



Global Payments: Spotlight on Mexico

Mexico provides an interesting case where a sophisticated financial system and a very well industrialised telecommunications sector has not led to a swift uptake of new and innovative payment instruments.

The national payments perspective

By World Bank statistics, Mexico's GDP ranks higher than every country in Europe, with the exception of five. Countries that have large, strong economies tend to have modern payments systems (or are at least making moves in that direction), diversity and uptake of payment types as well as broad financial inclusion. This may in large part be due to low financial inclusion, particularly in rural areas and also a still very heavy reliance on cash as a useful way to partake in the unregistered economy (Del Angel, Hoover Institution, 2016).

Becoming the 15th largest economy in the world has not been a smooth ride for Mexico. In 1982 the government took ownership of the banks as a result of a severe financial crisis. During the course of the 1980's the regulators quite rightly were focused on ensuring a stable banking system and cleansing the government purse. The re-privitisation of the banks over the course of two years between 1990 and 1992 allowed for a greater opportunity for banks to focus on new business models, customer acquisition and strategy and optimistically rise from the shadow of state ownership, however the dream was short lived as in 1994 a new financial crisis swept the industry, further damaging the banks. As a result Banco de Mexico undertook a reform of the payments system. Under this new reform a high value payment system was established, starting operation in 1995 – Sistema de Pagos Electrónicos de Uso Ampliado (SPEUA). Upon inception the minimum limit through this system was MXN 500,000 but by 1997 this was reduced to MXN 50,000 (at today's exchange rate this would be £2,164 or \$2,530).

Top Mexican Banks by assets:

1. BBVA Bancomer, Mexico (\$101 billion in assets)
2. Banamex, Mexico (\$85 billion in assets)
3. Banorte, Mexico (\$74 billion in assets)
4. Banco Santander Mexico, Mexico (\$62 billion in assets)



Population: 122.3 million

Language: Spanish

Currency: Mexican Peso

GDP: 1.144 trillion USD
(World Bank, 2015)

The Mexican payment and settlement system

The enactment of the Payment Systems Act in 2002 granted the central bank exclusive powers of oversight, supervision and sanction over the payment, clearing and settlement systems and their operators. This gave the Banco de Mexico greater autonomy to promote and encourage the industry to implement and adopt both infrastructure renewal and customer incentives.

Additionally the Transparency and Financial Services Transparency Act in 2004 empowered the central bank to oversee clearing houses, including CECOBAN. The central bank has a seat on CECOBAN's Board as well as the power to veto relevant decisions. This Act also expanded in scope to card payment processors. When considering oversight of commercial payments infrastructure provision in other markets this is an extremely interesting step by the central bank.

Arguably the most influential development has been the implementation of Sistema de Pagos Electronicos Interbancarios (SPEI). SPEI started as the country's RTGS system, to replace SPEUA. It is operated by the central bank and was designed to settle a large volume of payments in real time. Each payment order contains information allowing identification of the sender client and the client to whom the payment should be credited. The system began operating on August 13, 2004. Any financial entity regulated by any of the Mexican financial authorities can participate in SPEI. And since its inception, it now settles both large and small value payments. More than 85% of SPEI payments are for less than MXN 100,000 (£4,121/\$5,326). It also settles both pay-ins and pay-outs for CLS and MXN payments for Directo a Mexico, an international funds transfer between the US and Mexico. SPEI is now the country's main payment system. It has extensive operating hours, allowing it to handle payments both from financial institutions and other payment service providers as well as the general public. SPEI follows a similar trend in that it was regulatory initiated and over time it has seen a vast growth in volume of transactions.

In November 2016, the central bank extended SPEI's operating hours to be 24 hours a day, 7 days a week, 365 a year. SPEI settles funds in near real time with participant banks being obliged to send customers payment orders to recipient banks within 30 seconds after an order is made. Recipient banks must also credit payments to their customers within 30 seconds after a payment is received. Interestingly, SPEI uses an open protocol (system communication rules are public). The protocol allows participants to develop automatic processes and provide more and improved services to their customers. There are several beneficiary identifiers that customers can use to make SPEI payments – account number, card PAN number or mobile phone number (Banco de Mexico's Policies and Functions regarding FMI's, 2016).

Banco De Mexico offers customers comfort when using the system. MI-SPEI is an information service through which customers can consult the status of a payment with the search code their bank gave them when they made the payment, or with the reference number. This information allows customers to find out, for example, whether or not the payment was returned for some reason or whether it was never made. Other jurisdictions are attempting similar initiatives e.g. the Payment Strategy Forum's avocation of real-time payments tracking in the UK. The customer also receives an Electronic Payment Receipt, which can be obtained in PDF or XML. The receipt provides not only information on the payment or electronic transfer, but also the series number of the security certificate, the originating chain of events, and a digital seal that allows validation of authenticity and thus provides the user certainty regarding the payment.

Retail Electronic Payments by Volume and Value (April–December 2016, Banco De Mexico):

Volume = 845,870,063

Value = 84,856,727 MXN

Average payment value = 9.97 MXN



Mexico's preferred payments methods

In the immediate aftermath of SPEI implementation, cheque usage was still relatively constant and card usage was not ubiquitous across the country. However, in the last few years the use of cheques is gradually being displaced by electronic transfers and card transactions at Point of Sale terminals. The trend in cheque usage has declined dramatically according to Miguel Diaz Diaz, the Director of Payment Systems at Banco de Mexico, as he told El Financiero.

- The number of cheques processed between 2005 and 2012 fell from 560 million to 370 million, an average annual decline of nearly 7%.
- To combat fraud in the 60 million cheques that are being processed each year, in 2009, the central bank set a ceiling for cheques at MXN 20,000 (£824/\$1,065).
- For cheques with a value of MXN 10,000 and above, the receiving bank has to send a digital image of the cheque to the issuing bank via CCEN to additionally combat fraud. CCEN is the system responsible for processing and clearing deferred electronic funds transfers, cheques and direct debits.

'Electronic transfers rose from 350 million in 2005 to 1 billion in 2012, an increase of 11%,' said Diaz. Given the central bank mandate to promote the most efficient payment instruments, this is good news. The central bank encourages the use of credit transfers rather than cash or cheque payments via advertising campaigns. It also issues public recommendations and will deter banks from setting excessively high transfer fees. This upward trend in credit transfers is in line with higher internet usage and a reduction in SPEI fees. Standardisation of account numbers has also helped reduce rejection rates thus improving trust in the system.

The future of electronic payments in Mexico

Mexico certainly has conditions that are ripe for innovation.

- As of the end of 2015 it had an internet penetration of 59.8%. Not too far behind Russia, at 61.4% and higher than Italy at 58.5%. In Mexico that accounts for 65 million people. Over half of those are between the ages of 13 and 34, an age group more susceptible to trying new technology.
- According to an Asociación de Internet.Mx and Mastercard survey, nearly 7 in 10 Mexican residents use online banking, mainly for payment of services or account to account transfers. However, a telling sign is that 88% of these live in urban areas, with Mexico City having by far the highest usage. There is still a heavy reliance on branch banking, particularly when account holders have a concern or issue that needs resolved.
- One large innovation is Transfer, that launched in 2011. It is an association between two of the largest banks in Mexico, Banamex and Inbursa and the main telecommunications company. This service allows for the transfer of money via mobile phones, from telephone to telephone and from telephone to bank account. The telephone number is used as a proxy, much like in the UK's Paym. This service also allows for correspondent banking through large chains of retailers. Other innovations include BBVA's Juntos and Grupo Bimbo's Qiubo, bringing together the retail and banking industries.

Financial inclusion is being helped by the government-to-person initiatives used by the government for poverty alleviation programs. Bank accounts have gradually been tailored to help with the financial inclusion issue, by ensuring there is no need for minimum activity on the account and with limits on commission. There has also been an increase in the use of prepaid cards, a trend that other markets are employing to increase financial inclusion.



Cash still reigns

Despite a growing market in innovative payment services, and not only payment services but also crowd-funding and peer-to-peer lending, there is still a high cash usage in Mexico.

- Some studies shows that 63–70% of transactions conducted at major retailers are with cash. Much of this has to do with the fact that large groups of the population have little access to financial services, despite the government's efforts. ATM networks and even branches themselves fall short in many rural areas.
- Cash also continues to be an important part of the informal economy e.g. agricultural wages, tips in the service sector, sales in small villages. Cash is the most prominent form of payment in these areas. And it is estimated that the informal economy stood at 27–29% of GDP between 2005 and 2013.

In the last four years there has been an increase in alliances between banks and non-financial institutions such as telecommunications companies to try and develop innovative payment platforms, with varied success. The success of these services is likely to take place in the highly urban areas long before there is a stronghold across the country. The regulators are playing an important role in promoting the ease and safety of electronic payments, but the bridge in financial inclusion needs to be built before this can be fully taken advantage of.

Relevant Payment Industry Institutions

- **ABM** – Asociation de Bancos de Mexico (Mexican Bankers Association).
- **CCEN** – Camara de Compensacion Electronica Nacional (National Automated Clearing House).
- **CECOBAN** – Centro de Computo de Bancario (a bank owned company that operates CCEN, as well as cheque processing and direct debits).
- **CLABE** – Standard format for all bank account numbers used in interbank credit transfers.
- **SHCP** – Secretaria de Hacienda y Credito Publico (Ministry of Finance).
- **SIAC** – Sistema de Atencion a Cuentahabientes de Banco de Mexico (the central bank system which provides liquidity and where participants current accounts are held).
- **SPEI** – Sistema de Pagos Electronicos Interbancarios (real time payments system).

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