

User Verifica- tion 101

Learn how to create a powerful user verification process to cut down fraud and stay compliant





mati

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Introduction

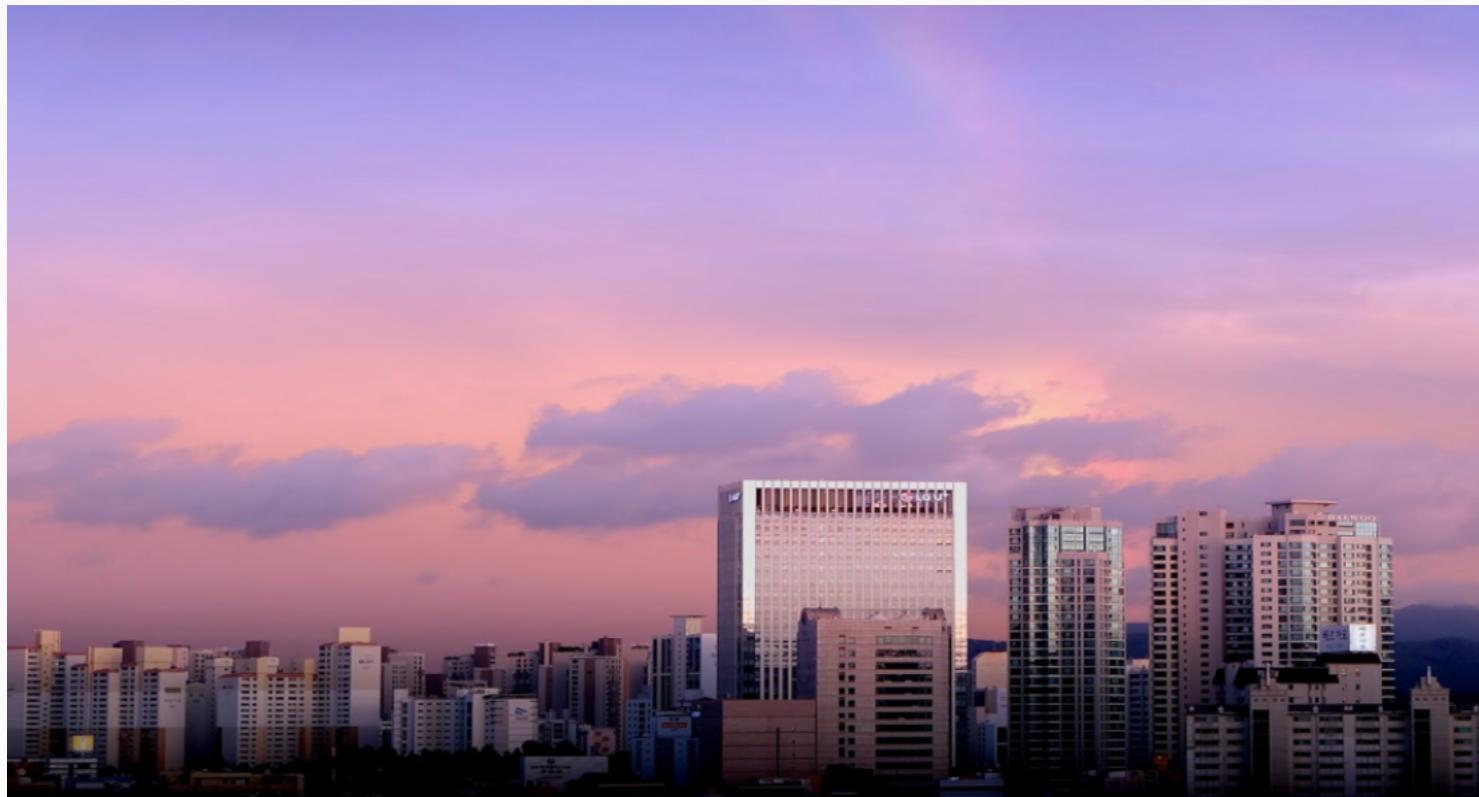
If we've learned something in the last few months, it's that the industry of lending and microcredits is booming in Mexico, with companies like Konfio receiving **more than USD \$100 million in recent weeks**. And Mexico isn't the only country concerned: all across LatAm, the same phenomenon can be witnessed.

But if you're operating a lending company, you know that already. Other things you're probably already aware of? Well, between local laws and regulations, operating a business in

this industry can be quite a headache - especially when you don't have yet someone in charge of compliance or risk internally, or if you're planning to expand to other countries.

And expanding to other countries also means to be confronted with **new regulations and sets of obligations** that may differ a lot from what you already know.

What we've learned with our clients in the lending industry during the last 2 years is that for a lot of them, before starting to work with Mati, compliance, KYC and AML regulations were necessary burdens, often



perceived as **a waste of time and money**. When talking of user verification, our clients' first focus never was compliance: it has always been fraud and default rate reduction that matter to them - and chances are, to you too.

But understanding what compliance means for your company is still necessary. This is part of the goal of this white paper: to tell you what needs to be done to comply with Mexican regulations, so you can skip the headache and focus on what you do best - **your business!** Our second goal? Give you a few tips on how user verification should be performed to decrease default rates and fraud intents on your platform.

For us, there are two main keywords here: automation & processes. If you want to scale fast or just keep growing, it is about time to forget manual verifications and outsourcing. First of all, they are expensive, subjects to mistakes; second, they don't scale well; and third, they are almost always responsible for awful user experience.

In this white paper, you'll find all our best practices to start implementing **an efficient and secure user verification process** and **start reducing fraud** on your platform. Ready to start? Just follow the guide!



CHAPTER 1

Compliance in Mexico

What do you need to know?

All lending and microcredit companies have something in common: they need to be compliant with Mexican financial sector laws and regulations, which is easier said than done - especially for those who are just launching here. It can indeed be quite complicated, as Mexico has **one of the most complex financial systems in the world.**

Furthermore, its AML/CFT (Anti-Money Laundering / Combating the Financing of Terrorism) regulation and supervision are at the very forefront when it comes to industry standards in the LatAm region. Mexico went even further this year, with the enactment of the FinTech law and its secondary regulations - being one of the first countries to do so in the LatAm.

But what does it mean for lending companies? How does it affect your strategy? What do you need to do to become (and stay) compliant here in Mexico? Leave us the headache, just follow the guide!



Meet CNBV, your new best friend

CNBV, for Comisión Nacional Bancaria y de Valores, supervises and regulates the entities that are part of the Mexican financial system. And yes, this is also the entity that regulates lending and microcredit companies here in Mexico - **no matter your legal status or the type of entity** you're working under. You're a SOFOM? You're regulated by the CNBV. A SOFIPO? Same. A newly born microcredit startup that operates only online under an LLC?



Well, you've guessed it, you're also regulated by the CNBV. This is not the only thing you have in common, by the way.

You are sharing the same identity verification obligations, too - yay! In terms of customer identification, legal obligations imposed on credit companies in Mexico are linked to two sets of regulations: **AML policies and Onboarding obligations** that apply every time someone is creating an account on your platform.

Both require that you proceed to:

- General **identification and validation** of the customer through an ID document verification;
- **KYC process**, to make sure the customer is not registered on several watchlists (criminal lists, Politically Exposed Person list, etc).

We'll focus on those two sets of obligations in this first chapter, and on the checks you must perform during the onboarding phase - ie. before granting a loan to your customer.

What do you need to check, according to the law.

You need to know your customer, and as such, you need to ask him specific details. Lucky for you, the majority of these elements can be extracted from a simple ID card with a good OCR (for Optical Character Recognition) technology - **no need to ask your customer to fill up +50 form fields**. Here are all the items that you must ask him by law:

1. A color photo of an official ID document (front & back)

INE (the Mexican voter registration card, which is considered by the government as the most valid ID in Mexico), passport, FM3, or military service cards. Please note that in Mexico, licenses are not usually considered as valid for banking processes. But anyway, from this official ID, you'll have to extract:

- First & last name
- Birthdate Gender
- Country of birth & nationality
- CURP number, for Clave Única de Registro de Población: this is an 18 digits code, unique, used to identify residents and Mexican citizens in the country
- Direction



The official template for INE card

2. Other information/document you need to ask

You should also ask your user those elements, according to the law:

- RFC number, for Registro Federal de Contribuyentes (a sequence of digits used to identify every taxpayer in Mexico)
- Phone number or email address
- Activity / Profession / Job title
- A proof of the opening of a deposit account
- A color photo of the customer's face

Of course, the law also stipulates that you must put in place some processes to detect suspicious behaviors. Meaning that you must also verify the authenticity of the information the customer provided you. If a document is missing, if something looks altered, if the files transferred are of low quality, if any of the given information doesn't match a specific register, you must be able **to immediately suspend the account and the process of contractualization** with the customer.

Here are some examples of the verifications you must conduct during the onboarding phase:

- Make sure **the CURP number** the customer gave you exists in the Registro Nacional de Población, and match the data registered as well;
- Make sure **the data on the INE** matches with the register of the Instituto Nacional Electoral, especially the Código Identificador de Credencial (CIC), the card number, the issuing year, the voter number and voter name.

Regulations also require that you conduct a biometric check of the user, to make sure there is a match between the photo of the ID and the photo/video of their face. You'll also need to check if the person is registered in one of the watchlists recognized by the Mexican government (ie. Secretaría de Hacienda y Crédito Público, Interpol, Politically Exposed Person list, etc). It's a match? Well, you must then start **a due diligence process**

Credit score checks are not an obligation according to the law, but we don't need to tell you that this is definitely something you should think of integrating in your identity verification process, before or after the ID check.



Documenting the process itself

Yep, this is right: regulations also require that the integrality of each identity verification process is logged and duly registered. You must indeed register the time and date of each exchange with the customer, but also keep everything the person has sent you (photos, video files, etc), without editing any of it.

Another obligation if you're a lending company? Keeping **records of every account** for up to 10 years! Moreover, the way you keep your records (especially if they're digitized) needs to comply with NOM-151-SCFI-2016! That seems barbaric to you? Don't worry, our legal team is here to help 😊

Getting proof of consent

Last but not the least, when it comes to current lending business models which are mainly cloud-based, CNBV requires lending companies to record their users' consenting to the credit and the conditions like interest rates and prepayments. Suffice to say, any front end engineer would cringe at the concept of putting a user through this process.

Well, relax: Mati got you covered. The CNBV has validated last year that **our product is so robust that our clients could skip this step!** This completely changes the way you comply with this set of regulations, but more importantly, how your user interacts with your platform.

Yeah, that's a lot, but following those obligations is crucial for your business. Not only because if you don't, you risk fines and an interdiction to operate in Mexico, but also because this would prevent frauds on your platform. So make sure your team has everything in hand **to start building a performing identity verification funnel!** You're about to launch in Mexico? No worries: our Legal team is there to help and guide you along the compliance process.



CHAPTER 2

How to build a powerful process to cut down fraud

During the last two years, we've been actively discussing this crucial subject with our clients operating in online lending and microcredit spaces. Our objective was to understand **how we could help them reduce drastically the number of default rates** they encounter on their websites.

The main keyword here? **Process**. And no, this is not a scary word - it's just the most efficient way of dealing with user verification in your company. Combating efficiently fraud on online services means creating a systemic, dedicated process, that will impact a large part of your organization. But with good tools and advice, it's not an impossible thing to do. With the right approach, it can even be designed and implemented in a few days. Ready to start? Just follow the guide!



What a bad anti-fraud process looks like

Want to understand what should be avoided at all costs? Here's an example for you. This is what one of our clients used to ask its users to do whenever they were asking for credit on their website.

Before implementing Mati, their customers had to:

- Go on the website and fill up +30 form fields with their personal information;
- Send an email with official ID and passport attached to a dedicated email address;
- Wait for a phone call where they had to repeat another time all the personal information they just gave online;
- Exchange by email with an operator to make sure they had opened a dedicated bank account, and give (again) to the operator their personal information, just to make sure it was the same person.

You can see the problem here, right? First, people don't have time for that! On the customer side, onboarding abandonment rates were indeed skyrocketing for this client. Second, it costs a lot - just in terms of salaries for human operators. And third? Well, this is the perfect recipe to create operational headaches.

What a good anti-fraud process should look like - on the user's side

Building a good onboarding process for your users means solving a dilemma your marketing & compliance teams are already aware of: how to get the maximum of information from your users without traumatizing them? How to avoid unnecessary friction that will discourage them, and make them look for another service less painful to register to?

A good, secure onboarding process should be:

Short: people should be able to submit their documents and prove their identity in less than a minute;

Simple: people need to understand what is required from them, how long it's going to take, and not be confronted with multiple interlocutors;

Nice looking: your teams have spent hours optimizing and refining the design of your website, it would be quite ineffective if your onboarding interface was ruining all their efforts

What a good anti-fraud process should look like - on your side

This is not a surprise, a good anti-fraud process always starts with one thing: user verification. This is what allows companies to reduce fraud by almost 90%. So you probably should start here too!

But before digging on how to design a good user verification feed, we need to be clear on something: dealing manually with user verification is a VERY BAD IDEA. It is not efficient, it takes ages, it doesn't scale well, and errors or inattention mistakes will always happen. Plus, it costs a lot! According to a study realized by cloudtask, it can cost up to **\$259,955 per year** if you build in house a team of 4 in the US. Obviously, it would be cheaper here in Mexico, and even more if you decide to outsource it. But still, nothing that can compete with the cost of automated checks.

So our first recommendation here is logically to opt for a fully automated user verification solution. But this is not the only thing you're going to need. According to the best practices we've observed, this is how your anti-fraud process should be organized if you're operating a lending company:

1. Gathering data from your users directly on your website

Forget about asking people to come to your stores or offices - no one has the time for that. It's about time to digitalize those processes, and good news, tools exist! Some solutions will allow you to integrate directly into your onboarding process all the verifications you need to make each time a user asks for a loan.

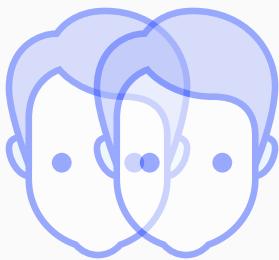
Keep in mind that the tool you choose must be:

- Easily customizable, so you can ask for different types of documents, according to your needs / the countries you're operating in - IDs, bank account certification, etc.
- Fully automated, to reduce delays of verification and errors - meaning that the solution must be able to read and extract data from thousands of different documents;
- Efficient: make sure your tool is powerful enough to detect fraud intents, so you can build a secure onboarding process;
- Nice to look and easy to use, to not penalize your brand & your conversion rates.

2. Analyzing this data and set up alerts

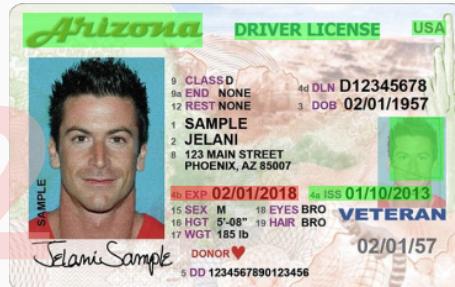
In the lending industry, fraud related to identity theft is a real burden, that hurt default rates more than anything. But good news for you: fraudsters' techniques tend to be always the same, and there are numerous ways to detect them automatically before you grant someone shady a loan. The 4 types of fraud intents we see everyday at Mati?

1



Facematch issues: users' face in front of the camera doesn't match with the photo on the official document they sent you;

2



Document revision matching: the data on the official document doesn't match with existing governmental databases.

3



Liveness issues: when users are asked to upload a video of their face to make sure they are a real person, they don't comply or just put a photo in front of their webcam;

4



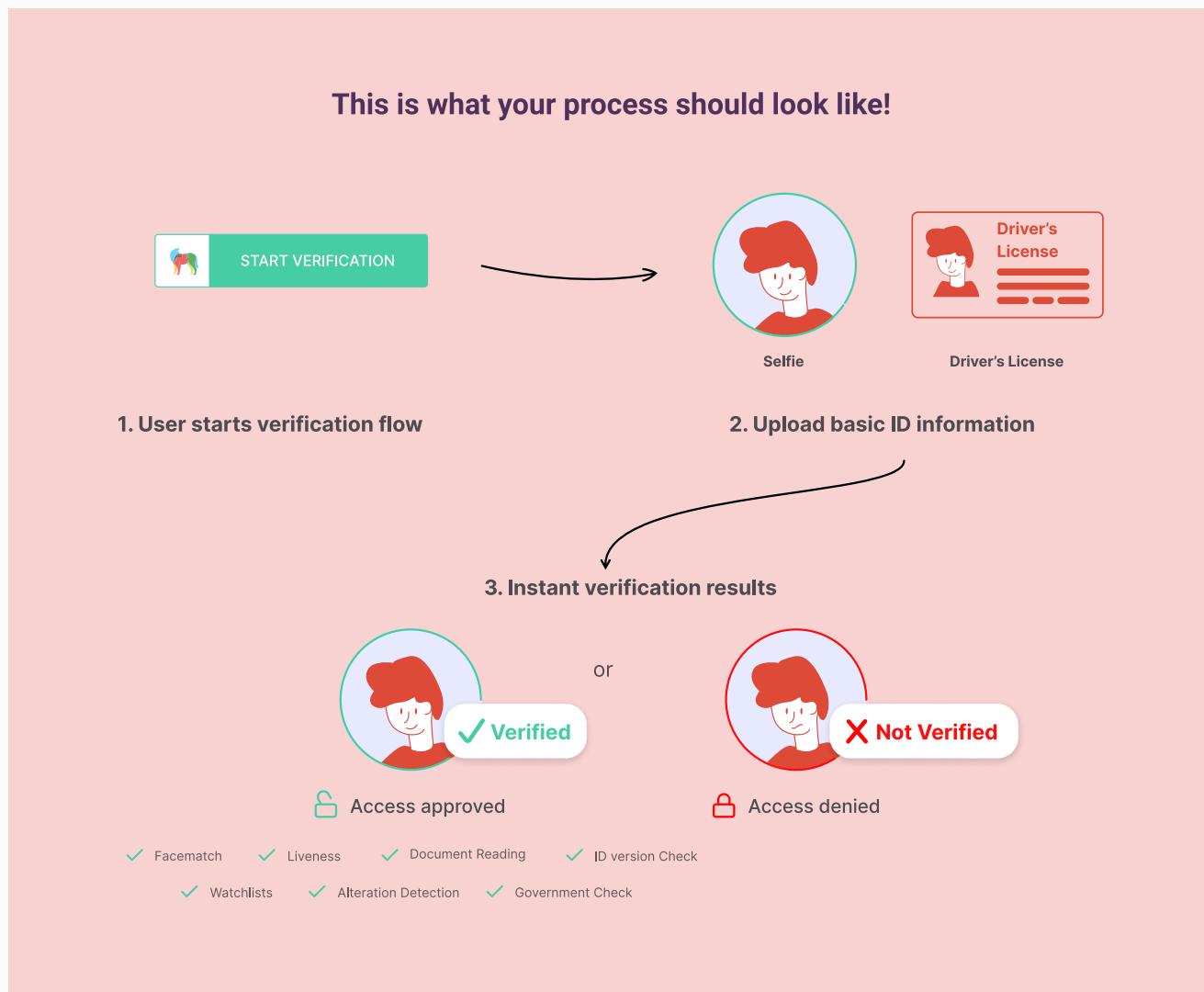
Document alteration: the data on an ID seems edited, watermarks are missing, etc.

With a fully automated user verification platform, this step would be transparent for you. You would only receive an alert if something looks wrong with a user. At Mati, we're able to detect all those alleged frauds intents (and much more!), and to send you an alert straight away so you can proceed to other checks or directly ban the fraudster.

3. Integrating other checks

If you're running a lending company, you're well aware that an ID is not the only thing you need to grant a loan to someone. Here are the 3 types of integrations and cross-checks our clients in the lending industry generally perform at that moment:

- Contact information: email, phone number, IP address, DNS...
To make sure the person is not stealing someone identity;
- White and blacklists checks: are your users part of the Politically Exposed Person list here in Mexico? Do they appear on Interpol listing or other lists recognized by the Mexican government? Does the information they gave you matches with national databases run by the authorities? Would be nice to know, wouldn't it?
- Credit score checks: of course, but did you know that you'll be able to perform those checks directly in the Mati platform?





4. Treating alerts and conduct due diligence processes

The majority of our clients have set up their own rules in terms of alerts within Mati. But they all have one in common: fraud intents! Every time someone submits an altered document, or doesn't exist in national databases, or doesn't match in person with the photo on the ID that was submitted, they receive an alert, and automatically puts those users on hold. With no manual checks to conduct, their teams of operators can now focus on making good decisions and conducting due diligence processes if needed. The result for our clients, across all industries? On average, they succeeded in cutting out by 90% detected frauds on their website. This is both the results of well built internal processes, and of using Mati.

CHAPTER 3

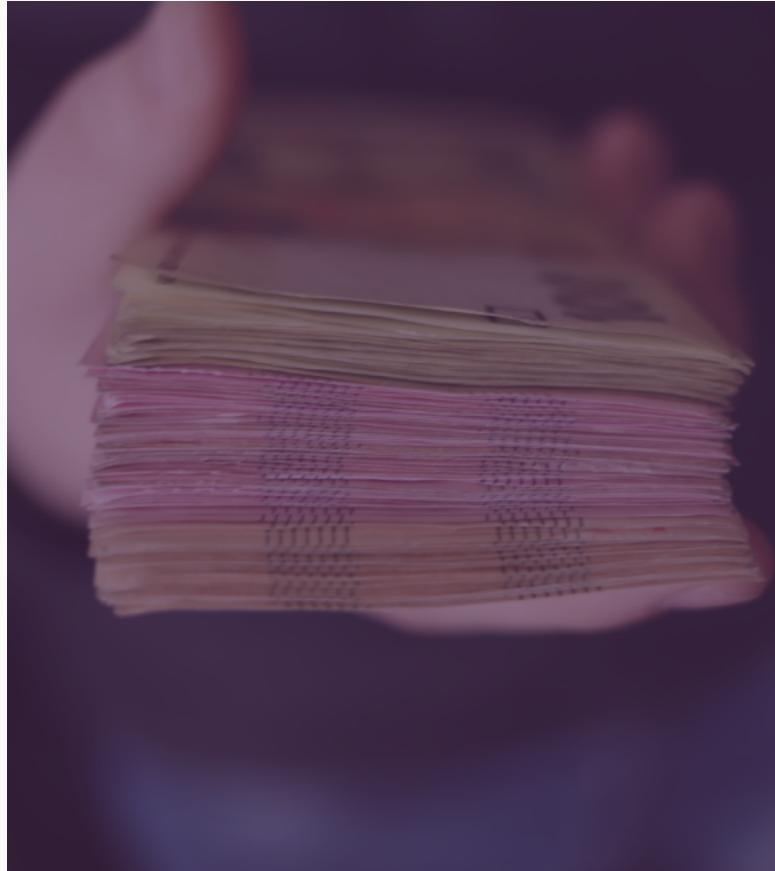
Bien para Bien x Mati

Or how to automate your user verification process in less than 2 hours

Bien para Bien is a Fintech lending company, operating in Mexico, that offers alternatives to traditional credits. Since 2014, they have granted more than 700 millions of pesos in credits. In 2019, they decided to launch something revolutionary: **a nation-wide network of independent contractors**, trained to bring financing solutions to areas, companies or people traditionally neglected by banking and credit institutions, and demultipliate their number of clients in Mexico. That's when Bien para Bien decided to use Mati.

About Bien para Bien

- Numbers of contractors: 450
- Number of ID checks currently performed by month: +1000
- Number of clients: 700
- Present in 140 cities in Mexico
- Granting credits from 200 mil pesos to 5 millones de pesos



ITW with

Miguel Ángel Rodríguez Álvarez Icaza

CTO @ Bien para Bien



Why did you need a user verification platform?

We have launched this year something new: a decentralized network of contractors, operating in the whole country. Their mission is to help us bring credits to people traditionally neglected by banking or credit institutions - typically, someone trying to launch a business in Chiapas, or someone in Yucatan that needs some cash to pay for a medical emergency. Those contractors are usually people that already have a job or a full-time occupation, and want to turn their free time into an extra source of revenue.

But to do that, we have to perform an ID check on those contractors - **to make sure they are people that can be trusted, that will represent well our brand and won't disappear with the money** at some point in the credit process. We first bootstrapped our own identity verification process, but as the number of contractors started to grow (more than 500 today), it wasn't anymore a solution we could rely on. As we were performing manual verifications, we couldn't for example check people outside of office hours, meaning they had to wait several hours before receiving a confirmation email. It was tedious and not efficient, and that's exactly why we needed Mati: to automate those ID checks process, and make sure we could scale fast our new service.

Why did you choose Mati?

Obviously because we needed a reliable, robust solution to make sure our users are who they say they are, and avoid fraud intents. But we also chose Mati because we needed something **easy to implement, super flexible, and user friendly**.

The thing that is great with Mati is that you don't need a lot of technical skills to implement it, and it can be done in hours. Even more important for us, you don't need to code to manage your user verification process on a daily basis, or even to optimize it and ask for new documents. We have two teams members in charge of managing the user verification process, and Mati has changed their lives.

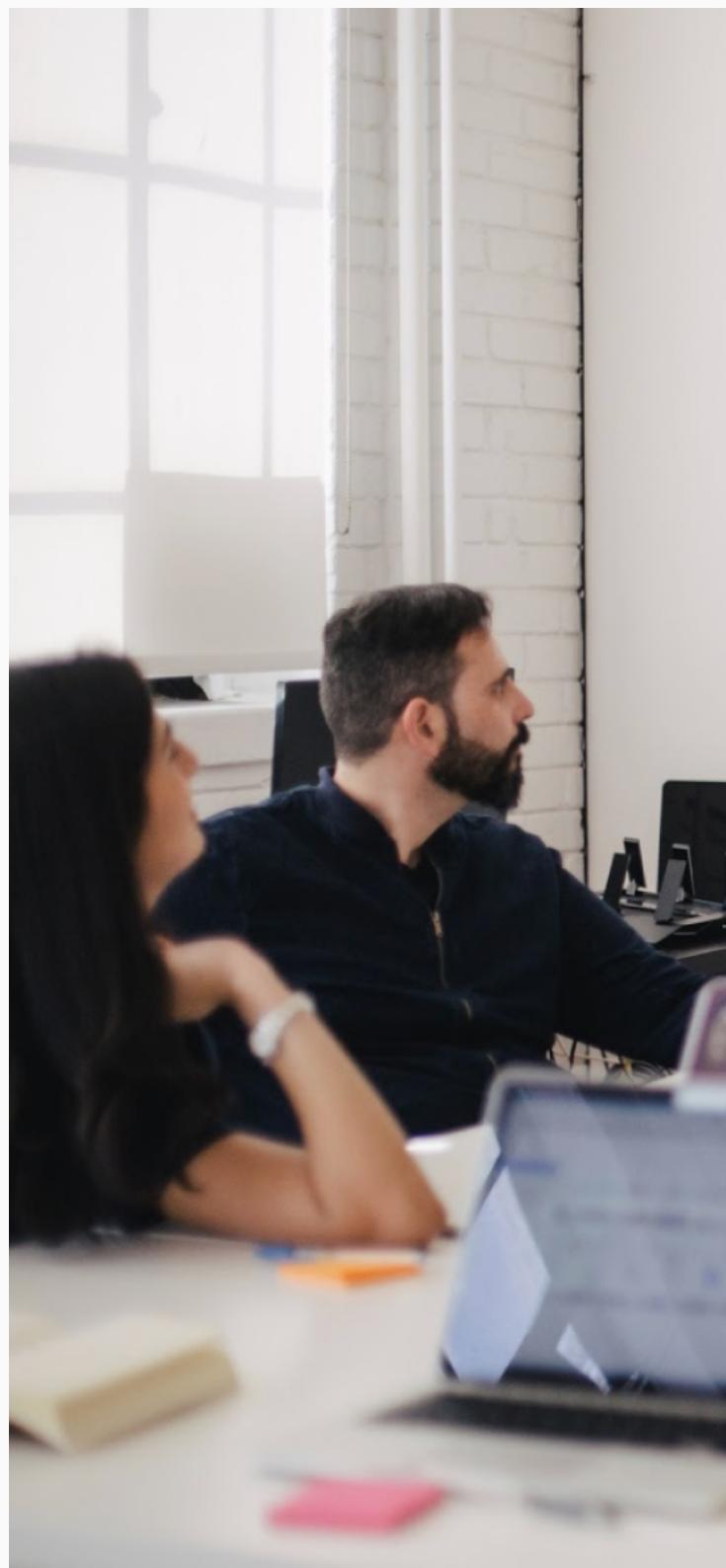
Last thing that was decisive for us is the general UX of Mati: as the solution is integrated to our website, we needed something **really neat, with a good UX**, so the experience we provide to our contractors would be coherent with our branding and marketing strategy. For us, Mati checked all the cases.

What does your user verification process look like?

It's really something simple: people willing to become contractors first create an account on our website, and then are submitted to a user verification process. Here we ask them for two documents: an official identification, either a INE or a passport, and a proof of residency, like an electricity bill for example. Mati automatically checks if 1/ Documents are valid, and 2/ If information matches. If that's not the case, we receive a notification on our dashboard to conduct due diligence processes. It's that simple!

What impact did it have on your business? Do you have any metrics to share?

Mati helped us reduce drastically the duration of the process: before, it took around 2 hours to manually verify someone. Now, it takes less than a minute! Thanks to Mati, we were able **to enroll more than 450 contractors in 2 weeks**, and we plan on keeping that number growing! Other impact? It also helped us reduce the time we were spending on integrations and developments, as everything is fully customizable directly within the app. We are more than satisfied with this solution - we're even planning to use Mati to verify credits solicitors on our website and our mobile app in the next few months!



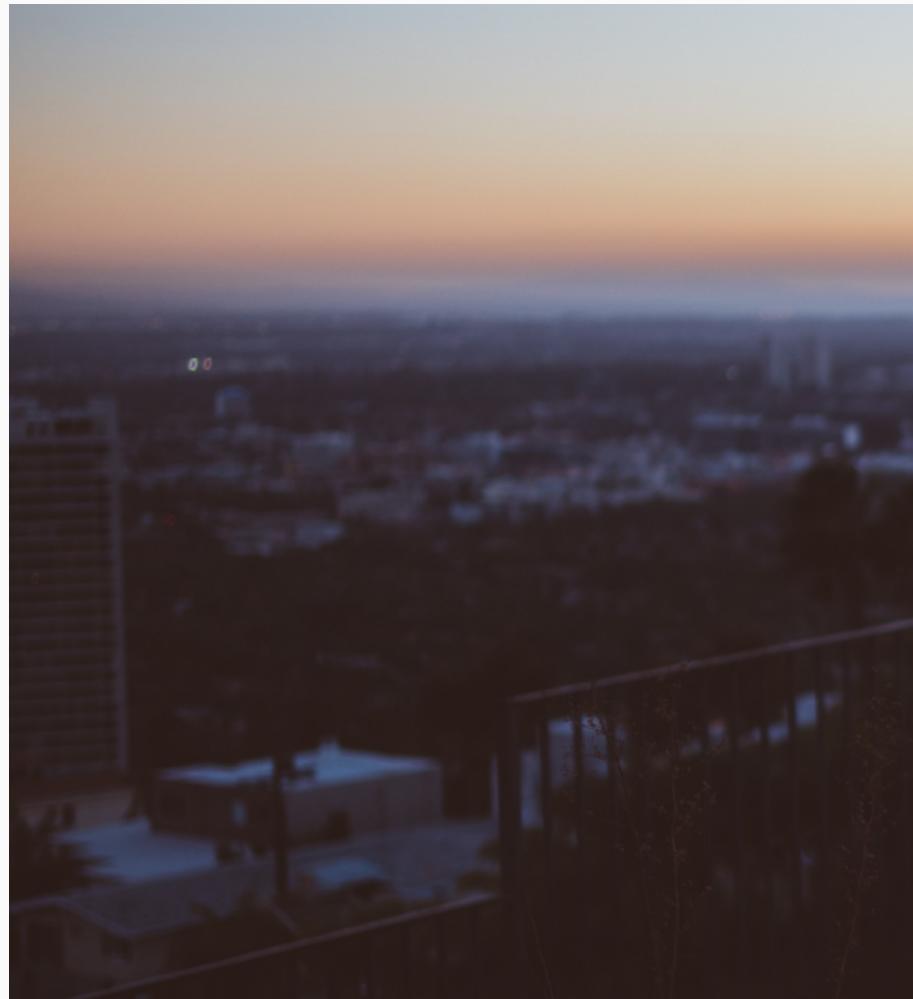


Conclusion

Operating a lending company in LaTam can be quite a challenge, in terms of regulations and operations. We hope that you found this white paper useful, and that it helped you solve some of these challenges!

For us at Mati, our goal has always been to turn identity verification into a tool that can create positive business impacts. Of course, focusing on fraud is quite obvious then, especially when you know that the simple fact of asking for an official document proving the identity of the customer tends to drastically reduce the risk of fraud on your platform. On average, after implementing Mati, our clients see **a reduction of almost 90% of fraud intents** on their platforms.

Beyond that, our conviction at Mati is that it's when user verification meets automation that real miracles happen. A lot of companies are still manually checking the documents people send them today. Well, let's say it once and for all: manual verification is not efficient, it takes ages, it doesn't scale well, and errors or inattention mistakes will always happen. Plus, it costs a lot! That, and the **operational headaches** that come with it, is exactly what we're trying to solve with Mati.



And last but not the least, even if it's not a sexy subject for the vast majority of people, there's the compliance & regulations issues. After having worked with more than **200 clients in +50 countries**, we could say that we became experts here at Mati. But that's not the case for everyone, especially when you're launching or opening a new country: understanding the local regulations and KYC policies can be quite hard.

So usually people tend to be very happy when we say to them that using Mati will automatically make them compliant in the country they're operating! We've indeed built some protocols and documentation to make sure our clients know exactly what they need to ask their customers to comply. You could call that CaaS - for **Compliance as a Service** :)

Inspired by those subjects? Well, we'd be delighted to help you solve your issues! You can directly contact one of our User Verification Experts, and **book a meeting** with us to discover how our product works.



About Mati

For years, user verification has been a huge pain point for anyone trying to build or scale a business. Time to change that. Discover the Mati revolution, **the all-in-one user verification platform you were missing.**

With Mati, you can automate your user verification flows in a few hours, reduce fraud on your platform, and become compliant in any country of the world. Integrate Mati in 5 minutes, and immediately reduce your operational costs with automation - and **start scaling.**

We've got +200 companies covered



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PRODUCT

Mati Product Guide

The ultimate guide to understand how Mati works & how to integrate our platform to your processes.



SHARING ECONOMY

StayAlfred x Mati

How to reduce by 62.3% chargebacks on your platform in 4 weeks

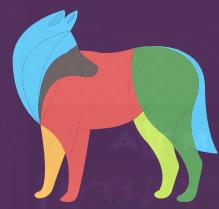


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