Credit penetration has stagnated as percentage of GDP

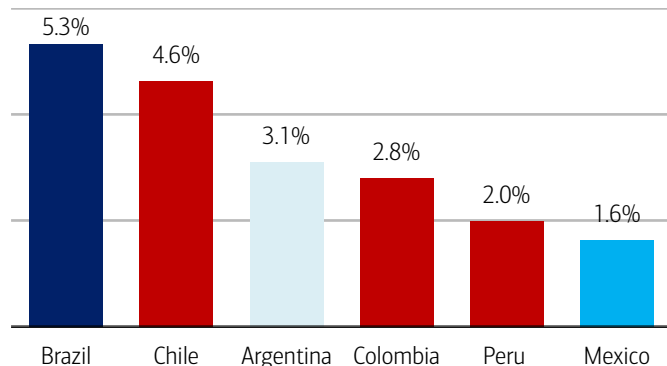


Source: CNBV data and BofA Global Research

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### Exhibit 2: LatAm banks – Credit card loans to GDP

Mexico with the lowest credit card penetration as of 2022



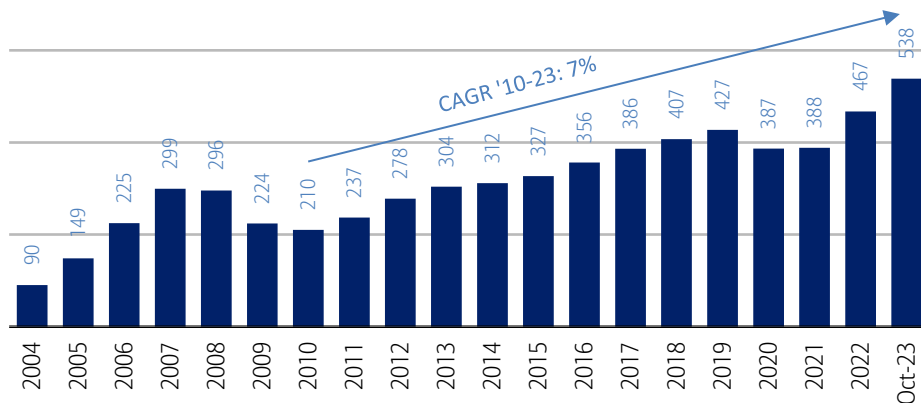
Source: Central banks, Banking regulators and BofA Global Research

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Finally, Mexico remains a cash intensive economy, with c.80% of consumption paid with cash, 12% with debit and only 7% paid with a credit card. In comparison, credit cards account for 35% of consumption in Brazil and 45% in more developed countries. In Mexico, cards are mainly used for paying hospital bills and purchases at retailers.

### Exhibit 3: Mexican banks – Credit cards loan balance (Ps\$bn)

After drop in 2008-2009, credit card balances have grown at a CAGR of 7% from '10-23

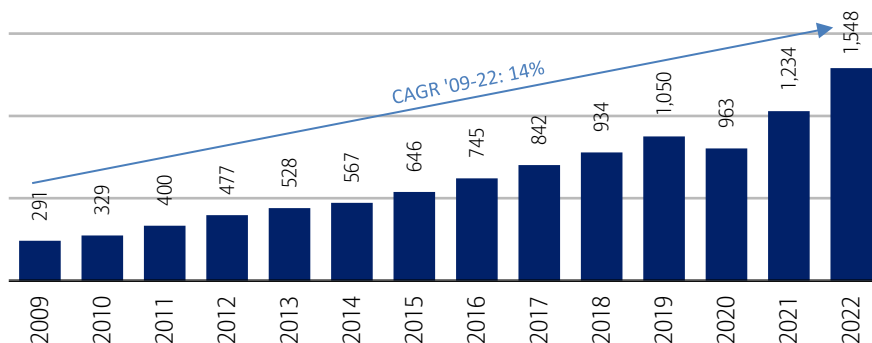


Source: CNBV and BofA Global Research

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### Exhibit 4: Credit cards transacted volume (Ps\$bn)

Except in 2020 during the pandemic, credit card transacted volume has consistently increased

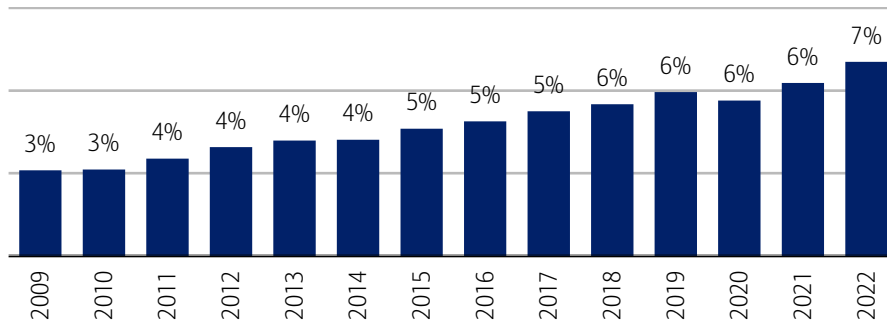


Source: Banxico and BofA Global Research

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### Exhibit 5: Total credit card transacted volume / private consumption

Only 7% of consumption purchases is done with credit cards

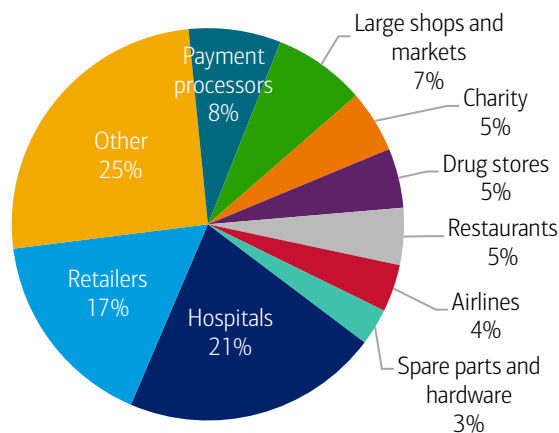


Source: INEGI, Haver, Banxico and BofA Global Research

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**Exhibit 6: Credit card breakdown – Transacted Volume in 2022**

Hospitals and retailers are the main contributors to the credit card volume

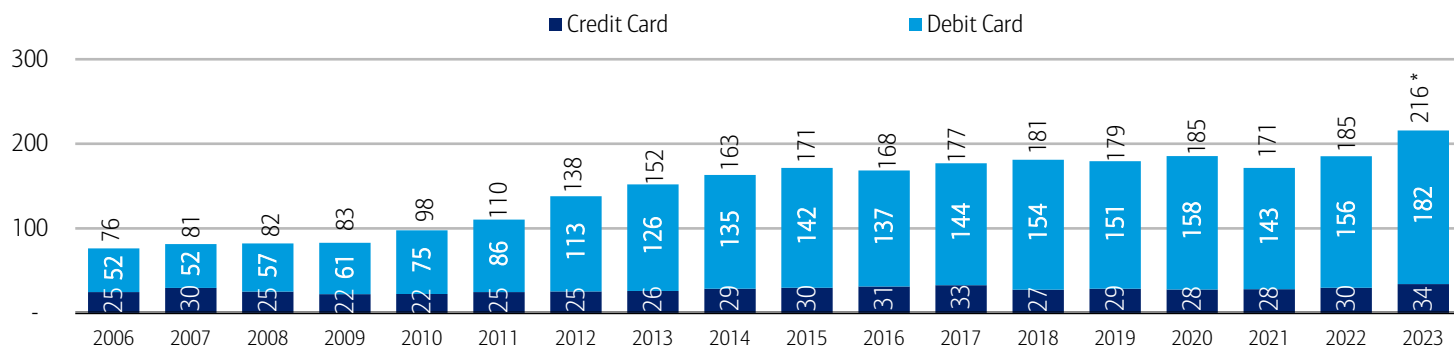


Source: Banxico and BofA Global Research / Large surfaces: Large shops and markets

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**Exhibit 7: Mexico - Evolution of cards outstanding, broken down between credit and debit**

Credit cards totaled 34mn, significantly lower than 182mn debit cards



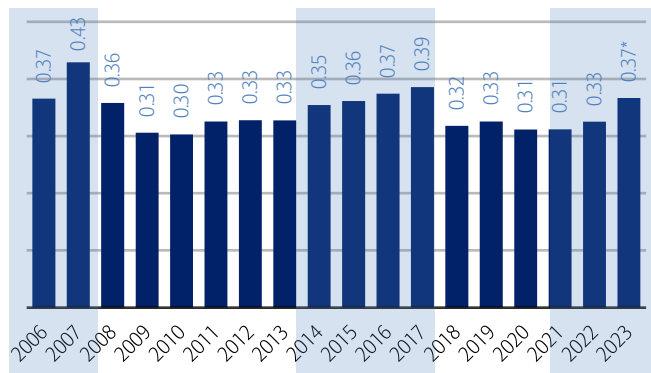
Source: Banxico and BofA Global Research

Last available data as of June 2023, excludes department stores and fintechs

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**Exhibit 8: Mexico- Issued credit cards / adult population**

0.37x credit cards per adult population\*



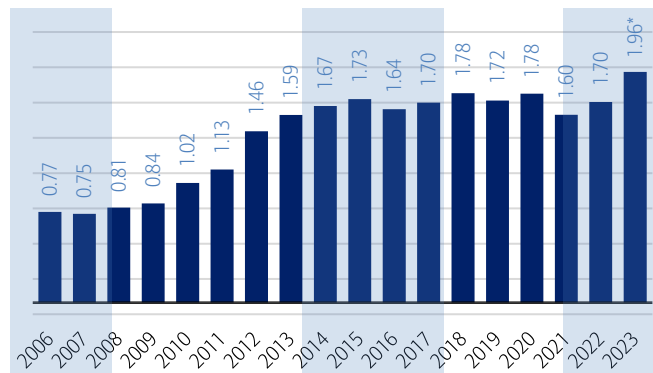
Source: Banxico and BofA Global Research

\* Last available data as of June 2023, excludes department stores and fintechs

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**Exhibit 9: Mexico- Issued debit cards / adult population**

1.96x debit cards per adult population



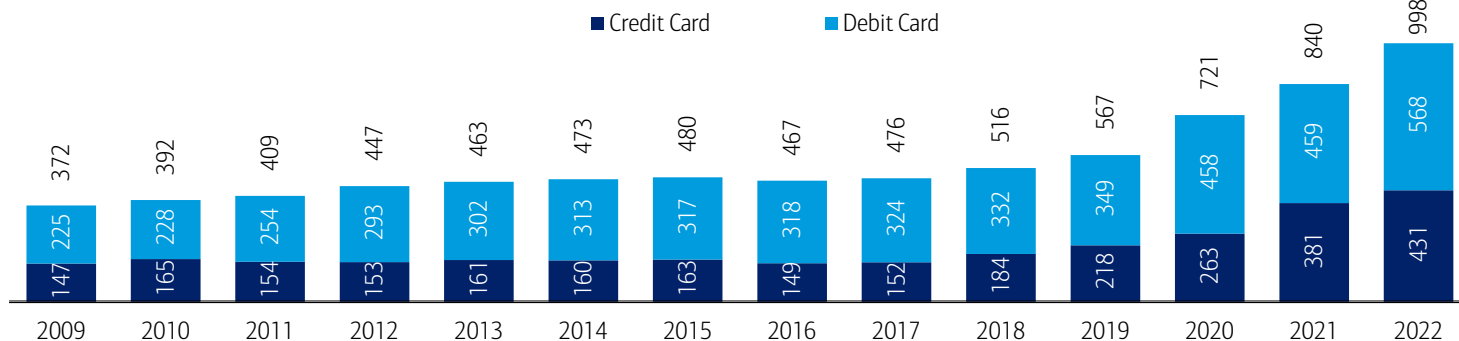
Source: Banxico and BofA Global Research

Last available data as of June 2023, excludes department stores and fintechs

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**Exhibit 10: Brazil - Evolution of cards outstanding, broken down between credit and debit**

As of December 2022, credit cards totaled 431mn and debit cards 568mn

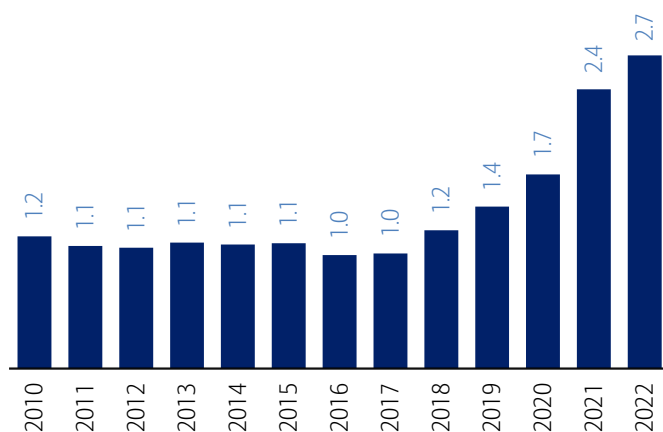


Source: BCB, BofA Global Research

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**Exhibit 11: Brazil - Issued credit cards / adult population**

2.7 credit cards per adult population

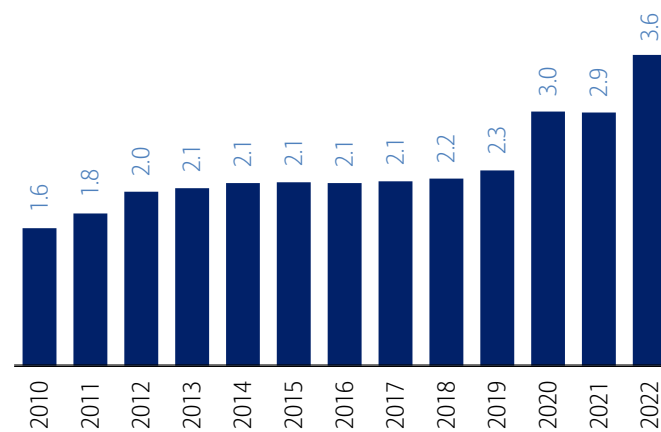


Source: BCB, BofA Global Research

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**Exhibit 12: Brazil - Issued debit cards / adult population**

3.6 debit cards per adult population



Source: BCB, BofA Global Research

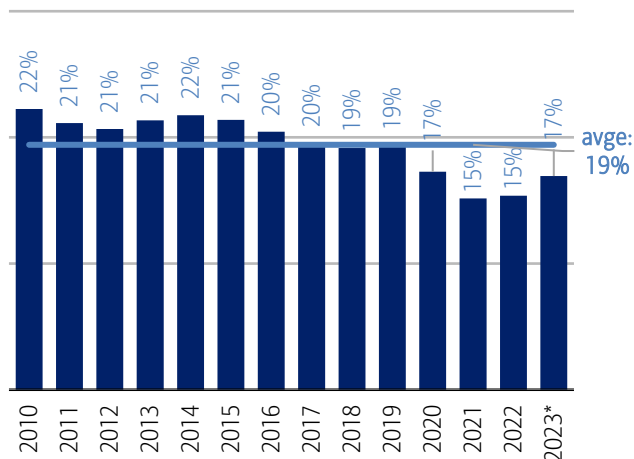
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## Industry Economics

Credit cards are responsible for about c.30% of Mexican banks' core revenues (c.20% of NII and c.70% of net fees). On average, 18% of card balances revolve and the annual rate charged on this balance averages 29%. The NPL ratio has averaged 5.2%, reaching a peak of 9.4% during the Global Financial Crisis and a low of 2.6% in 2022. The expected loss ratio has averaged 11.4% and ranged from 9.6% to 12.2%.

### Exhibit 13: Revolving Interest Income / Banks' Net Interest Income

Averaged 19% in 2020-2023



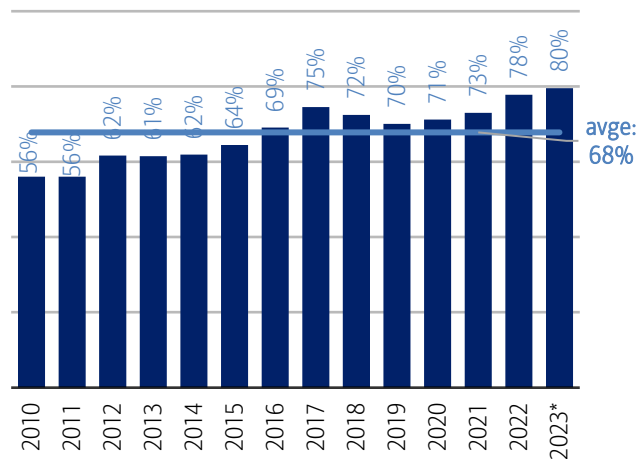
Source: CNBV and BofA Global Research

\*Annualized data as of October 2023

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### Exhibit 14: Credit Card Fees / Banks' Net Fees

Averaged 68% in 2020-2023



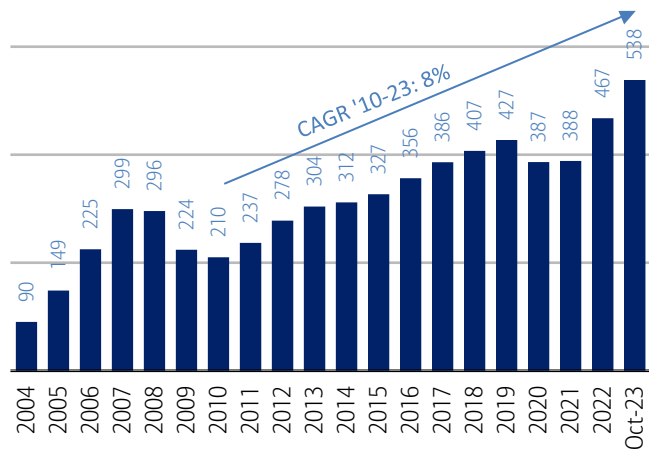
Source: CNBV and BofA Global Research

\*Annualized data as of October 2023

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### Exhibit 15: Credit card balance (Psbm)

8% CAGR in '10-23

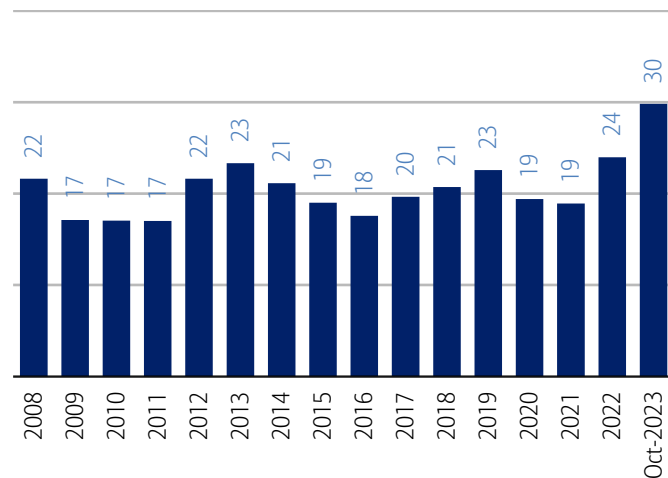


Source: CNBV data as of October 2023 and BofA Global Research

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### Exhibit 16: Credit card balance (USD\$bn)

Credit card balance at its peak of USD30bn

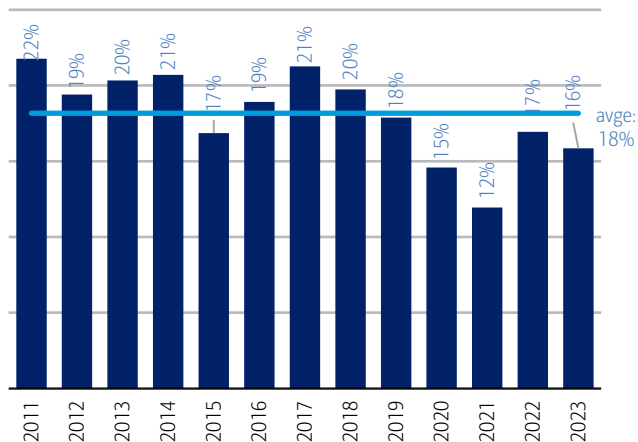


Source: CNBV data as of October 2023 and BofA Global Research

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**Exhibit 17: Mexico – Revolving balance as a % of credit card debt**

Revolving balance has averaged 18% of the card debt

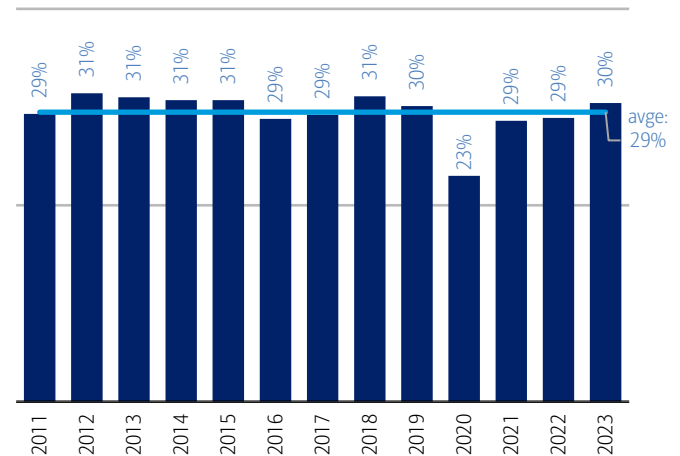


**Source:** Banxico as of August (last available data) and BofA Global Research  
Includes "totaleros" and "non-totaleros" clients  
Totalero: client that pays the total of the credit card balance every month

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**Exhibit 18: Mexico – Annual interest rate charged**

Average interest rate charged of 29%



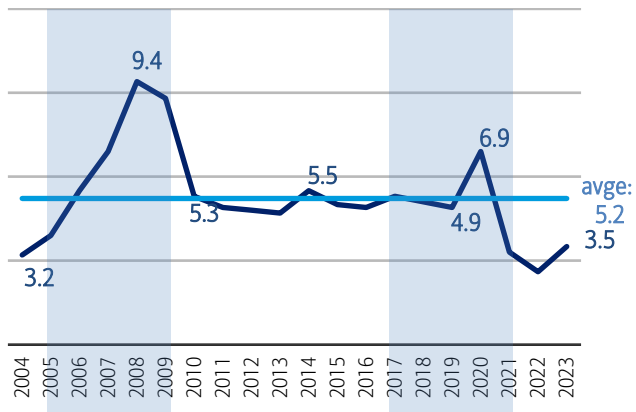
**Source:** Banxico as of August (last available data) and BofA Global Research  
Includes "totaleros" and "non-totaleros" clients  
Totalero: client that pays the total of the credit card balance every month

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Mexican banks' credit card NPL ratio remains at historical lows of 3.5%, well below 9.4% experienced in the '08 credit card crisis and in the '20 pandemic. Meanwhile, credit card expected loss is at 10.7%, above a low of 9.6% in 2021, but below the historical average of 11.5%.

**Exhibit 19: Mexico – Credit Cards NPL ratio**

NPL at historical lows, well below the peaks of 2008 (indebtedness crisis) and of 2020 (Covid-pandemic)

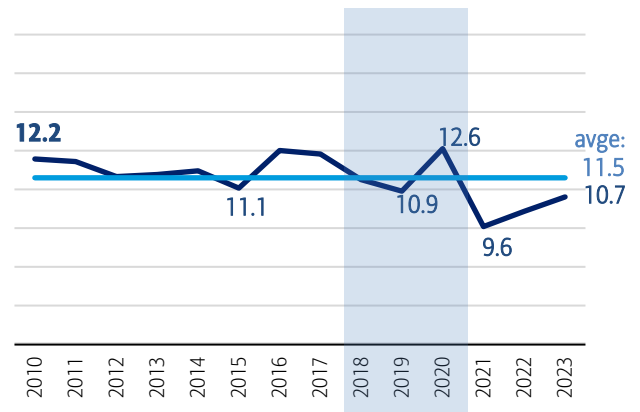


**Source:** CNBV data as of October 2023 and BofA Global Research

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**Exhibit 20: Mexico – Credit Cards Expected Loss ratio**

Expected loss modestly below pre-pandemic levels



**Source:** CNBV data as of October 2023 and BofA Global Research  
Expected loss implementation for credit cards in 2010

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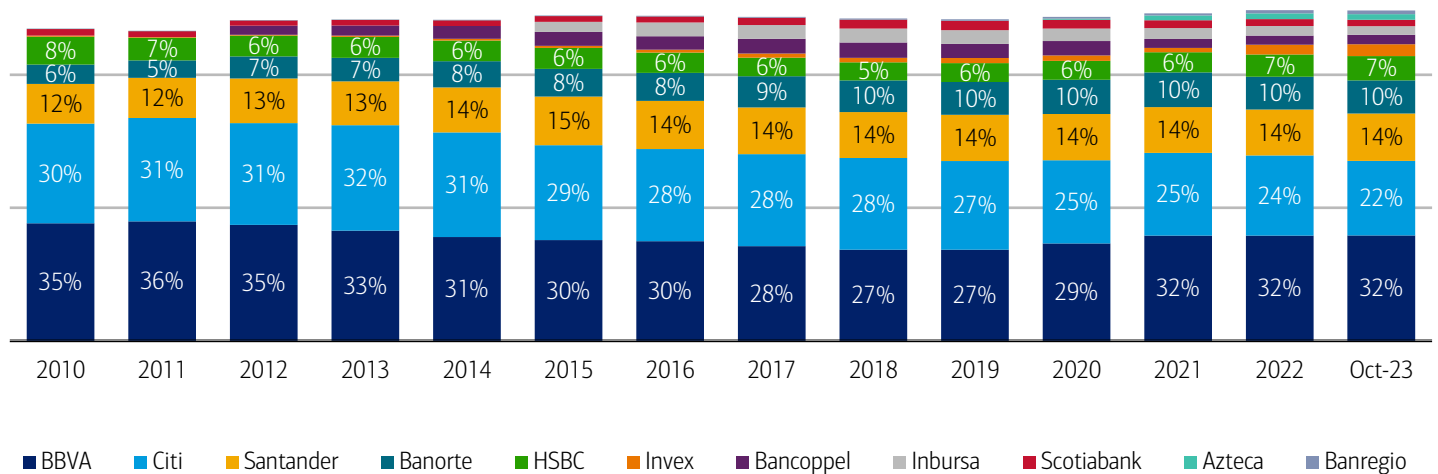
## Main players

The card industry is dominated by the incumbent banks, with the 5 top players accounting for 86% of total card balance. BBVA and Citi, the two largest players, account for 55% of all card balances. However, Citi has seen a large drop-off in share since 2010, of 7 percentage points, which was captured by Santander, Banorte and HSBC.



**Exhibit 21: Mexican banks – Credit card balance market share evolution**

The largest banks have been losing market share to smaller banks



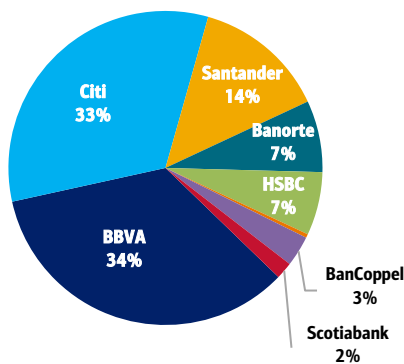
**Source:** CNBV data as of October 2023 and BofA Global Research estimates  
Data at bank level does not include department stores and fintech cards

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Also, we noticed smaller players started to become more relevant, such as Invex by offering business credit cards, and banks with a retail franchise, such as BanCoppel and Azteca. Inbursa expanded its credit card business since Walmart's acquisition in 2015 (currently at 3%).

**Exhibit 22: Mex-banks: Credit card balance market share (2013)**

BBVA and Citi with the largest market share

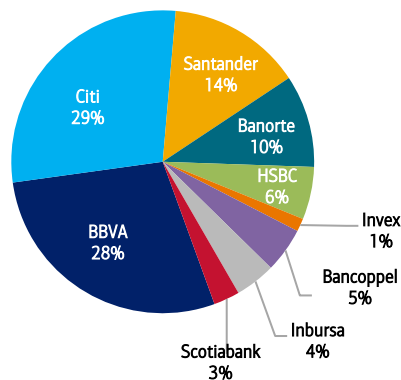


**Source:** CNBV and BofA Global Research  
Information only at bank level

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**Exhibit 23: Mex-banks: Credit card balance market share (2018)**

BBVA and Citi lost market share; Banorte and BanCoppel gained market share

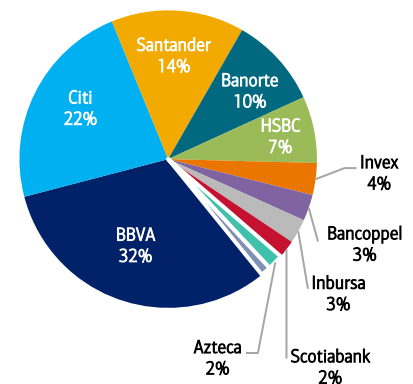


**Source:** CNBV and BofA Global Research  
Information only at bank level

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**Exhibit 24: Mex-banks: Credit card balance market share (2023)**

Citi & BanCoppel lost market share; BBVA & small banks gained market share



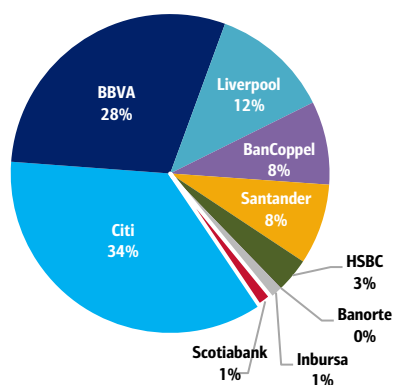
**Source:** CNBV and BofA Global Research  
Information only at bank level

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The following charts include consolidated credit card figures from banks, department stores and fintechs. In the last five years, we detect the entrance of fintechs, such as Nu Mexico (already with 8% market share of total cards outstanding), Stori (4% market share), Rappi (2% market share), and Uala and Rappi (1% market share).

**Exhibit 25: Credit card market share (2013)**

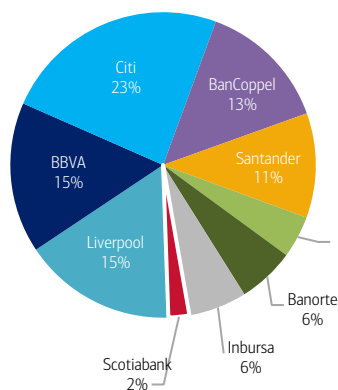
BBVA and Citi had 63% of the market



**Source:** Companies data, CNBV, and BofA Global Research  
Considering 30mn of credit cards outstanding, 27mn including banks and 3.5mn from department stores  
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**Exhibit 26: Credit card market share (2018)**

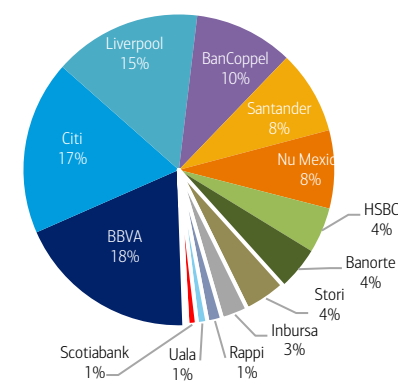
Liverpool had 15% market share



**Source:** Companies data, CNBV and BofA Global Research  
33mn of credit cards outstanding. Including 28mn from banks and 5mn from department stores  
Liverpool: includes Suburbia  
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**Exhibit 27: Credit card market share (2023)**

Nu Mexico with 8% market share

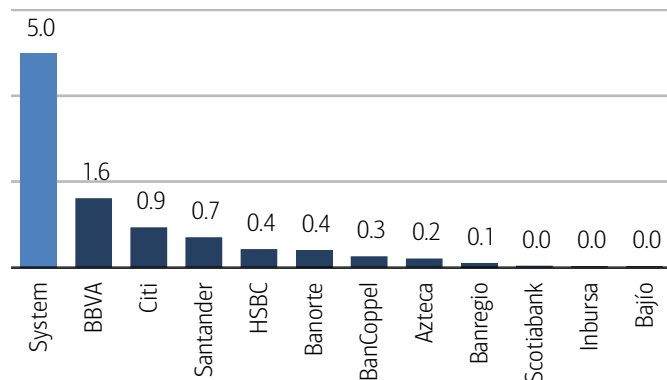


**Source:** Companies data, CNBV and BofA Global Research  
48.8mn of consolidated credit cards outstanding. Including 34mn from banks, 7mn from department stores, and 7mn from fintechs  
Liverpool: Includes Suburbia  
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Mexican banks added 5mn cards through August 2023 (to 34mn cards) with a credit card balance of Ps538bn (or USD\$29.8bn) as of October.

**Exhibit 28: Mex-banks: Number of credit cards issued in 2023 (mn)**

The banking industry issued 5mn cards through August

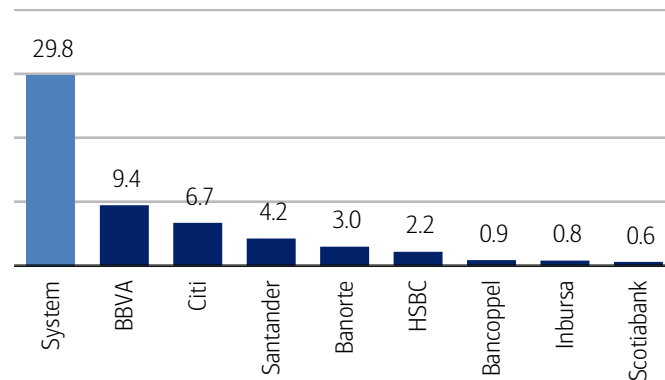


**Source:** Banxico as of August 2023 and BofA Global Research

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**Exhibit 29: Mex-banks: Credit card balance as of 2023 (USD\$bn)**

Credit card balance for the industry totals USD\$29.8bn (Ps538.3bn)



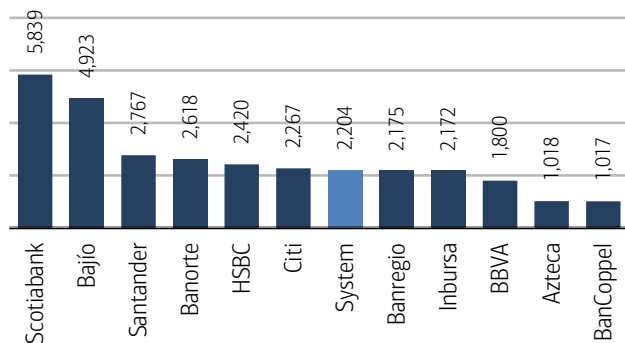
**Source:** Banxico as of October 2023 and BofA Global Research

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The average credit limit is roughly USD\$2,204, while average revolving balance is 16% of the card debt (vs. 18% historically).

**Exhibit 30: Mex-banks: Average credit limit in 2023 (USD)**

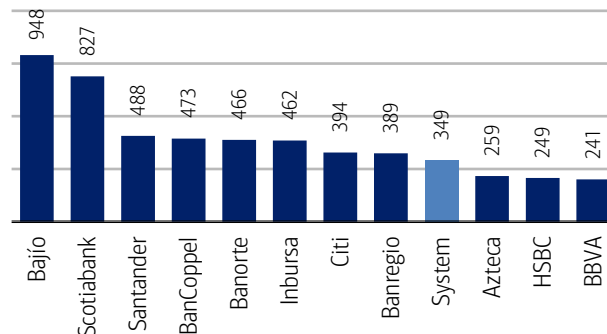
Average credit limit for the industry of USD2,204



Source: Banxico as of August 2023 (last available data) and BofA Global Research  
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**Exhibit 31: Mex-banks: Average revolving balance in 2023 (USD)**

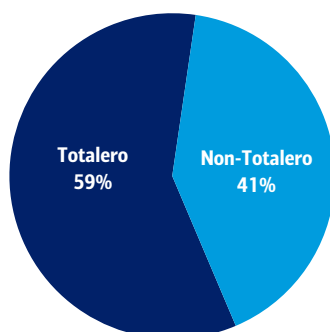
USD349 average revolving balance for the industry



Source: Banxico as of August 2023 (last available data) and BofA Global Research  
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**Exhibit 32: Mexican banks: Totaleros and Non-Totaleros**

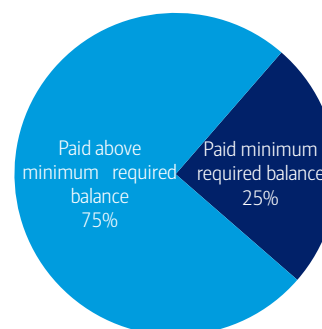
41% are non-totaleros clients (those that pay interest)



Source: Banxico as of 2022 and BofA Global Research estimates  
Totaleros: Pays the full credit balance for not paying interests  
Non-Totaleros: Pays only the minimum required balance or not the full credit card balance  
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**Exhibit 33: Non-Totaleros**

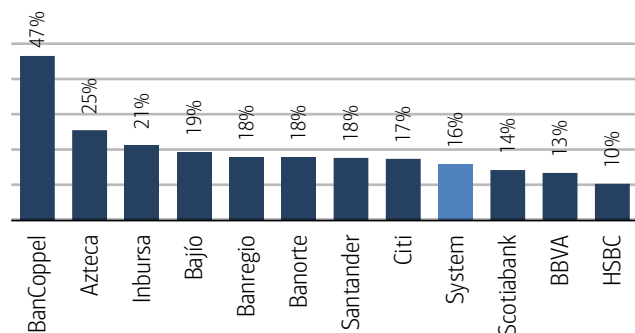
75% of the clients pay above the minimum required balance



Source: Banxico as of 2022 and BofA Global Research estimates  
Paid minimum or above the minimum required, but not the full balance  
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**Exhibit 34: Average revolving balance / average credit limit**

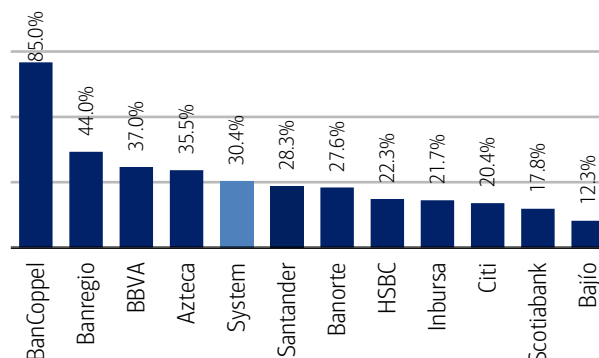
Average revolving balance is 16% of the card debt (vs. 18% historically)



Source: Banxico as of August 2023 (last available data) and BofA Global Research estimates  
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**Exhibit 35: Total Interest Rate**

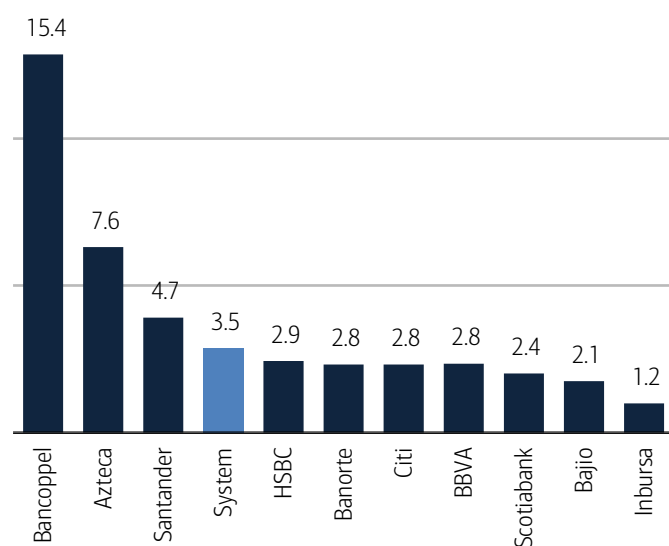
30% average interest rate for the industry



Source: Banxico as of August 2023 (last available data) and BofA Global Research estimates  
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**Exhibit 36: Mexican banks – Credit Card NPL ratio (%)**

Specialized banks (retail + bank) with the highest NPL ratios

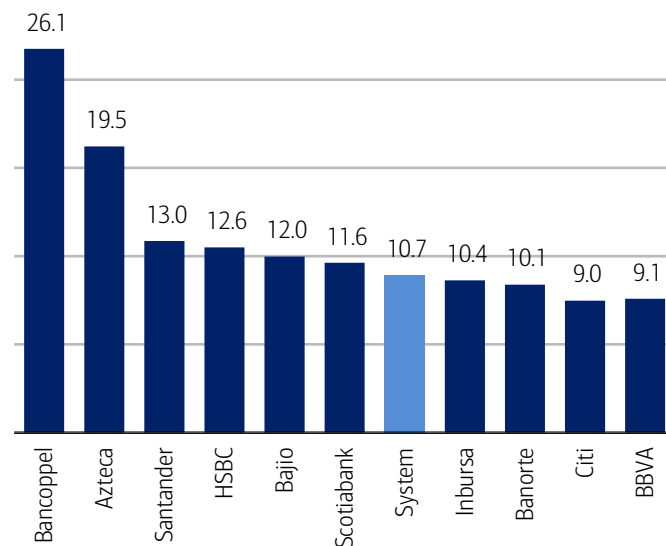


Source: CNBV as of October and BofA Global Research estimates

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**Exhibit 37: Mexican banks – Expected loss ratio (%)**

Specialized banks (retail + bank) with the highest expected loss ratios



Source: CNBV as of October and BofA Global Research estimates

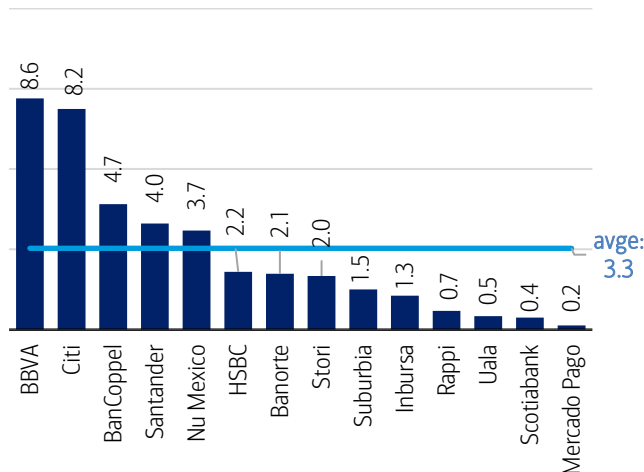
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## Tougher competition from fintechs

Mexico-based non-bank lenders are tapping Mexico's underserved credit card market niche, in addition to Brazilian lender Nubank, Argentine unicorn Uala (acquired Mexico's ABC Capital bank in June 2023), Mexican Stori (acquired MasCaja), Mercado Pago (supported by Mercado Libre), Colombian Rappi (joint-venture with Banorte) and Klar.

### Exhibit 38: Consolidated Number of Credit Cards

More than 48mn outstanding credit cards if including banks, department stores and fintechs

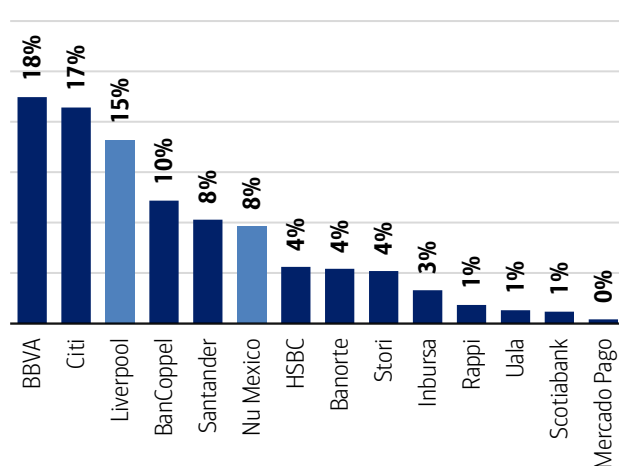


Source: Companies data, CNBV and BofA Global Research estimates

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### Exhibit 39: Market share of consolidated credit cards

Liverpool has 15% of the market share, while fintech Nu Mexico has 8% of market share



Source: Companies data, CNBV and BofA Global Research estimates

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As of September 2023, Nubank in Mexico has the largest number of users among Mexican non-bank lenders, totaling 3.6mn users, followed by the Mexican Stori with 2.0mn users. Meanwhile, Uala has a bit more than 0.5mn users in Mexico, while it is targeting to reach 5mn users in the next three years. On the other hand, Mercado Pago is exploring to request a digital banking license and can originate 10mn pre-approved credit lines between Mercado Pago and Mercado Libre. Finally, there are other competitors, such as the joint-venture of Rappi with Banorte, and Klar offering consumer credit lines.

### Exhibit 42: Mexican Fintechs specialized in consumer loans and credit cards

Nu Mexico has the largest number of users

	Nu Mexico	Uala	Stori	Mercado Pago	Rappi	Klar
Credit card lines (starting at US\$)	294	176	28	294	176	
Credit card lines (up to US\$)	2,353	1,176	1,176	n.a.	n.a.	1176**
Number of users (mn)	+3.6	+0.5	2.0	+150 k	+700 k	
Franchise	Mastercard	Mastercard	Mastercard	Visa	Visa	Mastercard
Annual Fee	0%	0%	0%	0%	0%	0%
Average Annual Interest Rate	82.17%	66%	70-101%	80%	32-72%	59%
Acquisition	requested digital banking license	ABC Bank	SOFIPO MasCaja	exploring a digital banking license	Partnership with Banorte	
Deposit/Investment yield	15%	15%	15%	n/a	n/a	10-14%
Alliances		Western Union		Mercado Libre	Banorte	
Discounts / Cashbacks	different establishments	different establishments	different establishments	different establishments	different establishments	
ATMs withdrawals in Mexico	third-party fee	2 per month	third-party fee	third-party fee	5%	

Source: Companies data and BofA Global Research

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## Deposit war elevates higher yield offer

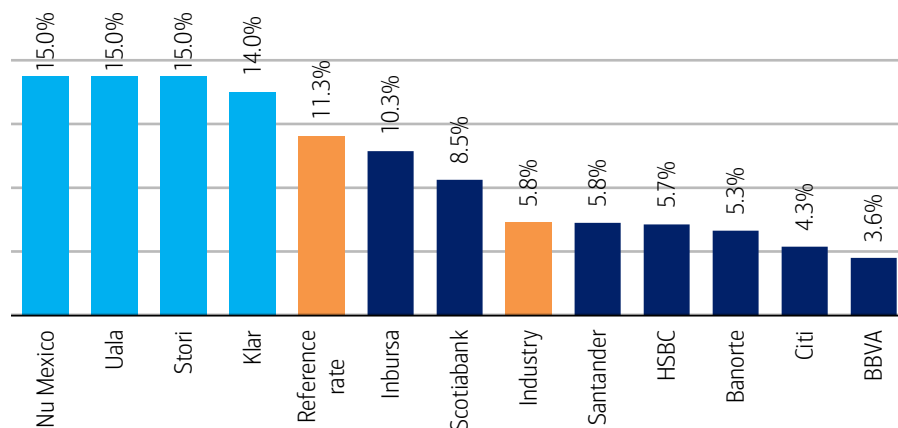
Mexican fintechs have recently elevated the remuneration of their deposits to 15% from 12%, which is well above the reference rate of 11.25%, in order to attract clients. Except

Mercado Pago that is already lending to underserved market niches under segments D and E of the population, we detect the rest of the fintechs have focused more on the C segment.

Having said that, segments A and B of the population are willing to migrate a portion of their deposits to fintechs in search of a higher yield. We expect migration to high deposit yields to continue, although any negative news flow towards the fintech sector could significantly jeopardize this trend.

#### Exhibit 41: Mexican banks and fintechs: Cost of funding

Fintechs based in Mexico are offering deposit yields of 15% above the reference rate of 11.25% and the banks industry's cost of funding of 5.8%

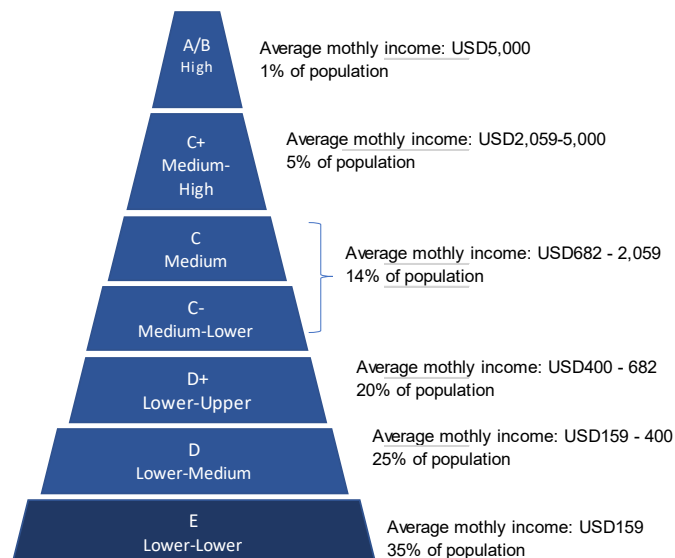


Source: Banxico as of October 2023 and BofA Global Research estimates

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#### Exhibit 44: Mexico: Social Economic Level

Segment A/B represents only 1% of the population



Source: Secretary of Economy, INEGI and BofA Global Research estimates  
INEGI: National Institute of Statistics and Geography

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