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Fintech Regulation in Mexico

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01 Introduction

What is Catalyst Fund?

Catalyst Fund is an **inclusive fintech accelerator** that supports early-stage startups building solutions for underserved communities, and develops innovation ecosystems in emerging markets. Catalyst Fund is managed by BFA Global and supported by UKaid and JPMorgan Chase & Co.

Funders



JPMORGAN CHASE & CO.

Fund Managers & Venture Builders



Investment Advisory Committee



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What is the Cambridge Centre for Alternative Finance?

The Cambridge Centre for Alternative Finance (CCAF) at the University of Cambridge Judge Business School is dedicated to the study of technology-enabled and innovative instruments, channels, and systems emerging outside of traditional finance. It is driven by its mission to “create and transfer knowledge addressing emergent gaps in the financial sector that supports evidence-based decision-making.”

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Why this deck?

The CCAF and BFA Global have produced this deck to support fintech startups working in Mexico and those seeking to enter the Mexican fintech market.

This deck provides **an overview of Mexico's regulatory regime** as it relates to the fintech verticals of:

- ☐ Banking
- ☐ Credit
- ☐ Insurance
- ☐ Payments
- ☐ Investment

The deck also offers recommendations on how startups can best engage with regulators and tools to help them do so.



How to use this deck

This deck is organized into 4 main sections:

- ❑ Country and regulatory environment
- ❑ Tips on engaging with regulators
- ❑ Specific regulations per fintech vertical
- ❑ Resources for startups

The first two and final sections (#1, 2, 4) of this deck are of general interest to all fintech startups. The regulations section (#3) is segmented into different legal categories based on use cases, and not all categories may be relevant for a particular business model.

Companies can map their business model(s) to the relevant legal categories on slide 10. Following this mapping, they can focus solely on specific parts of the “regulations section” that are relevant to their business model(s).

In using this deck, please note the disclaimer on slide 2.
Note: the exchange rate applied is MXN\$21.3156 - 1 USD -- current at 5 March 2021.



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02

Mapping Business Models to Relevant Regulation

Mapping business models to relevant legal categories



Business Model	Legal Category											
	Banking	Payments	Credit	Insurance	Investments	Data	Consumer protection	AML / KYC	Cybersecurity	Competition	Telecom regulation	Taxation
Digital payments & remittance*		●				●	●	●	●	●	●	●
Digital lending			●			●	●	●	●	●		●
Digital savings	●					●	●	●	●	●		●
Digital investment					●	●	●	●	●	●		●
Digital insurance				●		●	●	●	●	●		●
Digital capital raising**			●		●	●	●	●	●	●		●
Personal financial management	●	●	●		●	●	●	●	●	●		●
Ecommerce & DFS platforms	●	●	●	●		●	●	●	●	●		●

*includes mobile wallets/ e-money, payment initiation & mobile POS **includes P2P lending and equity crowdfunding

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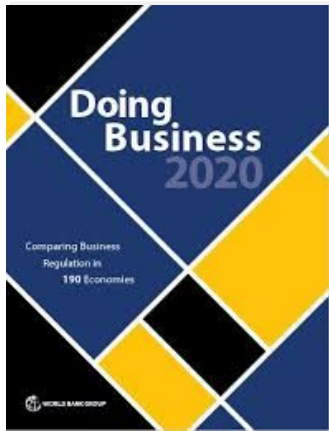
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03

Mexico's Current Regulatory Environment

Mexico ranks 1st in Latin America for ease of doing business



The World Bank's Doing Business rankings ranks Mexico as **60th worldwide**, making it **first in Latin America** in terms of ease of doing business.

- Mexico ranks highly for ease of credit and trading across borders.
- Difficult areas include ease of starting a business and paying taxes.



The GSMA Regulatory Index gives Mexico an overall score of **73.37 out of 100**.

- Mexico scores highly on agent network (100) and authorizations/licensing (88).
- The regulatory approach scores lower on infrastructure & investment environment (53) and consumer protection (40).

Enabling environment with strong government & policy support but high corruption perceptions



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The Economist Intelligence Unit Global Microscope 2020 ranked Mexico as joint **4th out of 55 countries**.

- Mexico was above average in government & policy support, products and outlets, and consumer protection.
- Mexico was below average in infrastructure and stability & integrity.



Transparency International ranked Mexico at **124th out of 180** on their 2020 Corruption Perceptions Index.

Mexico's score of 31/100 is lower than the regional average for the Americas in 2020. This result reflects a higher perceived level of corruption in Mexico than the average level of the Americas.

Sources: [The Economist Intelligence Unit Global Microscope 2020](#), [2020 Corruption Perceptions Index](#), [ÍNDICE DE PERCEPCIÓN DE LA CORRUPCIÓN 2019](#)

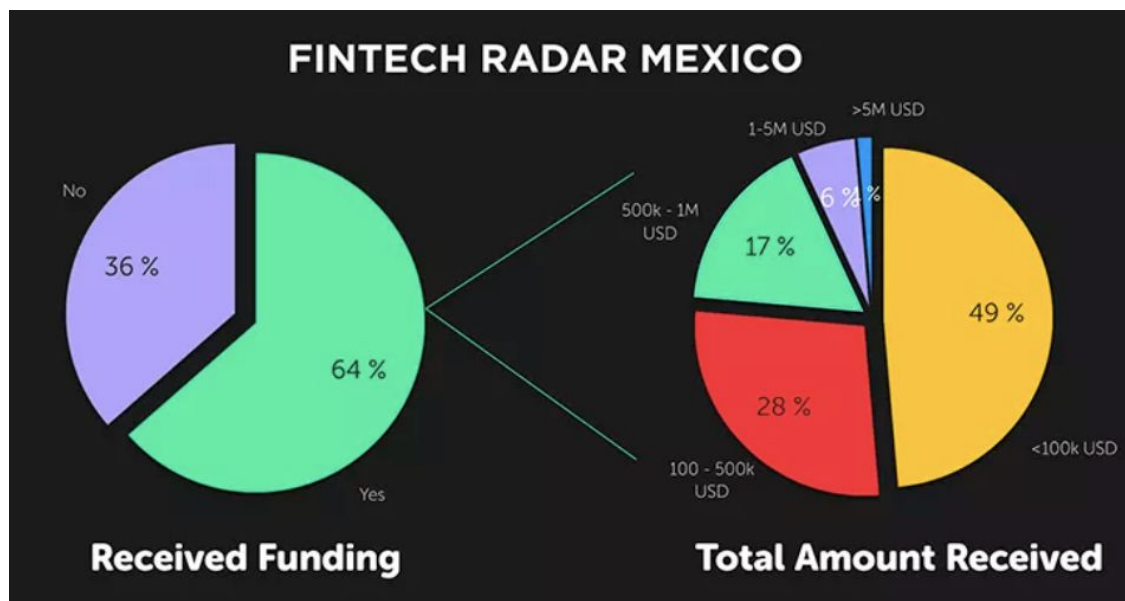
Below average account penetration with above regional average mobile money usage present opportunities for fintech

According to the World Bank's 2017 Global Findex report:

- 5.6% of Mexicans over the age of 15 had a mobile money account (average for LAC is 5.3%).
- Overall access to accounts is at 36.9% of all adults (54.4% average for LAC).
- 31.7% of Mexicans over the age of 15 had sent or received digital payments in the past year (45.1% average for LAC).
- 40.6% reported having saved any money with 9.8% having made savings in a financial institution.
- Although 31.8% had borrowed any money, only 11.8% had borrowed from a financial institution, suggesting a higher frequency in informal borrowing.



Regulatory reforms are enabling fast growth of tech innovation in Mexico



- **400+ fintech startups** in Mexico
- **\$800M+** in fintech venture capital (VC) funding in 2019
- Mexico, Brazil, Uruguay, and Colombia accounted for **over 99% of VC funding** in 2020
- Majority of funding rounds are **<\$100k** with a **few startups raising >\$10M**
- **Digital banking startups grew 200%** and insurtechs 37% YoY in 2019
- Despite significant investment activity, **Mexico's low-income and remote populations are largely excluded from access to fintech products.**

Spotlight on Mexico's regulators



The three primary regulators with jurisdiction over fintech are:

- the **Central Bank of Mexico** (Banxico),
- **Ministry of Finance and Public Credit**; and
- the **National Banking and Securities Commission** (CNBV),

All three are proactively involved in fintech-related initiatives, such as regulatory sandboxes. However, regulations in practice are new, and specific challenges change with each new authorized entity.

Firms will often need to engage with multiple regulators simultaneously to determine whose jurisdiction they fall under and/or which license(s) or authorization(s) they require.



BANCO DE MÉXICO

Regulatory approach to fintech in Mexico

Fintech Law

On March 9, 2018, Mexico published the Law to Regulate Financial Technology Institutions (“**Fintech Law**”). It regulates financial services provided by financial technology institutions (*instituciones de tecnología financiera*) or “**fintech institutions**” or “**ITFs**”) and their organization, operation, and functioning, and financial services offered or performed by “Novel Models” that are subject to special regulations. Regulated fintech firms under the Fintech Law are required to comply with relevant legislation.

Approach to fintech

Due to the fintech sector’s nascence, the regulatory approach might be considered to be cautious. However, there is an interest in avoiding unnecessary obstacles to innovation. Regulators are open to engage with potential applicants about their business models and products and provide guidance.

Specific fintech “pain points”

- Time required to obtain authorization; it takes approximately one year to prepare documentation and get a license.
- Uncertainty about what is “novel” regarding the application of a Regulatory Sandbox.
- Capital and cybersecurity requirements prior to obtaining a license.

Fintech law's 5 key components

Electronic Payment Funds Institutions (*Instituciones de Fondos de Pago Electrónico* or “**IFPE**” or “**Wallets**”):

This covers wallets that provide services to the public. The Fintech Law covers the issuance, administration, redemption, and transmission of electronic payment funds through digital means of communication. For more information, see Section 5.2.

Open Banking

Financial entities are obligated to exchange data through Application Programming Interfaces (“APIs”) to foster competition in the markets, and ultimately lead to better, more efficient, personalized, and more suitably designed products and services for the end consumers.

Collective Finance Platforms (*Instituciones de Financiamiento Colectivo* or “**IFC**” or “**Crowdfunding**”)

An IFC performs an intermediary activity by connects applicants (*solicitantes*) with investors (*inversionistas*) who want to finance an applicant's project, through digital means of communication.

Virtual Assets*

“A virtual asset is an electronically recorded representation of value used by the general public as a means of payment for all types of legal acts, the transfer of which may only be carried out by electronic means. Under no circumstances shall a virtual asset be understood to be legal tender in national territory, foreign currency, or any other asset denominated in legal tender or foreign currency.” For more information, see **Section 5.6.8.**

Novel Models in the context of a Regulatory Sandbox

A Novel Model is defined as “a model that for the provision of financial services uses technological tools or means with modalities different from those existing in the market at the time the temporary authorization is granted in terms of this Law.”

Regulatory Sandboxes

Who is eligible?

Any financial entity that uses a Novel Model and is authorized by the relevant financial regulator.*

Types

Pure Sandbox: A temporary authorization **for non-financial entities** to carry out a Novel Model activity whose performance requires an authorization, registration, or concession from the financial regulators.

Sandbox for Financial Entities: A temporary authorization **for financial entities** to carry out an operation or activity through Novel Models, when an exception to the secondary regulation is required.

Authorization Process*

The type of financial entity that the applicant is eventually looking to transform into designates the specific process and regulator that is going to undertake the authorization process. Each financial regulator has its own regulatory sandbox.

The main authorization requirements are:

- The entity proposes a Novel Model.
- The product offered/service provided to the public requires testing in a controlled environment.
- The way the product/service is implemented provides a benefit to the customer compared to what is available on the market.
- The project is ready to commence operations.
- The project can be tested with a limited number of customers.

For Pure Sandboxes, the authorization is granted for two years, extendable for a further year. For Sandboxes for Financial Entities, the authorization is granted for one year, extendable for a further year.

*As fintech is a new sector, there is uncertainty on the application process and what might constitute "novelty" or a "Novel Model" when applying to the regulatory sandbox.

Regulatory opportunities & challenges for fintech

Engaging with CNBV

- CNBV promotes a permanent dialogue with the fintech community in Mexico, so firms interested in obtaining authorization under the Fintech Law or participating in a Regulatory Sandbox can consult the CNBV's website or contact them through institutional emails. See Section 7.
- The Financial Innovation Group is a consultation, advisory, and coordination body that encourages the exchange of ideas and knowledge between the public and private sectors in financial technology. It meets at least once a year. Fintechs can use this group to approach financial authorities with ideas and concerns.
- CNBV encourages evaluation of the financial activity that the fintech intends to carry out to identify the applicable regulation. This will help with engaging the relevant regulatory authority and initiating the necessary procedures. The CNBV published [several guides](#) to help fintech companies to identify the legal, operational, and technological requirements to request authorization.

Regulatory Barriers

- **Uncertainty of specific regulation.** There is confusion about tax regulation for fintech institutions since there is not one particular tax regulation applicable to these new financial institutions.
- **Cybersecurity and capital requirements are considered too high for fintech start-ups.** Some fintechs have therefore opted to partner with or be sponsored by existing licensed companies as lead generators. It is important to note that the use of a Fintech-as-a-Service model is prohibited by the regulator.
- **Timing challenges relating to licensing.** CNBV only issued the first license to an IFPE in January 2020 and several regulated fintech institutions that were in operation prior to the enactment of the Fintech Law in 2018 were only authorized in February 2021, almost 3 years later. To address this issue, some fintechs have opted to acquire or be acquired by a pre-existing company to obtain their license in a more timely manner. Uncertainty around the licencing framework, requirements, and timeline has also resulted in several providers operating in the same market under different licenses from different regulators. For example, NuBank is operating as an unregulated credit lender and Paypal is operating as an aggregator rather than under the Fintech Law.

Strengths in Mexico's regulatory environment

Strengths

- 1** Mexican regulators are generally **supportive and encouraging of innovation and fintech** and have a genuine desire to see the sector in Mexico grow. This is reflected in their openness to engage with innovators and fintechs and through recent and upcoming initiatives, such as the Regulatory Sandbox and encouraging innovators to associate and implement the best practices for the final clients.
- 2** Regulators are keen on the fintech industry to identify regulatory barriers to innovation, so they can **inform the process**. Furthermore, they encourage innovators to apply Novel Models within the regulatory sandbox to guide them when updating financial regulation.
- 3** The existence of a Fintech Law provides some **certainty** to entrepreneurs on which specific regulatory framework(s) apply to their business model.
- 4** **Initiatives** such as the “Onboarding for Insurance Companies” are available for overseas Insurtechs.

Challenges in Mexico's regulatory environment

Challenges

- 1** A plurality of regulatory authorities has created **regulatory overlap**. Each regulator oversees different segments of the financial sector and especially the fintech sector, open finance, and the Regulatory Sandbox. Further, regulatory barriers to innovation may arise from older laws or requirements, especially if they are strictly applied.
- 2** **Cybersecurity** is a challenge that has been highlighted by the CNBV. Fintech firms are required to protect data from cyberattacks and improper data usage. New security provisions for IFPEs require compliance with cybersecurity best practices, but the cost for compliance may be high.
- 3** As fintech is a new sector, there is **uncertainty** about the application process, what may constitute novelty when applying to the regulatory sandbox, and how financial entities are required to connect for the Open Banking scheme.
- 4** Financial regulation in Mexico is differentiated by type of entity (**institution based regulation**), and this can result in regulatory arbitrage by certain actors. Therefore a central concern of regulators is to build adequate and proportional regulation that encourages the growth of each regulated entity and promotes economic growth and financial stability, and at the same time avoids regulatory arbitrage.

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How to Engage with Regulators

How can startups **effectively engage with regulators?**



Do your research

Review requirements before approaching the relevant regulator(s) and prepare specific questions. Consider which [laws and regulations](#) might apply to you. Note that more than just financial regulation may apply to you, including topics like data protection, cybersecurity, company structure, labor law, tax, and others. It is easier to build compliance into your product and company procedures from the start than add them later. Consider [future regulatory developments](#) that may impact your company as it grows or other pathways to taking products to market, such as through partnerships.



Engage with the regulator early

Financial regulators in Mexico generally support and encourage innovation in financial services and want to support providers. There are a number of mechanisms and tools in place to facilitate a dialogue. Joining fintech, crowdfunding, or Insurtech associations may facilitate engagement with regulatory authorities.

If you engage early, you have the best chance to familiarize regulators with your company and products/services. This will enable them to provide informal guidance and clarification about your regulatory requirements as your company grows and regulations change over time.



Think like a regulator

Consider the regulators' objectives because these guide their priorities. Meet their requirements by giving them all of the information they need to answer your questions or to grant you a license. Be mindful of regulators' timelines, personnel, and budget and build these considerations into your business plan. They won't be able to speed up your application just because your investors want it. Remember, the more prepared you are, the quicker you will get a license and the fewer hurdles you will encounter later in your journey.

Thinking like a regulator also demands considering broader policy goals. For example, Mexico's National Financial Inclusion Policy seeks to promote financial inclusion and access to financial products in the formal sector.

Ask other founders about their experiences with regulators to understand how you can best prepare and align to their priorities.


Engaging with the CNBV


The CNBV encourages firms to approach them at an early stage. There are a **number of channels through which fintechs may engage** with the CNBV:


1. Firms can email the CNBV at supervisionfintech@cnbv.gob.mx or modelosnovedosos@cnbv.gob.mx.
2. For general enquiries concerning supervised sectors, see the CNBV [website](#). Further information on associated regulatory frameworks can be found [here](#).
3. For the regulatory sandbox, the CNBV published a series of [Frequently Asked Questions](#) to provide clarity on what is considered a Novel Model and the requirements to apply for temporary authorization.
4. Firms can contact the fintech supervision or new models sectors to schedule a meeting to present their model and clarify any regulatory questions. Firms engaging with the CNBV are encouraged to share the following information in such meetings:
 - a. Shareholder's identity
 - b. Market presence
 - c. Business model and activities to perform
 - d. Geographical coverage and objective market
 - e. Products and services to be offered
 - f. Project justification and virtues
 - g. Medium- and long-term expansion project
 - h. Capital structure
 - i. Technological infrastructure
 - j. Origin of resources to be contributed to the Financial Technology Institution





Key messages to fintechs from CNBV

 The CNBV encourage firms to clearly define the scope of their potential business, analyze the market, and assess whether the activity they intend to perform requires authorization from the Federal Government to operate or not.

 The CNBV encourages firms to evaluate the costs and benefits of regulatory alternatives and approach the financial authorities if they have doubts about regulatory issues. The regulatory sandbox should also be explored as an option to launch new business models in the financial sector.

 Firms are encouraged to consider the CNBV's primary objectives of financial stability and the maintenance and promotion of a healthy and balanced financial system when engaging with them.

 Firms are not required or encouraged to use an intermediary when engaging with the CNBV.

 Any information shared by the fintech to the CNBV is confidential and for regulatory purposes only.



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05 Relevant Regulations



5.1 Banking regulations



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Banking: Main regulators

The Ministry of Finance and Public Credit (SHCP)

SHCP delegates its authority to evaluate and authorize Fintechs to the Banking, Securities and Savings Unit (UBVA). The SHCP has the following roles: (i) Coordinate the stock market & banking sectors through units (e.g., UBVA); (ii) Evaluate the banking system through regulatory reports; (iii) Monitor Mexican banking operations, make requirements, study regulatory reports, review credit files, credit ratings, etc; and (iv) Regulate through the Unique Circular of Multiple Banks and the Circulars of Development Banks.

Financial Intelligence Unit (*Unidad de Inteligencia Financiera* (UIF))

UIF is the intelligence authority for AML/CFT which includes reception and analysis of:

- A. Suspicious activity reports
- B. Other information relevant to money laundering, related predicate offences and terrorist financing and for the dissemination of the results of such analysis.

National Banking and Securities Commission (CNBV)

The CNBV's aim is to supervise and regulate, within the scope of its competence, the institutions that form the Mexican financial system, to ensure their stability and proper functioning, to maintain and promote the healthy and balanced development of that system, and to protect the public's interests. The CNBV is the authority for banking supervision.

National Commission for the Protection and Defence of Users of Financial Services (CONDUSEF)

CONDUSEF is the authority for the protection and defense of financial services users and aims to seek equity between parties strengthening users' legal security in their relationship with financial institutions.

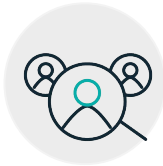
Bank Savings Protection Institute (IPAB)

IPAB regulates the reorganization and liquidation of banking institutions and establishes corrective measures to prevent systemic risk.

Mexican Central Bank (Banxico)

Banxico is the authority that regulates, through circulars, the provision and characteristics of financial services and their operations.

Banking: Commercial Banks licensing



Who:

Applies to those who wish to establish a commercial bank (*Instituciones de Banca Múltiple*).

Permitted activities:

- **Active Operations** are loans and financing operations like consumers loans, simple credits, current account credits, among others.
- **Passive Operations** are bank deposits or issuance of bonds.
- **Service Operations** are financial leasing services, financial factoring, acting as a trustor, or safe deposit box services



How much:

- MXN \$53,747.00 (US\$2,521.52) for the analysis of an application.
- MXN \$790,395 (US\$37,080.58) for the authorization
- MXN \$2,529,264 (US\$118,657.88) for the start of operation



Capital requirements:

- Firms performing the permitted activities set forth in the Credit Institutions Act are required to maintain a paid-up share capital of 90 million Investment Units (UDIs) (US\$28 million).
- Banks that do not wish to operate with securities, being trustors, or grant services like safe deposit box services, among others, are required to maintain a paid-up share capital of 54 million UDIs (US\$17 million).
- Finally, those providing the basic services of deposits and loans are required to maintain a paid-up share capital of 36 million UDIs (US\$11.3 million)



How:

- An authorization from the federal government is required to operate as a commercial bank. The license is issued by the CNBV, following a resolution from its Governing Council and a favorable opinion from Banxico.
- Applications should be submitted to the CNBV and include:
 - Draft articles of association of the institution,
 - General plan for the functioning of the institution,
 - List of proposed shareholders and information about them,
 - List of proposed members of the Board of Directors and information about them, and
 - A deposit guarantee for an amount equal to ten percent of the minimum capital with which the institution is required to operate.

Banking: Popular Savings and Credit

Key regulations:

- Popular Savings and Credit Law
- Law to Regulate the Activities of Savings and Loan Cooperative Savings and Loan Societies
- Credit Union Law
- Law on Retirement Saving Systems

Main regulators:

- National Banking and Securities Commission (**CNBV**)
- National Commission for the Retirement Savings System (**CON SAR**)

Popular Finance Company (*Sociedad Financiera Popular* or “**SOFIPOS**”)

- SOFIPOS are microfinance institutions (MFIs) that are permitted to provide services to both their members and their clients.
- They are permitted to receive deposits, issue and operate debit cards, grant loans, receive payment orders and transfers, and receive payments for services, among others.
- A favorable opinion of a Federation* and authorization at the discretion of the CNBV is required for authorization as a SOFPIO.
- SOFIPOs are divided in four levels depending on the services they provide.
- Licensing fees are MXN \$28,042 (US\$1,315.56)

Other types of institutions in this category include:

- **Savings and Loan Cooperative Societies** (*Sociedades Cooperativas de Ahorro y Préstamo* or “**SOCAPs**”)
- **Credit Unions** (*Uniones de Crédito* or “**CUs**”).
- **Retirement Fund Administrators** (*Administradoras de Fondos para el Retiro* or “**AFORES**”)
- **Specialised Retirement Fund Investment Companies** (*Sociedades de Inversión Especializadas de Fondos para el Retiro* or “**SIEFORES**”)

*A Federation is a public institution that shall be constituted exclusively with the voluntary grouping of SOFIPOS, and shall be authorised by the CNBV, for the performance of auxiliary supervisory faculties. The Federations can formulate observations and recommendations to SOFIPOS, provide technical, legal, financial and training advisory services to SOFIPOS and can standardise, as appropriate, regulations, operational procedures and formalities, as well as accounting and IT systems of the SOFIPOS.

Banking: Deposit insurance

Key regulation:

The Bank Saving Protection Law established the Institute for the Protection of Bank Savings (*Instituto para la protección del ahorro bancario* or “**IPAB**”), which administers the bank savings protection system.

IPAB obligations:

- IPAB is responsible for the guarantee of deposits and loans.
- IPAB will pay the balance of guaranteed obligations, including the total amount plus any interest due, up to an amount equivalent to 400,000 UDIs (approximately US\$126,192) per person, individual, or legal entity, regardless of the number and type of the recipient party’s guaranteed obligations.

Bank obligations:

- Banks are required to inform their customer of this funds guarantee.
- Institutions are required to pay the IPAB the ordinary and extraordinary fees established by the Governing Board under the terms and conditions set forth in Chapter III of the Bank Saving Protection Law.

Scope:

- Applies to banks only.
- Regulated fintech institutions, as defined in the Fintech Law, do not fall under this guarantee. They do not have to pay ordinary or extraordinary fees, but their users do not receive IPAB coverage.
- In the case of Debt Crowdfunding, the loan is not structured as a deposit but as a security.

Banking: Agent regulations

General Requirements for Bank Agents:

For public-facing activities, third parties contracted by institutions must act in the name and on behalf of the financial institution, and the relationship must be documented with a commercial commission contract.

In addition, the institution must have policies and procedures in place to monitor, evaluate, and report on the performance of the third party or bank agent to ensure their compliance with contractual obligations.

Activities that the bank agent can perform:

- Note: CNBV authorization is required for institutions to enter into commercial commissions for the purpose of carrying out the activities described below (except for withdrawals).
- Payments for services in cash, charged to credit or debit cards, or with checks drawn at the expense of the issuing institution.
- Cash withdrawals made by the customer
- Deposits made in cash or by check drawn on the client's or a third party's account.
- Credit payments in favor of the institution itself or another institution.
- Consultations of balances and movements of accounts.
- Opening Tier 1, 2, and 3 bank accounts and securities management accounts with customers, subject to transaction limits.
- Purchase of US dollars in cash exclusively with natural persons on behalf of the institutions themselves.
- CNBV authorization is required for institutions to enter into commercial commissions for the purpose of carrying out the activities described below (except withdrawal).

Limits: There are transactional limits for check withdrawals and payments of 1,500 UDIs (MXN\$10,323/US\$484.29), deposit limits of 4,000 UDIs (MXN\$27,528/US\$1,291.44), and cash purchase transactions of US\$250.

Banking: Agent regulations

The provisions of the Bank Agents regulation are not applicable when the following services are contracted by the institutions:

- Professional or consultancy services including mandates and commissions.
- Manufacture, delivery or distribution of credit cards and debit cards.
- Custody and transport of money.
- Portfolio recovery.
- Maintenance of equipment and networked computer systems.
- Services related to administration, such as cleaning, security, messaging and correspondence, and storage and physical safekeeping of information and documentation, among others.
- Processing credit operations in the promotion and evaluation phase.



5.2 Payments



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Payment networks: General overview

Main regulator:

Central Bank of Mexico (Banxico)

Key regulation:

General Provisions Applicable to Networks of Means of Payments (*Disposiciones de Carácter General Aplicables a Medios de Disposición* or “DCGMD”).

Main relevant participants:

- **Acquirer.** Provides payment services to Aggregators on the payment card networks and the infrastructure to connect to these networks.
- **Aggregator.** Accepts card payments on behalf of payment recipients and provides the necessary network infrastructure.
- **Issuer.** Issues cards, receives payment authorization requests from the Acquirer through the Card Payments Clearing House, and generates the respective payment authorizations, payment rejections, refunds, and adjustments to send to the payment receiver through the Clearing House and to the relevant Acquirer.
- Other participants include Card Payments Clearing House, Brand Owner, Specialized Companies, and Payment Recipients. Only Clearing Houses require an authorization from Banxico.

Payments: Becoming a money transmitter

Key regulation:

General Law for Credit Organizations and Auxiliary Credit Activities (*Ley General para las Organizaciones y Actividades Auxiliares del Crédito* or “LGOAAC”)

Main regulator:

CNBV

Scope:

Only corporations and limited liability companies with a valid registration as Money Transmitters* with CNBV may transfer funds.

How:

- The registration fee is MXN\$2,528 (US\$118.59).
- Money Transmitters must have physical establishments.
- The application must include a information on the proposed shareholders of the Money Transmitter.
- The Money Transmitter must obtain a favorable technical opinion from the CNBV regarding AML/CFT requirements.
- Registration may be revoked by the CNBV if the Money Transmitter does not comply with the provisions in LGOAAC and subsequent provisions.

*Money Transmitters are defined in the LGOAAC as “corporations which, in exchange for the payment of a specific fee, profit or gain, receives in Mexico resources in national or foreign currency, directly at their offices, for the sole purpose of transferring them, in accordance with the instructions of the sender, abroad, to another place within the national territory or to deliver them, in a single payment, at a foreign country where they are received, to the designated beneficiary.”

Payment: E-money and wallets

Main regulators:

Banxico, SCHP, CNBV, CONDUSEF, CONSAR (which supervises retirement savings systems) and National Insurance and Bonding Commission (Comisión Nacional de Seguros y Fianzas or “CNSF”), which oversees insurance institutions.

Key regulation:

The Fintech Law created two types of Fintech institutions: (i) Financing Collective Institutions (IFC); and (ii) Electronic Payment Funds Institution (IFPE). **This section focuses on IFPEs.**

* FPEs are defined in Article 23 of the Fintech Law, and exclusions, such as loyalty/reward points and money transfers, are set out in Article 24.

**The terms “issue”, “administer”, “redeem” and “transfer”, which are the “Core Activities”, are defined in Article 22 of the Fintech Law.

*** Banxico may allow IFPEs to offer their customers non-monetary benefits. The resources received by IFPEs for the issuance of electronic payment funds are not considered to be bank deposits

Electronic Payment Funds Institution (IFPE):

- They issue, administer, redeem and transmit electronic payment funds (*Fondos de Pago Electrónico* or “FPE”)* through digital platforms or any other electronic mean of communication (the “Core Activities”)**.
- The requirements, obligations, and guidance to form an IFPE in Mexico can be found in this [guide](#) issued by the CNBV.
- IFPEs are only permitted to undertake activities specifically mentioned in the Fintech Law. All other activities are, therefore, *de facto* not permitted, including paying interest to customers***.
- In addition to the Core Activities, they may only carry out the following activities:
 - Issue, market, or administer instruments for the disposal FPE.
 - Money transmission services.
 - Provide services related to the networks of means of disposal referred to in the Law on Transparency and Organisation of Financial Services .
 - Grant overdraft credits or loans for the accounts they manage, derived solely from the transmission of FPE (sole form of credit permitted).
 - Transact with virtual assets under the terms of the provisions of the Fintech Law.
 - Obtain loans and credits from any person, national or foreign, for the compliance with its corporate purpose, among others.

Payments: Licensing ITFs, including IFPEs

Who:

The two types of fintech institutions (ITFs): (i) Financing Collective Institutions (IFC); and (ii) Electronic Payment Funds Institution (IFPE) require an authorization from the CNBV.

Those interested in obtaining ITF authorization are required to:

- Be incorporated under Mexican law.
- Include in its corporate purpose, the performance, on a regular or professional basis, of any of the activities provided for in the Fintech Law.
- Establish its domicile in Mexico.

How much:

Currently there is no licensing fee applicable to fintech institutions, however a reform to the Federal Law on Rights (*Ley Federal de Derechos*) may change this.

Capital requirements:

Minimum capital depends on the type of activities and risks. It varies from 500,000 to 700,000 UDIs (US\$157,740 to US\$220,836).

Timing:

Rulators are required to approve the institution in 90 working days unless there is an explicit provision otherwise

Application process:*

The application must be accompanied by:

- Public deed granting sufficient powers to the representatives of the applicants
- Draft articles of association that comply with the requirements set forth in the Fintech Law
- Business plan and business continuity plan, including succession plans
- Policies for disclosure of risks and responsibilities
- Policies regarding the control of operational risks
- Policies for solving possible conflicts of interest
- Anti-fraud/AML policies
- Detailed shareholder information
- Description of the financial model
- Projected financial statements for the first three years of operation

Secondary legislation also mandates additional requirements.

*The CNBV has issued specific guides for IFPE and IFC regarding applications for authorization. See slide 36.



5.3 Credit



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Credit: Overview & SOFOMES

- It is not required by law to have an authorization, registration, or concession to provide credit. Further, peer to peer lending is not subject to specific regulation/requirement.*
- Notwithstanding the above, there are specific financial entities that are typically used for credit placement in Mexico called **Multiple Purpose Financial Companies (Sociedad Financiera de Objeto Múltiple or “SOFOMES”)**
 - SOFOMES are public limited companies registered with **CONDUSEF**, whose main purpose is to grant credit, financial leasing, or financial factoring. Most MFIs are SOFOMES.
 - SOFOMES are primarily regulated by the General Law for Credit Organizations and Auxiliary Credit Activities (*Ley General para las Organizaciones y Actividades Auxiliares del Crédito* or “LGOAAC”)
 - SOFOMES can be regulated (*Sociedad Financiera de Objeto Múltiple, Entidad Regulada* or “**SOFOMES E.R.**”) or unregulated (*Sociedad Financiera de Objeto Múltiple, Entidad No Regulada* or “**SOFOMES E.N.R.**”)
 - There are three types of **SOFOMES E.R.:**
 - Those held/controlled by credit institutions, popular financial companies (SOFIPOS) or savings and loan cooperative societies (SOCAPS).
 - Those that issue debt securities at their own expense and are registered in the National Securities Registry in accordance with the Securities Market Law.
 - Those approved by the CNBV as a regulated entity.
 - Main elements of **SOFOMES E.N.R.:**
 - Includes all other multiple purpose financial companies that do not fall into a SOFOMES ER category.
 - SOFOMES E.N.R. are also subject to inspection and surveillance by the CNBV but only to verify compliance with AML/CFT requirements.

Credit: Registration process for SOFOMES

Registration fee:

The process is free but is subject to a variable annual fee of MXN \$42,301.04 (US\$1,984.51)

Registration process:

SOFOMES need to register with the Register of Financial Service Providers by the National Commission (*Sistema de Registro de Prestadores de Servicios Financieros* or “SIPRES”)

The application process includes:

- Submitting draft articles of association to CONDUSEF for their review.
- CONDUSEF responding with a favorable or unfavorable opinion through SIPRES within a period of no more than thirty working days from the date of receipt of the request.
- Once a favorable opinion from CONDUSEF has been obtained, the applicant has a period of thirty working days to incorporate the SOFOM.

Obligations:

- The main provisions are set out in the General Law for Credit Organizations and Auxiliary Credit Activities (LGOAAC), according to the type of SOFOMES E.N.R. must provide information/documentation required by SHCP, Banxico, CONDUSEF, and the CNBV and may be sanctioned if they do not provide correct information within the indicated time limits.
- SOFOMES E.N.R. must receive a technical opinion on AML/CFT from CNBV before registering with CONDUSEF at a cost of MXN\$26,129.40 (US\$1,225.83).

Credit: Credit Bureaus

- **The Law to Regulate Credit Information Companies** provides a framework for the exchange of information between credit bureaus and lenders.
- Amongst other requirements, it prescribes the conditions under which data subjects' credit history may be shared and states that only financial institutions (including SOFOMOES E.R.), commercial companies and SOFOMES E.N.R. may use the information provided by the respective bureau.
- The bureaus may only provide information to a user when it has the express authorization of the data subject.
- The bureaus are liable for damages caused to clients by providing information when there is gross negligence, willful misconduct or bad faith when handling the data. Lenders could also be liable for any damage they cause by providing such information.

The logo for FICO, consisting of the word "FICO" in a bold, dark blue, sans-serif font with a registered trademark symbol.The logo for Círculo de crédito, featuring a stylized circular emblem with a blue outer ring and a yellow inner circle, positioned above the text "círculo de crédito" in a blue, sans-serif font.



5.4 Insurance

Insurance: Licensing overview and requirements

Key regulation: The Law on Insurance and Surety institutions (*Ley de Instituciones de Seguros y de Fianzas* or “LISF”), provides the overarching framework for operators of all types of insurance or bonding institutions, including agents. Secondary provisions are found in the Unique Circular for Insurance and Bonds (*Circular Única de Seguros y Fianzas* or “CUSF”)

Main regulator: National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas* or “CNSF”)

Licensing process:

1. Any legal entity seeking to carry on insurance or surety business must be authorized by the CNSF.
2. The licensing fees are:
 - a. (i) MXN\$52,584.73 (US\$2,466.95) for the analysis of the application, (ii) MXN\$78,877.10 (US\$3,700.44) for the authorization; and (iii) MXN\$142,892.40 (US\$6,703.65) for starting operations
- Applications must include:
 - Draft articles of association
 - List and information of shareholders.
 - Strategy to implement policies and rules

- Business plan
- Proof of having constituted a guarantee deposit in national currency in a credit or government securities institution for its market value for an amount equal to 10% of the minimum paid-up capital with which the company are required to operate.

Minimum capital:

Minimum paid-up capital that institutions must have for each insurance operation is determined by the CNSF.

Agents:

The exercise of the activity of insurance agent or surety agent requires an authorization from the CNSF. Agents include employees, independent contractors, and agent companies.

Insurance: Microinsurance

Key regulation:

The Unique Circular for Insurance and Bonds (*Circular Única de Seguros y Fianzas* or “CUSF”)

Definition:

Insurance products that provide life, property, casualty, or accident and sickness protection and whose purpose is to promote access to these products for the low-income population through low-cost means of distribution and operation.

Licensing requirements:

The CUSF lists requirements for micro insurers, including:

- Threshold of the insured amount of the microinsurance (ex. in the case of life, accident, and sickness microinsurance, the insured amount shall not exceed 20,000 UDIs).
- Formalities for the specific agreement with the insured
- The content of the policy and some prohibitions, such as the payment of dividends and the establishment of deductibles, co-payments, or any other form of participation of the insured or his/her beneficiaries in the cost of the claim or service

Licensing fees:

The licensing fees for micro insurance agents are MXN\$3,711 (US\$174.09) for natural persons and MXN\$11,798 (US\$553.49) for legal entities.



Insurance: Adjusters

- Adjusters are persons who investigate insurance claims on behalf of an insurer to determine the extent of the insurer's liability. They may be a natural person or a legal entity.
- To be appointed as an insurance adjuster, the insurance institution is required to verify that the natural person carrying out such activity is of legal age, is of good repute, and has accreditable knowledge of the corresponding subject matter, enabling him/her to carry out the activity. Insurance institutions may only appoint persons registered with the CNSF as adjusters for insurance contracts related to adhesion contracts.
- Insurance companies are required to create manuals detailing the guidelines, policies, and procedures adjusters must observe and publish the manuals on their website.
- Insurance institutions are responsible for the performance of the insurance adjusters they appoint within the scope of their activity.



5.5 Investment



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Investment: Licensing process

Key regulations: Securities Market Law (*Ley del Mercado de Valores* or “LMV”) regulates the registration of securities* in the National Securities Registry (RNV) and the offering and intermediation of securities.

The Investment Funds Law (*Ley de Fondos de Inversión* or “LFI”) regulates the organization and operation of investment funds.

Main regulator: National Banking and Securities Commission (CNBV)

Licensing process:

- **Brokerage Firms.** To organize and operate as a brokerage firm, authorization is required from the CNBV, subject to the prior agreement of its Governing Board. Authorizations are not transferable and do not imply certification of the brokerage firms’ solvency.
- The licensing fees are MXN\$30,087 (US\$1,411.5) for the analysis, MXN\$436,298 (US\$20,468.48) for the authorization, and MXN\$1,343,419 (US\$63,025.15) for the start of operations
- **Investment Funds.** To organize and operate as a company that manages systems to facilitate securities transactions, authorization is required from the CNBV, subject to the prior agreement of its Governing Board. These authorizations are not transferable.
- The specific process to request authorizations or concessions is described in the in the LMV for brokerage firms and in the LFI for investment funds.

**LMV defines securities as: “shares, partnership interests, debentures, bonds, warrants, certificates, promissory notes, bills of exchange and other debt securities, whether or not registered in the RNV, which may circulate on the securities markets referred to in the LMV, which are issued in series or in masse and represent the share capital of a legal person, a proportional part of an asset or the participation in a collective credit or any individual credit right, under the terms of the applicable national or foreign laws”*

Investment: Overview of Crowdfunding

- Financing Collective Institutions (IFC), a type of crowdfunding, is one of two types of ITFs authorized pursuant to the Fintech Law.
- IFCs “connects applicants (*solicitantes*) with investors (“*inversionistas*”) who wish to provide financing for the applicant's project through computer applications, interfaces, websites, or any other electronic or digital means of communication.”
- IFCs are divided into three different categories:
 - **Collective debt financing** (*Institución de Financiamiento Colectivo de Deuda*). Investors provide loans, credits, “mutuos”, or any other financing causing a direct or contingent liability to the applicants. The benefit is the loan plus an interest rate.
 - **Collective capital financing** (*Institución de Financiamiento Colectivo de Capital*). Investors acquire securities representing the capital stock of legal entities acting as applicants.
 - **Collective financing of co-ownership or royalties** (*Institución de Financiamiento Colectivo de Copropiedad o Regalías*) Investors and applicants enter into joint ventures or any other type of agreement whereby the investor acquires a share or participation in a present or future asset or in the income, profits, royalties or losses obtained from the performance of one or more activities or projects of an applicant.
- **Licensing**: See section 5.2 for specific licensing process for an IFC as an ITF. There is also a [guide](#) issued by the CNBV on IFC requirements. (Differences between an IFPE and IFC include: IFCs need to share the risk of investments, IFCs must have a Collection Manual for Debt Crowdfunding, and IFCs must follow certain marketing restrictions).

The following are permitted to invest through an IFC:

- Credit institutions
- Stock exchange houses
- Credit unions
- Regulated multiple purpose financial companies (SOFOMES)
- Popular financial companies (SOFIPOS)
- Community financial companies
- Cooperative savings and loan companies

Investment: Crowdfunding (cont.)

Permitted Activities for IFCs

- IFCs receive and publish applications from the projects submitted by the applicants through the digital platforms.
- Develop and maintain electronic communication channels that help investors and applicants engage with each other and carry out their activities.
- Obtain loans and credits from any person, national or foreign, for the fulfilment of its corporate purpose.
- Establish deposits in financial entities authorized to do so.
- Make permanent investments in other companies if they provide auxiliary, complementary, or real estate services.
- Carry out the judicial or extra judicial collection of credits granted to the applicants on behalf of the investors, as well as renegotiate the terms and conditions of such credits.

Prohibited Activities for IFCs

IFCs are not permitted to guarantee returns on the investment made or the outcome or success of the investments. This means that any kind of financial promotion or marketing campaign that promises, any type of financial reward to clients for participating in a venture or project is prohibited. The same prohibition applies if the promotion or marketing campaign is unclear or misleads clients in thinking that there is a guaranteed financial reward for their participation.

The following are not permitted to apply for financing through an IFC:

- The IFC itself
- Related persons and persons with Power of Attorney in the IFC

IFC Requirements

- Disclose the selection criteria for applicants and projects to be financed,
- Analyze and inform potential investors about the risk of the applicants and projects,
- Deliver investor resources to the selected applicants and, prior to delivery, allow the investor to withdraw its resources without any restriction or charges, and
- Establish risk sharing schemes with investors for Collective Debt Financing, among others.



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5.6 Other policy and regulatory considerations

5.6.1 — Data protection



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Data protection: National provisions

Key Laws:

Federal Law on Protection of Personal Data Held by Individuals (*Ley Federal de Protección de Datos Personales en Posesión de Particulares* or “LFPDPPP”) for private sector

Main definitions:

- Processing data is defined as: “the collection, use, disclosure or storage of personal data, by whatever means. Use includes any action of access, handling, use, exploitation, transfer, or disposal of personal data.”
- Personal Data is defined as: “any information concerning an identified or identifiable natural person.”
- Sensitive Personal Data is defined as “those personal data that affect the most intimate sphere of their owner or whose improper use may give rise to discrimination or entail a serious risk for the owner. In particular, data that may reveal aspects such as racial or ethnic origin, present and future state of health, genetic information, religious, philosophical and moral beliefs, trade union membership, political opinions, or sexual preference are considered sensitive.”

Main provisions:

- Personal data may only be processed if the principles of lawfulness, consent, information, quality, purpose, loyalty, proportionality, and responsibility are met.*
- Any controller who processes personal data is required to establish and maintain administrative, technical, and physical security measures to protect personal data against damage, loss, alteration, destruction, or unauthorized use, access, or processing

*The principles of lawfulness, consent, information, quality, purpose, loyalty, proportionality and responsibility are defined in either the LFPDPPP or its secondary provisions.

Data protection: Sectoral provisions

There are also data protection provisions in financial service sector-specific regulation

Crowdfunding:

- **The General Provisions Applicable to Financial Technology Institutions** require that crowdfunding applicants provide evidence that their personal data controllers have implemented personal data protection and data privacy policies.

Novel Models:

- **General Provisions relating to Companies Authorised to Operate Novel Models** establish that applicants for an authorization to operate Novel Models are required to provide Operational Contingency and Information Security Incident Management Policies, which are required to contain procedures for reporting such situations to the CNBV.

Marketing/Advertising:

- **General Provisions of the CONDUSEF on Transparency and Sound Practices applicable to Financial Technology Institutions** require fintech institutions to obtain consent in order to use personal data for marketing, advertising, or any other purpose; Fintech institutions must obtain the prior authorization of the user independent of the contract of adhesion of services or products.

Sources: [DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE TECNOLOGÍA FINANCIERA](#), [DISPOSICIONES DE CARÁCTER GENERAL RELATIVAS A LAS SOCIEDADES AUTORIZADAS PARA OPERAR MODELOS NOVEDOSOS A QUE HACE REFERENCIA LA LEY PARA REGULAR LAS INSTITUCIONES DE TECNOLOGÍA FINANCIERA](#), [DISPOSICIONES de carácter general de la CONDUSEF en materia de transparencia y sanas prácticas aplicables a las instituciones de tecnología financiera](#).

Data sharing: Open finance

- Open Finance is set out in Article 76 of the Fintech Law.
- Financial institutions, money transmitters, credit information companies, clearing houses, fintech institutions, and companies authorized to operate with Novel Models are required to establish standardized computer application programming interfaces (“**APIs**”) that enable connectivity and access to other APIs developed or managed by the same set of authorized companies and third parties specializing in IT to share the following data and information:
 - **Open financial data:** data concerning products and services offered to the general public, including the location of offices and branches, ATMs, or other access points to their products and services. The specific secondary provisions for Open Financial Data APIs are accessible [here](#).
 - **Aggregated data:** data related to any type of statistical information concerning operations, without a level of disaggregation that an individual's personal data or transactions can be identified.
 - **Transactional data:** data related to a customer's use of a product or service, including deposit accounts and credits.
- For a participant to access information through APIs, prior authorization is required from the Supervisory Commissions (*Comisiones Supervisoras*) or from Banxico for credit information companies and clearing houses.
- The Supervisory Commissions or, where appropriate, Banxico, are required to approve the fees charged by the entities for the exchange of data and information. These fees must be equitable and transparent.
- In Mexico, the approach towards “Open Finance” is generally broader in scope in comparison to other jurisdictions. The Open Finance framework is not only available to banks, but also to all other financial institutions and third parties specialized in IT, including ‘BigTechs’.

5.6.2 — Consumer protection



Consumer protection: National provisions

Key Law:

Consumer Protection Federal Law (1992) intends to promote and protect the rights of the consumer and a culture of responsible and intelligent consumption and to ensure fairness, certainty, and legal security in relations between suppliers and consumers.

Key Regulator:

The Federal Consumer Protection Agency (*Procuraduría Federal de Protección al Consumidor* or "PROFECO") promotes a culture of responsible and intelligent consumption, so consumers are in a position to make good and sufficiently informed decisions about the consumption of goods and services and the rights to which they are entitled.



Consumer protection: Sectoral provisions

Key Law:

The Law for the Protection and Defence of the User of Financial Services (*Ley de Protección y Defensa al Usuario de Servicios Financieros*)

Key Authority:

The National Commission for the Protection and Defence of Financial Services Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros* or “CONDUSEF”) is responsible for ensuring fairness in relations between users and financial institutions.

Focus on fintech:

CONDUSEF's general provisions on transparency and sound practices apply to fintech institutions (*Disposiciones de carácter general de la CONDUSEF en materia de transparencia y sanas prácticas aplicables a las instituciones de tecnología financiera*)

Other provisions

There are specific provisions regarding the creation of Taxpayers' Ombudsman's Office (*Procuraduría de la Defensa del Contribuyente* or “PRODECON”) and labor dispositions regarding the creation of Federal Labour Ombudsman's Office (*Procuraduría Federal de la Defensa del Trabajo* or “PROFEDET”).

5.6.3 — Anti-money laundering (AML)/know your customer (KYC)



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AML/KYC: Key laws & main provisions

Key Laws:

Federal Law for the Prevention and Identification of Operations with Resources of Illicit Proceeds (LFPIORPI)

There are also specific AML/FT regulations for each type of financial institution

Main provisions for non-financial institutions:

LFPIORPI identifies some "vulnerable activities"* of non-financial institutions within the Mexican markets that are subject to special regulation, which include:

- The issuance or marketing, on a regular and/or professional basis, of service cards, credit cards, prepaid cards, and other instruments for the storage of monetary value that are not issued or marketed by financial institutions. This activity reports to the SHCP when a specific threshold (approximately US\$5,758.00 in monthly expenditure) is passed.
- The regular or professional offering of mutual or guarantee loan operations or granting of loans or credits by subjects other than financial institutions. This activity reports to the SHCP when a specific threshold (approximately US\$7,190.00) is passed.
- The regular and professional offering of exchange of virtual assets by subjects other than financial institutions, which are carried out through electronic, digital or similar platforms. This activity reports to the SHCP when a threshold (approximately US\$2,800.00) is passed

Main provisions for financial institutions:

The specific AML/FT regulations require banks and other financial institutions to adopt international policies – specifically Financial Action Task Force ("FATF") recommendations and guidelines – that indicate their commitment to AML/CFT requirements provided by law and secondary regulations. They also must set up internal control measures such as:

- the appointment of a Compliance Officer or a Communication and Control Committee,
- the generation and application of a Control Manual for AML/CFT purposes, and
- the establishment of a risk-based approach, and analysis, generation of a model, and methodologies applying this approach, among others.

Geolocation requirement:

As of March 21, 2021, CNBV requires financial institutions to obtain and keep the real-time geolocation of the devices their customers use to carry out operations or services. This requirement will be implemented by sector in a staggered manner.

*All the thresholds provided above for vulnerable activities are measured by the minimum wage in force in Mexico City except the final "vulnerable activity" – virtual assets – which is measured in Measurement and Update Units ("UMAs"), whose value is published by the National Institute of Statistics and Geography ("INEGI") every year

AML/KYC: Customer due diligence requirements

- Customer Due Diligence (CDD) requirements for financial institutions depend on the type of financial institution.
- **At a minimum the mandatory KYC requirements for an individual are:**
 - a. The following identification data, obtained from a valid document:
 - i. Paternal surname, maternal surname and first name or names without abbreviations
 - ii. Gender
 - iii. Date of birth
 - iv. State of birth
 - v. Country of birth
 - vi. Nationality
 - vii. Voter ID number, if applicable
 - b. Proof of residence
 - c. Occupation, profession, activity, or line of business in which the client is engaged
 - d. Unique Population Registry Code
 - e. Advanced Electronic Signature Serial Number, if the client has one
 - f. Telephone number
 - g. E-mail address
 - h. If applicable, account number and Standardized Banking Code (CLABE) in the Financial Entity or Foreign Financial Entity. Financial Institution or Foreign Financial Institution authorized to receive deposits.
 - i. Establish in the ITF's Terms and Conditions that the natural person is acting on his/her own behalf and account.

AML/KYC: Customer due diligence requirements (cont.)



Additional due diligence measures that may be used to verify the identity of the customer include:

Copies of the following documents can be used for verification:

- Personal identification
- Proof of Unique Population Registry Code
- Proof of address
- Declaration of the natural person that he/she is acting in his/her own name and on his/her own account or on behalf of a third party, as the case may be.

What is the situation of remote (i.e. non face-to-face) CDD by mobile phone?

- For banks and fintech institutions conducting digital onboarding, institutions shall require and obtain from their clients the geolocation of the mobile device from which the client opens the account, the consent for engaging in the digital onboarding, and the voter identification number (for banks).
- Regarding accounts classified as level 2 that are contracted remotely, banks are required to integrate the identification files of their clients with other data, including the full name without abbreviations, gender, state of birth, date of birth, and their domicile.

AML/KYC: Simplified customer due diligence



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Fintech Institutions:

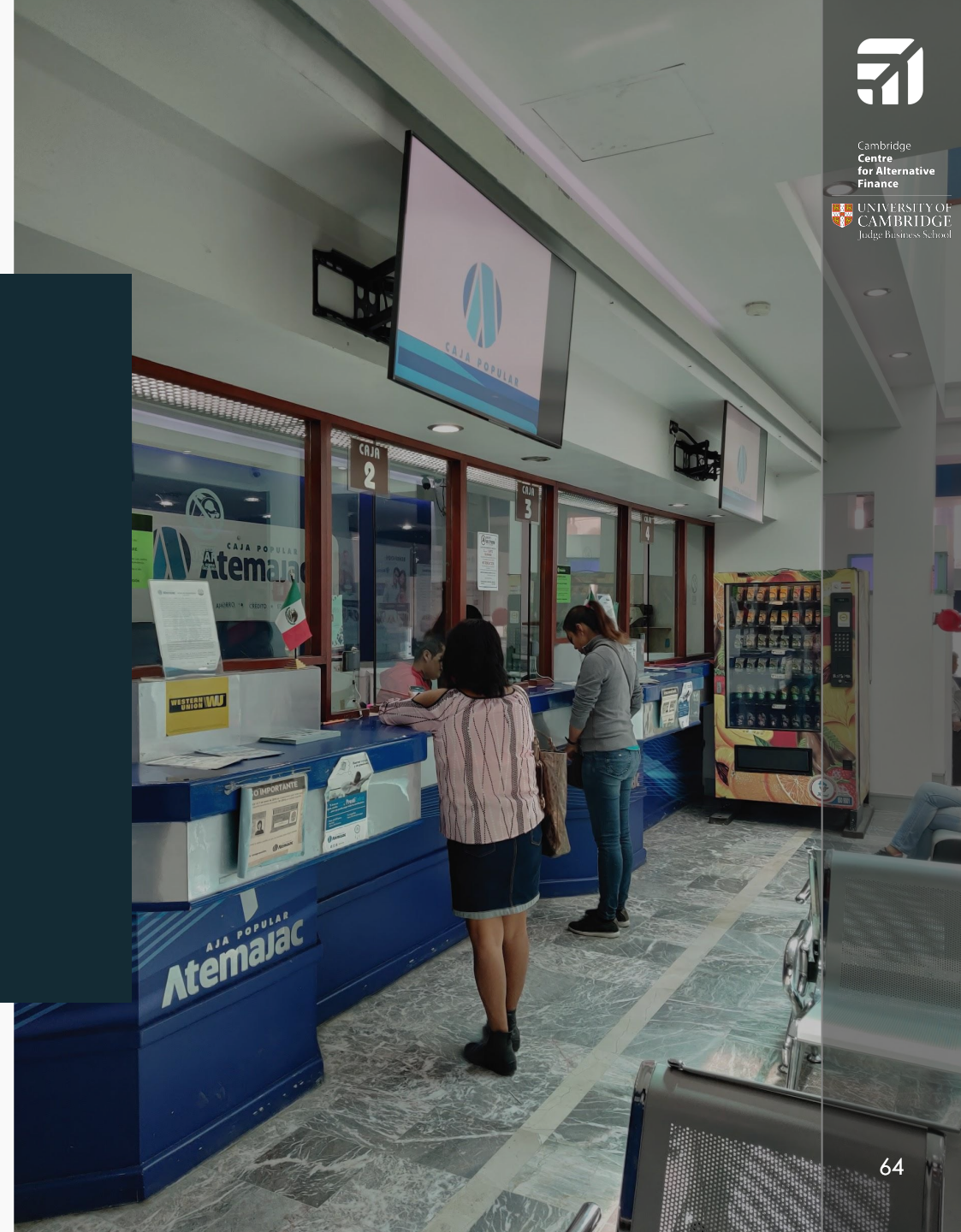
- The accounts or contracts offered by fintech institutions to their clients may be considered low risk and, therefore, may only require a simplified identification regime, provided the following:
 - In the case of accounts or contracts classified as level 1 and entered into with natural person clients with transactions limited to 750 Investment Units (UDIs) (MXN\$5,161/US\$242.12) over a calendar month, the fintech institution shall only be obliged to collect the paternal surname, maternal surname and name or names without abbreviations, date of birth, gender, federal entity, occupation, profession, activity or line of business, and e-mail address.
 - Level 1 accounts or contracts shall be subject to a maximum balance equivalent of 1,000 UDIs (MXN\$6,899 or USD\$323.65).
 - In the case of accounts or contracts classified as level 2 and entered into with natural person clients with transactions limited to 3,000 UDIs (MXN\$20,646/US\$968.58) over a calendar month, the fintech institution shall only be obliged to collect, in addition to the data indicated above, the client's address and the digital version of the document from which the client's identification data originate.

Banks:

- Deposit accounts in national currency offered by the entities are considered low risk and, therefore, may have simplified identification requirements if they are subject to the following:
 - In the case of accounts classified as level 1 that are opened by natural person clients, whose operation is limited to credits equal to 750 UDIs (MXN\$5,161/US\$242.12) per client, per calendar month, the entities may integrate the respective identification files of their clients, only with the data of their paternal surname, maternal surname, name or names without abbreviations, and date of birth.
 - In the case of accounts classified as level 2 that are opened by clients who are natural persons, whose operation is limited to credits equal to 3,000 UDIs (MXN\$20,646/US\$968.58) per client, per calendar month, the entities may integrate the respective identification files of their clients only with data relating to the full name, without abbreviations, date of birth, and address. In this case, the data relating to the name and date of birth of the customer must be obtained from an official identification.

Sources: [For Banks: General Provisions referred to in Article 115 of the Credit Institutions Law \(AML provisions for Banks\)](#); [For Fintechs: General Provisions referred to in Article 58 of the Law to Regulate Financial Technology Institutions \(AML provisions for Fintech institutions\)](#).

5.6.4 — Cybersecurity



Cybersecurity: Relevant legislation

National legislation:

- There is no national regulatory framework for cybersecurity.
- Notwithstanding, there is an advanced initiative for instituting a General Cybersecurity Law.
 - The initiative proposes creating a permanent cybersecurity commission within the National Public Security Council, which will be responsible, together with the Executive Secretariat of the National Public Security System, for monitoring compliance with the actions of the National Cybersecurity Center, a new entity also created by this new Law, which has the mandate to monitor, prevent and manage cybersecurity risks, dangers and threats arising within and outside the national territory.
 - The National Cybersecurity Center will be responsible for developing a national cybersecurity strategy in collaboration with the telecommunications regulator, the Federal Telecommunication Institute (*Instituto Federal de Telecomunicaciones* or "IFT").
 - Article 23 of the initiative proposes that users are required to provide real identity information when signing agreements or confirming receipt of services from network providers, companies that manage access to the fixed or mobile telephone network, or firms that provide information, publishing, or instant messaging services, such as Facebook, Twitter or WhatsApp. The initiative warns: "*where users do not provide real identity information, network operators will not provide the services.*"

Sectoral Legislation:

- There are sectoral provisions, such as the General Provisions Applicable to Electronic Payment Fund Institutions related to Security of Information, that lay out technical specifications for the technological infrastructure of fintech institutions, Chief Information Security Officer (CISO) faculties and responsibilities, data localization specifications, and technical requirements for two-factor authentication (2FA).

Cybersecurity: Data Localization Specifications

In the event of a partial or temporary interruption in the cloud computing service with a foreign provider, IFPEs must provide within their Business Continuity Plan a mechanism to ensure the continuity of services for their clients and guarantee they will maintain the necessary computing and processing capacity within two hours of any outage. The requirements apply to IFPEs that meet any of these descriptions:

- Carry out more than 3.5 million transfer transactions.
- Send or receive transfers of a total amount greater than the equivalent in local currency of 6 billion UDIs (MXN\$41,291,334,000.00/US\$1,937,141,530.14).
- At any time, have had more than one million accounts that, at any time during a twelve calendar month period, have registered a positive balance or sent at least one transfer or have had a total balance in the accounts exceeding 400 million UDIs (MXN\$2,752,755,600.00/US\$129,142,768.67).

The mechanisms to be implemented are:

- Engaging an additional cloud computing provider that is incorporated in and subject to a different jurisdiction than the original cloud computing service provider and that is under the control of a person other than the original provider.
- A mechanism that allows the IFPE to have its own infrastructure that enables it to carry out, in a territory other than that of the foreign jurisdiction in which the risk may occur, the processes referred to without this implying simultaneous operation with the cloud computing used in its normal operation.
- Any mechanism other than those referred to above that, at the request of the IFPE, is authorized by the Mexican Central Bank and the CNBV, provided that the IFPE demonstrates that such mechanism can ensure continuity in the performance of the acts necessary to issue, transmit, redeem or manage electronic payment funds, in the event of interruption for the causes indicated therein.

5.6.5 — Competition



Competition: Relevant legislation & competition issues



Relevant authority & legislation:

- The Federal Economic Competition Commission (*Comisión Federal de Competencia Económica* or “COFECE”)* seeks to ensure free and economic competition and prevent, investigate, and combat monopolies and other restrictions on the efficient operation of markets in Mexico.
- The Federal Competition Law (*Ley Federal de Competencia Económica* or “LFCE”) is the primary antitrust legislation. LFCE covers restrictive agreements, abuse of dominant position, monopoly, and price regulation.
- LFCE requires that:
 - 1) Marketing and testimonials are not misleading or deceptive,
 - 2) Goods and services are not displayed without the price, and
 - 3) Products/services are not bundled together, unless it can be demonstrated that the convenience of bundling to the consumer outweighs the limits bundles place on the consumer’s right to choose, among other requirements.
- The abuse of a dominant position in a market is prohibited. The consequences of abuse includes a notice to the firm to cease abusive practices. Abuse is also considered an offence and the penalties are up to 10% of the firm’s turnover in the preceding business year or a higher percentage as determined by a court.

*In December 2020 COFECE approved, without conditions, the majority acquisition of Cornershop Mexico by Uber. Prior to this acquisition, there was litigation to establish which authority, IFT (Ministry of Telecommunications) or COFECE, was in charge of analyzing the digital platform market. It was held that COFECE was competent, so COFECE is the responsible competition authority for digital platforms market.

5.6.6 —

Telecommunications regulation



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Telecommunication regulation: **Licensing**

Key legislation & authority:

- The Federal Telecommunication Institute (IFT) is the independent government agency and regulatory authority for the telecommunications sector in Mexico.
- The key regulations are found in the Federal Telecommunications and Broadcasting Law (LFTR).
- Regulation in telecommunications is handled separately from financial services.

Application to fintech:

- LFTR regulates fintech businesses where the service offered involves mobile network providers and in the development of new Point-of-Sale (POS) Terminals for businesses regarding the use of Near Field Connection Technologies (NFC) in a debit or credit card
- The only area in which financial services and telecom are dealt specifically within the LFTR is regarding financial inclusion through network coverage. There are different schemes that have been adopted for universal coverage. For example, in the Constitution, there is a federal mandate for universal coverage.

5.6.7 — Taxation of financial services



Taxation: Financial services

Relevant taxes:

- Mexican tax laws may apply to fintech activities. These regulations include the Income Tax Law (LISR), the Federal Tax Code (CFF), the Value Added Tax Law (LIVA), and the General Provisions called “Miscellaneous Tax Resolution” (*Resolución Miscelánea Fiscal* or “RMF”).
- Individuals and legal entities that carry out the following activities on national territory must pay the value added tax (VAT) established in LIVA:
 - Disposal of assets.
 - Provide independent services.
 - Grant the temporary use or enjoyment of goods.
 - Import goods or services.

Application to Fintech:

- In the RMF, there are certain reforms to the LISR and LIVA that directly affect services offered via online platforms. As of June 1st, 2020, foreign companies that provide digital services to users in Mexico through digital applications are required to charge VAT for such services.
- Similarly, if national or foreign technological platforms provide intermediation services in addition to providing digital services, they will be obliged to withhold both Income Tax (*impuesto sobre la renta* or “ISR”) and VAT from individuals who sell goods or provide services, including hosting services and to report these withholdings to the Tax Administration System (*Sistema de Administración Tributaria* or “SAT”).

5.6.8 — Other relevant regulations



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Other relevant **company regulations**

- **Incorporation of companies** - The main regulation is the General Law on Commercial Companies.
- **Employment of foreign employees** - If a fintech firm wishes to employ foreign individuals, they are required to comply with the provisions of the Migration Law.
- **Intellectual Property** - The Federal Law for the Protection of Industrial Property deals with trademarks, patents, industrial designs, and their specific protection schemes.
- **Copyright** - The Copyright Law creates a process to obtain copyright protection of computer programs.
- **Foreign Investment Law** - This law sets out rules on foreign exchange, including transactions and investment of foreign currencies in Mexican businesses.
- **Labor Law** - The relevant regulation is the Federal Labor Law. There are also new specific regulations for working from home due to the pandemic:
 - [Decree reforming Federal Labour Law on Remote Working](#)
 - [Psychosocial risk factors at work - Identification, analysis and prevention](#)

Other regulations: Virtual and crypto assets

- **Regulatory Approach.** Banxico issued Circular 4/2019 which permits banks and fintech institutions to enter into virtual asset internal transactions - also known as *back-office transactions* - only with prior authorization granted by Banxico. Banks and fintech institutions are prohibited from conducting direct virtual asset transactions with clients or offer virtual asset custody, control, or transmission services to such clients.
- **Definition under the Fintech Law.** "A virtual asset is an electronically recorded representation of value used by the public as a means of payment for all types of legal acts, the transfer of which may only be carried out by electronic means. Under no circumstances shall a virtual asset be understood to be legal tender in national territory, foreign currency, or any other asset denominated in legal tender or foreign currency."
- **Limitation.** Fintech institutions are only permitted to operate with virtual assets that are approved by Banxico. In addition, fintech institutions and banks cannot provide virtual asset exchange, transmission, or custody services to their clients.
- **Need to provide a disclaimer.** Fintech institutions that manage virtual assets must disclose to their clients the risks of such transactions. Disclaimers must be posted on the fintech institution's website:
 - The virtual asset is not legal tender and is not backed by the Federal Government or Banxico.
 - The impossibility of reversing transactions once executed, if applicable.
 - The volatility of the value of the virtual asset.
 - The technological, cyber, and fraud risks inherent to virtual assets.



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06 What regulations are coming out soon?

Regulatory pipeline: **Fintech Law**

The Fintech Law entered into force on March 10, 2019. However, much of the substantive content of the Law is regulated in secondary provisions. The following are the current pending provisions, for which no timeline has been provided:

Open Finance:

Secondary provisions regarding the use of APIs to exchange transactional and aggregated data from customers are still to be issued under Article 76 of the Fintech Law.

Net capital:

Fintech institutions are required to hold net capital, which is a set ratio related to operational and other risks incurred by the fintech institution in their daily operation, which must be greater than the sum of the capital requirements for each type of risk. For IFPEs, the capital requirements have not yet been fixed.

Adjustments for funding and investment limits for IFC:

Adjustments will be made to the funding and investment limits placed on IFCs to relax the requirements for experienced investors (i.e. investment limits would not apply to this type of investor) and allow the publication of funding requests directed exclusively at family and friends of the applicant without any specific limits.

Regulatory pipeline (cont.)

Cybersecurity Law:

Among the objectives of this proposal is to establish criminal offences in cybersecurity and set out the terms by which federal state and municipal authorities will collaborate with the Federation in this task. See section 5.6.4 for more details.

Digital Identity Card:

A Law will be introduced in 2021 that aims to guarantee the right to identity and to regulate the operation of the National Population Registry and the National Identification Service. It also establishes the requirements to issue the Single Digital Identity Card (Cédula Única de Identidad Digital) for the Mexican population.



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07 Additional Resources for Fintech Companies

Additional resources available



Resource	Who provides it?	What is it?	Where can I find out more?
Onboarding to the Mexican Market for InsurTechs	Asociación InsurTech	Onboarding to the Mexican Market for InsurTechs is a 6-week program to introduce the Mexican insurance market in depth, organized by the InsurTech Mexico Association.	InsurTech Association Website
Crowdfunding association	Asociación de Plataformas de Fondeo Colectivo de México (AFICO)	AFICO brings together the main crowdfunding platforms in Mexico to promote crowdfunding platforms and defend their interests and establish codes of practice for adoption by all crowdfunding platforms and professionals in the country.	AFICO Website
Fintech México	Fintech México	Fintech México brings together fintech companies to boost the industry in Mexico and Latin America. It is a collaborative space and is one of the main fintech associations in Mexico.	Fintech México Website
Asociación InsurTech	Asociación InsurTech	Asociación InsurTech is an independent membership organization that promotes the application of technology in the insurance industry to generate a positive cultural impact in Mexico	Asociación InsurTech Website
Caravana Fintech	DAI	Caravana Fintech is the first program that connects financial technology solutions with microenterprises.	Caravana Fintech Website

Additional resources available (cont.)

Resource	Who provides it?	What is it?	Where can I find out more?
Financial Innovation Group	CNBV, CNSF, CONSAR, CONDUSEF, BANXICO and SHCP	The Financial Innovation Group is a consultative, advisory, and coordination body created by the Fintech Law that hosts a space for the exchange of opinions, ideas, and knowledge between the public and private sectors.	CNBV Press Release
Mexican Central Bank's Sandbox	BANXICO	General provisions applicable to entities looking to apply a Novel Model in the regulatory sandbox of Banxico	Banxico Website
National Insurance and Bonding Commission's Sandbox.	CNSF	General provisions applicable to entities looking to apply a Novel Model in the regulatory sandbox of CNSF	CNSF Website Asociación InsurTech Website CNBV Website
National Banking and Securities Commission's Sandbox	CNBV	General provisions applicable to entities looking to apply a Novel Model in the regulatory sandbox of CNBV	CNBV Website FAQ

Additional resources available (cont.)



Resource	Who provides it?	What is it?	Where can I find out more?
National Commission of the National Retirement Savings System Sandbox	CONSAR	General provisions applicable to entities looking to apply a Novel Model in the regulatory sandbox of CONSAR	CNBV Website
Ministry of Finance and Public Credit's Sandbox	SHCP	General provisions applicable to entities looking to apply a Novel Model in the regulatory sandbox of SHCP	FAQ
Guide for Fintech authorization	CNBV	CNBV issued guidance for entrepreneurs wanting to apply for an authorization to operate a fintech institution.	For IFPEs For IFCs
Sandbox Challenge	DAI	DAI's Sandbox Challenge is the first financial innovation contest that helps entrepreneurs from Mexico, Latin America, and other regions test their business models in the Mexican financial system through the "Innovative Models" framework of the Fintech Law.	Sandbox Challenge

Mexican authorities and their mandates

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies							
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms
Interinstitutional Committee (Comité Interinstitucional)	In charge of approving the incorporation of new fintech entities. Comprised of two members of Banxico, two members of CNBV and two members of SHCP. One member from the CNBV presides over the Committee.	2018	Fintech Law	Yes			Yes		Yes		
Central Bank of Mexico Banco de México (Banxico)	Authority in Mexico responsible for taking the necessary measures to preserve the value of the Mexican peso, control monetary policy, and promote the healthy deployment of the financial system, including the proper functioning of payment systems.	1925	Political Constitution of the United Mexican States Bank of Mexico Law	Yes	Yes	Yes	Yes	Yes	Yes		Yes
National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or "CNBV")	Responsible for supervising and regulating institutions in the Mexican financial system to ensure their stability and proper functioning, as well as maintaining and promoting the healthy and balanced development of the financial system.	1995	Law on the National Banking and Securities Commission	Yes	Yes	Yes	Yes		Yes	Yes	

*includes mobile wallets/ e-money, payment initiation & mobile POS **includes P2P lending and equity crowdfunding

Mexican authorities and their mandates (cont.)

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies							
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms
Ministry of Finance and Public Credit (<i>Secretaría de Hacienda y Crédito Público</i> or "SHCP")	Through the Securities and Savings Banking Unit (<i>Unidad de Banca, Valores y Ahorro</i> or "UBVA"), formulates policies for the promotion, regulation, and supervision of financial services, banking, credit, securities, assets, and derived assets for the protection of bank savings, savings, and popular credit and for the protection and defence of financial services users.	1821	Organic Law of the Federal Public Administration	Yes	Yes	Yes	Yes	Yes	Yes		
National Commission for the Protection and Defence of Financial Services Users (<i>Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros</i> or "CONDUSEF")	Promotes, advises, protects, and defends the rights and interests of users against financial institutions, arbitrating disputes in an impartial manner and encouraging equity in the relations between them.	1999	Law for the Protection and Defence of Financial Services Users	Yes	Yes	Yes	Yes	Yes	Yes	Yes	

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Mexican authorities and their mandates (cont.)

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies								
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms	
National Commission for the Retirement Saving System (Comisión Nacional del Sistema de Ahorro para el Retiro or "CON SAR")	Supervisory commission for fintech institutions focused on the coordination, regulation, supervision, and monitoring of retirement savings systems.	1994	Law on Retirement Savings Systems	Yes		Yes	Yes					
National Insurance and Bonding Commission (Comisión Nacional de Seguros y Fianzas or "CNSF")	Oversees the operation of the insurance and bond sectors adherence to the regulatory framework, preserving the solvency and financial stability of insurance and bond institutions.	1990	Law on Insurance and Bonding Institutions					Yes				
Bank Savings Protection Institute (Instituto para la Protección del Ahorro Bancario or "IPAB")	Federal Government institution in charge of administering Bank Deposit Insurance to protect savers. IPAB's mission is to guarantee bank deposits, mainly for small- and medium-sized savers, and to resolve, at the lowest possible cost, banks with solvency problems	1999	Bank Savings Protection Law	Yes								

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Mexican authorities and their mandates (cont.)

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies							
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms
Federal Economic Competition Commission (<i>Comisión Federal de Competencia Económica</i> or "COFECE")	Responsible for the promotion of competition in Mexican markets at all levels by eliminating monopolies, prohibiting abuse of a dominant market position, and penalizing other restrictive trade and business practices.	2013	Political Constitution of the United Mexican States Federal Competition Law	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Federal Institute of Telecommunications (<i>Instituto Federal de Telecomunicaciones</i> or "IFT")	Authority responsible for the efficient development of the telecommunications and broadcasting sector. Responsible for regulating, promoting, and supervising the use and development of the radio electric spectrum, the networks, and the provision of telecommunications and broadcasting services (T&R) in Mexico. It is also the authority on economic competition in the telecommunications and broadcasting sectors.	2013	Political Constitution of the United Mexican States Federal Telecommunications and Broadcasting Law	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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Mexican authorities and their mandates (cont.)

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies							
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms
Federal Institute for Access to Public Information and Data Protection (<i>Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales</i> or "INAI")	Responsible for facilitating and guaranteeing people's access to public information and access to and protection of personal data, promoting a culture of transparency in public management and government accountability to society	2002	Federal Law on Transparency and Access to Public Information Federal Law on the Protection of Personal Data held by Individuals General Law on the Protection of Personal Data held by Obligated Subjects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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Mexican authorities and their mandates (cont.)

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies							
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms
Financial Intelligence Unit (<i>Unidad de Inteligencia Financiera</i> or "UIF")	National central authority that receives reports of financial operations and warnings about vulnerable activities, analyzes financial and economic transactions, disseminates intelligence reports and other documents useful for detecting operations linked to money laundering or terrorist financing, and if necessary, files the relevant complaints with the relevant authority.	2004	Internal Regulations of the Ministry of Finance and Public Credit Federal Law for the Prevention and Identification of Operations with Resources of Illicit Proceeds	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mexican Institute of Industrial Property (<i>Instituto Mexicano de la Propiedad Industrial</i> or "IMP")	Authority responsible for industrial property in Mexico. Regulates the provision of patents for inventions, registrations of utility models, industrial designs, trademarks, denominations of origin and geographical indications, and the protection of industrial property rights.	1993	Federal Law on the Protection of Industrial Property	Yes	Yes	Yes		Yes	Yes	Yes	Yes

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Mexican authorities and their mandates (cont.)

Authority	Objective/ Mandate	Year Formed	Authorising legislation	Business Models - Mandate Applies							
				Digital payments & remittance*	Digital lending	Digital savings	Digital investment	Digital insurance	Digital capital raising**	Personal financial management	Ecommerce & DFS platforms
National Copyright Institute (<i>Instituto Nacional del Derecho de Autor</i> or "INDAUTOR")	Responsible for protecting and promoting copyright, promoting creativity, and controlling and administering the public copyright registry.	1996	Federal Copyright Act	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tax Administration Service (<i>Servicio de Administración Tributaria</i> or "SAT")	Responsible for enforcing tax and customs legislation, so individuals and companies contribute proportionally and fairly to public spending. Also responsible for the design and evaluation of tax policy.	1995		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ministry of Economy (<i>Secretaría de Economía</i> or "SE")	Regulates the formation and management of companies			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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