Mexico's Tiered KYC

"In Mexico, a significant percentage of the population lacks access to formal financial services. These individuals are forced to rely on informal providers, in-kind savings, and cash transactions with high risks and high monetary as well as transactional costs. In the interest of fostering the design and supply of products focused on serving the unbanked, several financial authorities (CNBV, SHCP, and Banxico) joined efforts to identify aspects of the regulatory framework that could pose obstacles for expanding financial access. One of the main obstacles identified was the unequivocal implementation of KYC requirements. While Mexico passed an agent banking framework that allowed for an increase in the number of access points, account opening at these establishments was simply unviable if full KYC requirements were to be applied." (Dias and Faz, 2011)

Quick facts

Barriers addressed

Prerequisites
KYC requirements >
Digital/Foundational ID >

Cost
Cost of using DFS (incl. transaction cost) >
Perceived and/or lack of money >

Segment focus

1 2 3 4

Customer Journey Relevance

Geography

Mexico

Key stakeholders involved

Comisión Nacional Bancaria y de Valores (CNBV) Secretaría de Hacienda y Crédito Público (SHCP) Banxico

Sources

Faz, 2013; Dias and Faz, 2011.

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Key activities

"In August 2011, Mexico approved a tiered scheme for opening deposit accounts at credit institutions. This scheme implements risk-based account opening requirements for low-value accounts. The innovation here is that it incorporated several "levels" of simplified accounts – requirements increase progressively as restrictions on transactions and channels are eased." (Faz, 2013)

The summary of accounts is as follows (Dias and Faz, 2011):

- **Level 1:** This is an "anonymous" account that can be opened at branches, agents, through the web, or "sold" through retailers; it is capped at US $285 in monthly deposits and US $380 maximum balance. Customers can use any channel—except mobile phones—to deposit, transfer or withdraw money.
- **Level 2:** This is a "named" account that can be opened "remotely". Customers self-report name, state and date of birth, gender and address. Monthly deposits are capped at US $570. A physical/paper file with customer ID information does not—need to be created. For these type of accounts opened remotely, a 24-month grace period is granted to banks in order to do a more complete KYC procedure.
- **Level 3:** This is the same as Level 2, but the bank is able to validate the self-declared data online against a public database; the cap in monthly deposits doubles to US $1,140.
- **Level 4:** This can be opened only at branches, agents and enterprises (for mass payroll); it requires additional information to Level 3 (nationality, occupation, phone number, and ID). Information must be cross-checked against a valid ID document and thus account opening must be face-to-face. Monthly deposits are capped at US $3,800; as with Level 2 and Level 3 paperless record keeping is allowed.
- **Level 5:** This is a full-fledged bank account, opened only at branches. The bank needs to file copies of ID, proof of address, tax ID and other."

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Outcomes/results

“Two years following the regulations, in 2013, the impact was as follows:

- It has led to a reorganization of different products in the market around a single scheme based on deposit accounts, giving visibility to products that were previously not considered deposit accounts.
- It has provided more flexibility for commercial banks who participate in the distribution of government payments.
- It has enabled new products, many designed around payment instruments, which would not have been possible without this regulation.

Additionally, 9.1 million accounts were opened in the two years that followed the publication of the scheme:

- 50% of which were Level 1 accounts
- 23% were Level 2 accounts
- 4% were Level 3

2.9 million prepaid cards that were previously operated by commercial banks for government programs were converted into Level 1 accounts when the scheme came into place, bringing the total to approximately 12 million “simplified” accounts in commercial banks to date (as of 2013).” (Faz, 2013)

Key enabling environment factors for the intervention

Government support: the tiered approach was implemented by regulators in Mexico who wanted to address barriers faced by people participating in the informal sector and low-income individuals.

Key design elements and principles that led to successful outcomes

The regulation called for five different types of deposit accounts, targeting different market segments and income brackets, allowing KYC requirements to be customized to particular segments. The regulations also allowed for non face-to face account opening and paperless record keeping.

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Potential for scale/replicability

This regulation applies to Mexico on a national level. Mexico's tiered KYC approach is thought to be an exemplar for other countries to follow. Countries looking to adopt tiered-KYC should use Mexico as a case study.

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