

Research Brief on Financial Services in Mexico

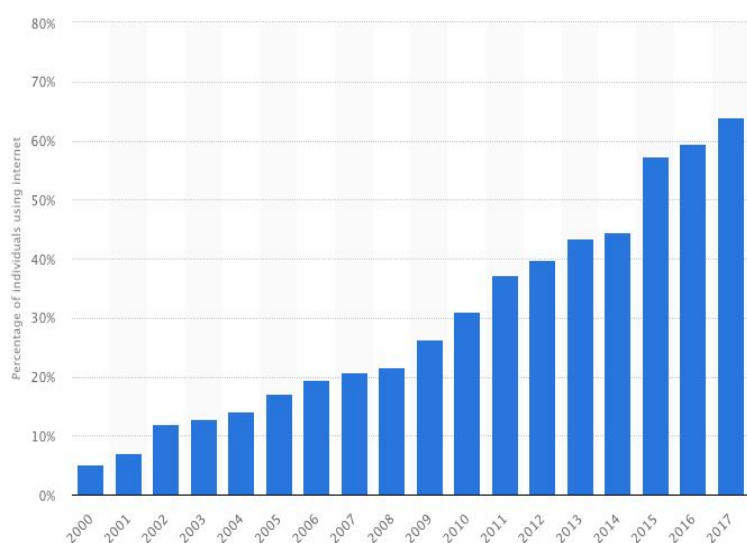
By Rohan Bhasin

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Introduction

Mexico is inhabited by **130 million plus** people (as of 2018 according to worldometers), out of which more than 60% is online. That means more than **78 million** plus people have the resources to bank online and serve all of their financial needs through the internet. So in the current scheme of things, mexico has a healthy online population.



This statistic gives information on the internet penetration in Mexico from 2000 to 2017. In 2017, 63.9 percent of the Mexican

population used the internet, up from 7.04 percent in 2001.

Therefore an establishment of a mobile banking system through the internet will appeal to a huge market.

Major Mobile Money Players

Since we've already established the scope for mobile money in the region. Here are a few firms/companies that deeply impact the sphere. The list includes both financial institutions and both application companies :-

- Unipagos
- MasterCard
- Visa
- CitiBanamex
- Banorte
- BBVA Bancomer
- Santander
- América Móvil
- Telefónica Móviles México
- Grupo Elektra
- PayPal
- MercadoPago
- Telcel
- Samsung Pay

Most of these corporations are household names in Mexico and are trusted by an increasing user base for all distinguished classes of transactions.

Adoption of Mobile Money In Mexico

Mexico has one of the most diverse financial services landscapes in all of Latin America, including about 250 fintech firms. In fact, 35 percent of the fintech companies in Latin America that serve people left behind by traditional banks are in Mexico, according to fintech start-up accelerator Finnovista. They also project that Mexico's fintech space could dominate nearly a third of the banking sector within a decade.

Mexico's economy is growing and maturing as the country embraces technical innovation to complement its established exports market. As a result, the country is peaking the interest of the world's investors and its mobile money market is helping to drive this change.

This is because Mexico's mobile money market is evolving and innovating in a range of ways to provide a robust infrastructure for investors. The country's central bank (Banco de México) established an interbank payments system (Sistema de Pagos Electrónicos Interbancarios or SPEI) for low-value transactions, including mobile money, in 2004. This was the first real move towards the country's current burgeoning mobile money market.

For 2017, the number of smartphone users in Mexico is estimated to reach **51.4 million**, with the number of smartphone users worldwide forecast to exceed two billion users by that time. Individuals of any age who own at least one smartphone and use the smartphone(s) at least once per month. Now, most (if not all) mobile payments are conducted through a **smartphone** connected to the internet. So the scope of adoption of money in the foreseeable future looks very promising and this fact is enough to convince both users and the concerned situations to make mobile money payments a medium through which even a person below the general economic line can use avidly.

Here's a great infographic about Mobile Money In Mexico :-

https://i1.wp.com/mobileecosystemforum.com/wp-content/uploads/2016/01/Amdocs_MFS_-In-fographic-Mexico-Guatemala-and-Colombia.jpg?w=2083&ssl=1

Interoperability Factor Of Mobile Money in Mexico

The GSMA Mobile Money programme is a strong advocate for mobile money interoperability, particularly when it is industry-led. In Mexico, there is a compelling case for account-to-account (A2A) interoperability from the perspective of the provider, consumers, and the market at large. There are many paths by which to achieve interoperability; the viability and desirability of each must be carefully assessed and evaluated on a market-specific basis.

In some cases, existing national payments infrastructure may evolve to facilitate mobile money interoperability. We are beginning to see this in Mexico, where the central bank (Banco de México – Banxico) has established its interbank payments system (SPEI, or *Sistema de Pagos Electrónicos Interbancarios*) as the de facto clearing and settlement mechanism for low-value transactions, including mobile money. SPEI can process transactions starting from one cent, and can reportedly handle at least

five times current payments volumes. As national payments infrastructure is traditionally optimised for high-value transfers, this shift is no small feat. [1]

Core milestones of this evolution include:

New pricing to encourage low-value payments. Transaction fees that SPEI participants incur today are equivalent to the marginal cost of moving money, which is zero. This is down from four US cents in 2006. Banxico expects this lower transactional cost for banks will translate in lower associated tariffs for end-users.

Longer operating hours with (near) real-time authorisation. SPEI makes funds available to the payee in near-real time. The goal is to operate 24 hours a day, 7 days a week, as opposed to the banking business hours the system had initially been limited to. Additionally, SPEI compensation cycles now occur every five seconds, resulting in near-immediate processing for users. These frequent settlement intervals allow for relatively low pre-funding requirements at the central bank.

Broader range of participants. Banxico has joined a special club of central banks that have opened their payment systems to non-traditional banks. In the case of SPEI, this includes cooperatives, niche payments banks, switches, and the Mexican national telegraph company (Telecomm), among others. These entities are allowed direct participation in the scheme. Today, 52 out of 107 participants are non-banks.

Linkage of mobile numbers to bank accounts. In late 2013, Banxico issued rules for mobile-payment clearinghouses, which include the linkage of mobile phone numbers to banks accounts. SPEI must be used to settle payments among mobile payments providers, whether directly or through a connected clearing house.

Business Flow Structures for 3 major MM players

[1] CitiPay by CitiBanamex (Banco Nacional de México S.A.)

Services : Use Banamex Wallet to buy safe and easy with your mobile using your Citibanamex MasterCards®

- Internet Purchases with your Digital Card in a safe manner

- Purchase confirmation with your Wallet PIN
- Pay with one BIP on any PayPass terminal!
- Query your transaction history

Users : 100,000 +

- Last Updated : 12 November 2018
- Size : 18MB
- Current Version : 4.2.0
- Requires Android : 4.4 and up

Transactions Volume : Not Officially Disclosed

Cost Structure : Not Publicly Disclosed

Website : <https://www.banamex.com/es/personas/banca-digital/citibanamex-pay.html>

[2] Samsung Pay by Samsung

In the second quarter of 2018, Samsung's market share was 20.9 percent. The user collection for the Samsung brand grows by almost 5 - 15 % every year. Therefore a huge sector of smartphone connected Mexicans use Samsung phones, hence use Samsung Pay as an alternative

Users : 200,000 in Mexico , 34 million Global

Transactions Number : 1.3 Billion Transactions Completed

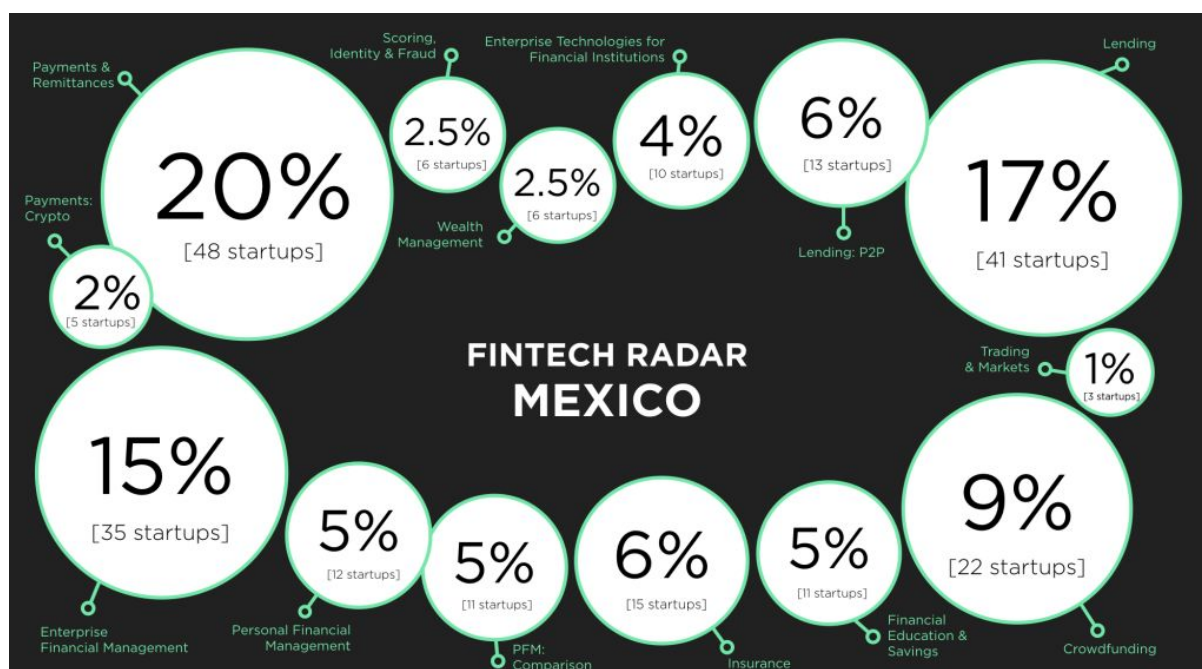
Cost Structure : Samsung Pay does not charge users additional fees for utilizing the app. There are no enterprise pricing plans.

[3] Unipagos

Unipagos is an electronic pay system that works with a cash based digital wallet.

1. **Payments :** Pay bills and top ups directly from your cell phone.
2. **Money transfer :** Send and receive money from person to person in a secure and easy way.
3. **Purchases :** Use your money to purchase from anywhere and anytime with our affiliated network of merchants.

Fintech Landscape in Mexico



Currently, the six major Fintech segments in Mexico are:

- Lending, accounting for 23% of the identified startups
- Payments and Remittances, with 22% of the startups
- Enterprise Financial Management, covering 15% of the identified startups
- Personal Financial Management, with 10% of the startups
- Crowdfunding, accounting for 9% of the startups in the country; and
- Insurance, with 6% of the startups.

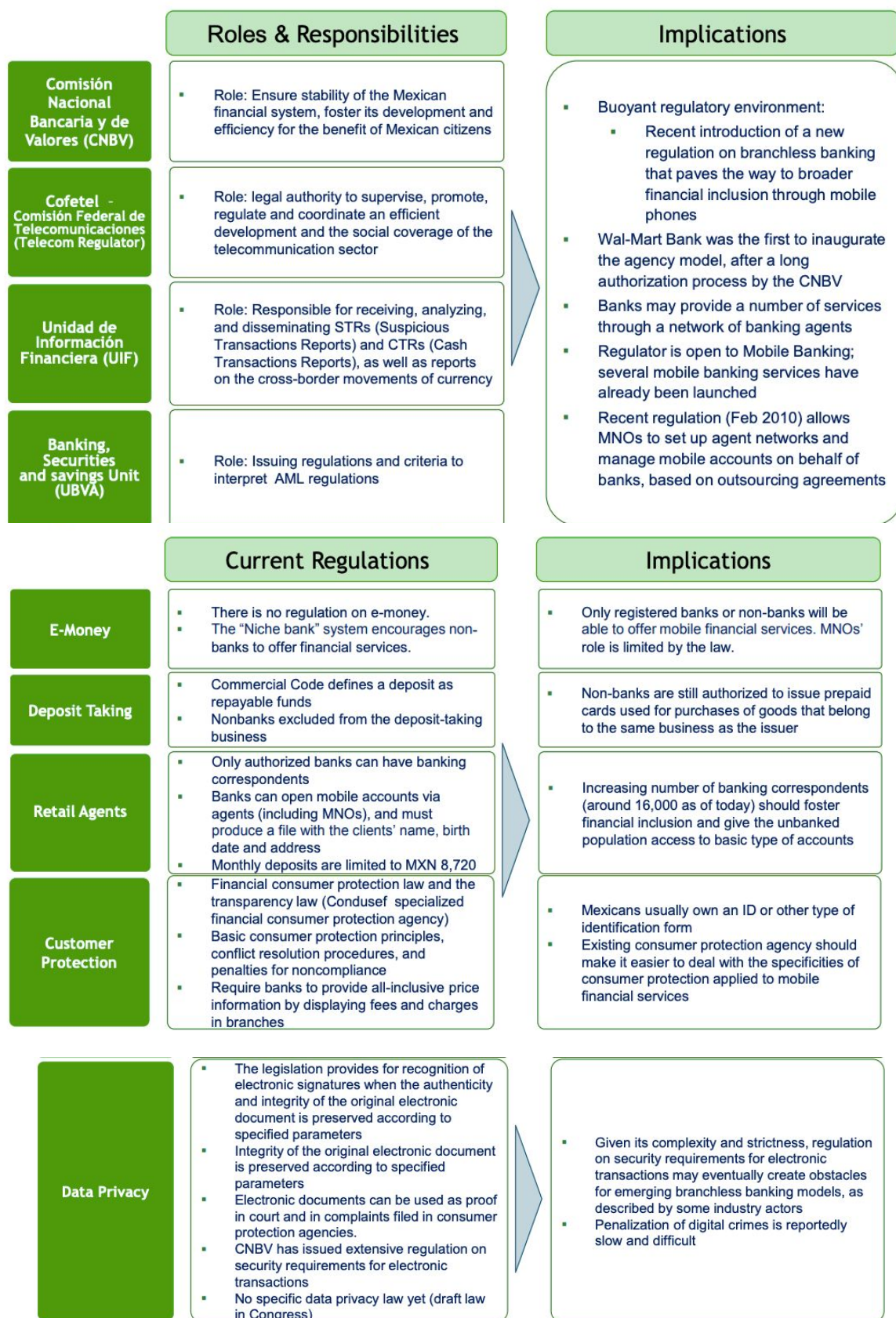
The remaining five Fintech segments are all under 5% of the identified startups in the analysis.

It is worth stressing that the Lending segment has increased 60%, occupying the first place in number of Fintech startups in the country, relegating the Payments and Remittances segment to the second place, after an exiguous growth of only 13%, which could indicate a saturation of the Fintech innovation in the payments segment in the country.





Another aspect to be noted in this new version, is the growth of the Enterprise Financial Management segment, which has consolidated its third position with a growth of 75% according to the previous version of the **Fintech Radar Mexico report by Finovista**, accounting for 35 of the 238 identified startups. Other segments that also registered important growths were the Personal Financial Management segment and the Financial Education & Savings one, which grew 53% and 57% respectively since the last version of the Radar.

The biggest surprise is the remarkable growth undergone by the Insurance segment, which has doubled its size. The Insurance segment in Mexico and Latin America was crying out for the arrival of disruptive innovations (InsurTech) that satisfied the needs of the new digital consumer. The Fintech ecosystem heard the message and the segment has grown 114%, putting together 15 startups in this category. This segment is set to become an exciting opportunity for Latin American insurance companies to innovate, improve their products and take advantage of new growth opportunities. This performance is consistent with global trends, where **three out of four** insurance companies believe that their business is at risk of being disrupted. Insurance companies can address existing gaps between consumers and digital channels by taking advantage of the Fintech sector.

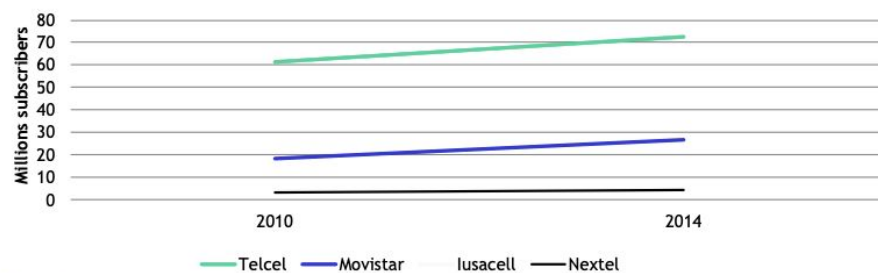
Regulatory Legal Climate



Major Service Providers

	<ul style="list-style-type: none"> • 100% América Móvil 	<ul style="list-style-type: none"> • 61.24 M subs (July 2010) • 70.8% Market share 	<ul style="list-style-type: none"> • Partnership with Banamex to provide SMS-based mobile banking services
	<ul style="list-style-type: none"> • 100% Telefonica 	<ul style="list-style-type: none"> • 18.26 M subs (July 2010) • 21.1% Market share 	<ul style="list-style-type: none"> • JV partnership with MasterCard in Latin America to provide mobile banking solution
	<ul style="list-style-type: none"> • 76% Grupo Salinas • 23% Publicly Traded 	<ul style="list-style-type: none"> • 3.79 M subs (July 2010) • 4.4% Market share 	<ul style="list-style-type: none"> • No known projects under way
	<ul style="list-style-type: none"> • 100% NII Holding 	<ul style="list-style-type: none"> • 3.19 M subs (July 2010) • 3.7% Market share 	<ul style="list-style-type: none"> • No known projects under way

Mobile subscribers forecast



Source: ie Market Research

Key Learning:

- Dynamic market, subscribers base will reach 107.3M people by the end of 2014 according to forecasts
- Telcel dominates the mobile landscape in Mexico and any of its decisions in the MFS space shall significantly influence the overall industry
- Telcel has a very dominant position in the market but competition is on the rise (monthly churn rate for Telcel is 3.6%). According to forecast, its market share is likely to decrease and reach 67.4% by 2014
- While Movistar's market share, and to a lesser extent Nextel and Iusacell's will increase (Movistar's market share is predicted to reach close to 25% in 2014)

Major Fintech Players

Fintech is thriving in Mexico. With over **158 fintech start-ups**, Mexico is the largest fintech market in Latin America, surpassing other big markets such as Brazil (**130 start-ups**) or Colombia (**77 start-ups**). Most of the Mexican fintech companies focus on payments and remittances, personal financial management, crowdfunding, and lending, among other segments. This random list of top 10 Mexico fintech companies will give you an understanding of how they are doing:

Konfio

Founded in 2013, Konfio is a leading platform that assists underserved micro-enterprises to obtain affordable and convenient loans via a propriety algorithm that measures creditworthiness using technology. It offers small businesses loans of up to 150,000 pesos to assist them develop their businesses and grow their operations, with competitive rates and via an online process. In May this year, the start-up received \$8 million investment from the Accion Frontier Inclusion Fund that was intended to enable the lender to grow its user base, adopt corporate best practices and strengthen its operations.

Kueski

Kueski is the fastest-growing micro-lending service in Mexico and Latin America. It uses advanced analytics and big data to approve and grant loans in a matter of minutes. Simple and available 24/7, the company is the most appropriate lending platform for people who need an immediate loan. Early this year, the company scored largest fintech investment in the history of Mexico with \$35 million.

Prestadero

Founded in 2011, **Prestadero** is a leading P2P lending platform that is transforming the banking system to make investing more rewarding and credit more affordable. By removing middlemen like banks, the company provides competitive rates for both lenders and borrowers.

Kubo financiero

Kubo financiero is a P2P lending platform that provides affordable and accessible loans to borrowers. Ranging from US\$400 to \$4,100, the loans can be used for fixed assets, working capital, supplies, education fees, and pre-payment for other loans with higher interest rates. In August 2016, the company raised \$7.5M during series A funding round.

UNIKO

UNIKO is an innovative company that provides the couple an opportunity to experience something different by changing gifts into cash. Early this year, the company received a total of \$450k funding from 500 Start-ups and Rokk3r Labs.

Bankaool

In 2013, **Bankaool** received the approval of the Comisión Nacional Bancaria y de Valores of Mexico (CNBV) that allowed it to be a multi-service bank. The company launched a digital platform to start marketing its first 100% digital bank accounts. Since last year, the potential customers of Bankaool are not required to visit an actual branch, and over 65,000 accounts have been created.

Conekta

Conekta enables developers and companies to create a payment solution with their own flow and design for any app and website. The company is a technology company and certified aggregator whose objective is to develop payment system that helps consumers transact successfully online.

Pago

Launched in 2010, **Sr.Pago** is a mobile point of sale that allows small businesses and individuals to receive card payments through tablets and smartphones. It allows customers to have access to banking-related products and services through a chip-based debit card. The MPOS system allows its user to receive credit card payment for services they render and transfer money to a reloadable MasterCard debit card.

Saldo

Founded in 2014 by Marco Nery, **Saldo** is a digital wallet that enables customers to pay bills to businesses in Mexico using tablets or smartphones. Users can choose the business, enter the reference number, and then pay with any bank card.

Bitso

Bitso is the first bitcoin exchange in Mexico, providing a platform for selling and buying bitcoin with Mexican Peso. It offers the highest level security and professionalism to bitcoin trading, Bitso exchange runs as a traditional currency exchange and has a central limit order book.

Major Upcoming Trends

The Mexican cryptocurrency landscape is slowly but steadily being established for the layman to transact or deal with crypto - currencies such as ethereum and bitcoin. Bitcoin runs on blockchain, an immutable linked list with its computation power stored on millions of devices. It is most pragmatic if big data companies, mobile money players and fintech services like digital fund management systems, all mine their transactions on the rapidly operable blockchain.

Sources

Down below are the links that were referred to or sourced for the completion of this research brief. These links provided the basis for all factual approximations and bar graphs and financial reports were also retrieved from the same :-

- <https://cointelegraph.com/news/mobile-money-digital-payments-americas-comes-to-mexico>
- <https://www.techbullion.com/category/fintech-news/>
- <https://www.sammobile.com/2018/06/06/samsung-pay-crosses-200000-users-in-mexico-after-just-four-months/>
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