Mexican Fintech Report 2021

ADVANCE.AI

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Summary

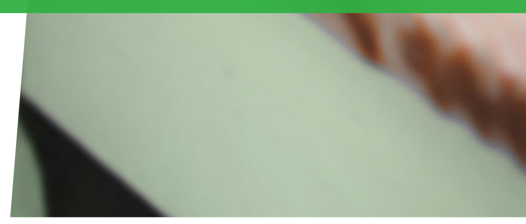
The large user base in Latin America gives fintech companies the opportunities to emerge and thrive. From 2012 to 2020, the fintech market in Latin America rocketed from USD 50 million to USD 150 billion.

As the second largest economy in Latin America, Mexico boasts a favorable ecosystem for fintech development (mobile Internet has a penetration rate of 71%, and credit cards only 12%), and has gradually become a fintech leader in Latin America. The number of fintech startups in Mexico has increased by 23% since 2016, and reached 441 by mid-2020, having attracted venture capital of more than USD 1.3 billion.

The Mexican government has adopted a progressive strategy to ride the fintech wave. It has introduced advanced tools such as regulatory sandboxes, and enacted laws such as the Fintech Law to balance fintech innovation and regulatory risks. According to the current regulations, online lending companies in Mexico must apply for a SOFOM license, and be regulated by the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF) and the National Banking and Securities Commission (CNBV). P2P lending platforms (such as IFC) are subject to the Fintech Law and must apply to CNBV for authorization and be regulated by the Bank of Mexico (Banxico) and the Ministry of Finance and Public Credit (SHCP).

To operate an online loan/P2P lending platform in Mexico, it is necessary to set up a localized operation team and partner with a local law firm to go through the procedures of company registration. So far, there have been about 100 Chinese-funded companies in Mexico dedicated to providing online loan services via registered joint stock companies (S.A. de C.V.). It is faster to register a joint stock company than a SOFOM. Moreover, the former is not subject to regulations as the latter is. Its offerings feature high interest rates and a high level of bad debts.

Mexico’s current regulations strive to ensure that new technology can make up for the shortcomings and promote the development of the financial sector. However, the entry of an increasing



number of multinational companies and international investors may change the structure of the local financial service market, which may predispose the government to toughen relevant regulations to maintain financial stability. In this context, some Chinese companies have been prepared to register a SOFOM/IFC.

As Latin America enters the era of fintech, market risks might arise. The underdeveloped personal credit reporting and social credit systems and the growing online transactions have added to the risk of fraud. Fintech companies must brace for possible cyberattacks given the country's fragile cybersecurity. Other speed bumps for the development of foreign companies in the country include lousy social security, rampant drug use, and mighty criminal gangs.

Frauds and credit risks are the main challenges facing online transactions and credit services. Approximately 20% of new user accounts created in Latin America are fraudulent, almost twice the global level. ADVANCE.AI provides solutions such as identity verification, blacklist detection, multi-platform detection, and risk rating to help companies accurately identify credit risks and reduce the level of bad debts in the Mexican market.

Fintech Development Environment in Mexico

As the second largest economy in Latin America, Mexico boasts a range of fintech growth engines, including its economic growth model, demographic structure, government policy support, high penetration of mobile Internet, a sound e-commerce ecosystem, low penetration of banking services, and the budding consumer credit business.

Four features of a mature fintech ecosystem

- Regional income growth and economic formalization
- Prevalence of mobile Internet
- Consumption shifting from offline to online
- Development of new economic clusters

1. Economic environment in Mexico

(1) Macro-economy

• In 2020, Mexico recorded a GDP of some USD 1.076 trillion, ranking 15th in the world. Its per capita GDP hits USD 8,525, leading the pack in Latin America.

• Its labor advantage has contributed to the prosperity of both manufacturing and service industries. Companies in the US, Europe, Japan, and China began to move their factories to Mexico.

(2) Economic formalization

The informal economy still accounted for an average of 40% of Mexico's GDP between 2010 and 2014. However, according to the International Monetary Fund (IMF), the informal economy in Latin America and the Caribbean has shown a steady downward trend over the past three decades. Informal economy in Latin America gradually becomes formal due to the rise of e-commerce and new payment methods. More and more transactions are completed in the formal financial system.

(3) Population and consumption trends

• With a population of 129 million growing at a rate of 1.3%, Mexico is the second most populous country in Latin America, the tenth most populous country in the world, and one of the world's largest consumer markets.

• Among the population, 10% are poor, 30% earn low incomes, 40% are middle-income workers, 19% have high incomes, and 2% are wealthy people. The fastest-growing middle-income group drives the overall consumption level and the financial credit demand in Mexico.

• Generation Z (those born between 1995 and 2005) is becoming the first "digital natives" who are highly dependent on digital tools. According to data from the National Institute of Statistics and Geography of Mexico (INEGI), Gen Z accounts for 8.7% of the country's total population and will become the major labor force within five years. The rapid growth of their purchasing power will change the consumption pattern in, among other fields, automobile, transportation and food. A study by albo México, a digital bank in Mexico, shows that most young people aged 21 to 26 years are satisfied with the popularity of social networks and fintech, and prefer digital payment.

2. Popularity of the Internet and transformation of financial services

• Fintech in Latin American will see leap-forward growth thanks to the upgrade of telecommunications infrastructure and the increasing penetration of mobile Internet. There are approximately 450 million mobile phone users in Latin America, of whom nearly 80% access the Internet via mobile phones. The two figures are estimated to reach 484 million and 80%, respectively, by 2025. As of January 2021, Mexico has 92.01 million Internet users, with a penetration rate of 71%, of whom 95.9% are mobile Internet users. Mobile signals have covered 89.1%, or 115.4 million, of the total population.

• The Latin American financial market has been monopolized by foreign banks for long. The top 10 banks occupy a market share of 95%. They are not motivated or technically capable to tap into lower-tier markets. Their business relies heavily on outlets and ATMs and they don't have mobile apps. **Banking services in Mexico have a penetration rate of merely 40%, and credit cards only 12%. The country's household debt ratio is only 16% (compared to 52% in China). Therefore, there is a large pent-up credit demand in the country.**

• Most Internet users in Mexico have a smartphone before they have a bank account. Unlike those in developed countries, they will skip a transition and directly shift from cash payment to digital payment.

3. Changes in consumption and payment methods

• According to data from the United Nations Conference on Trade and Development (UNCTAD), developing economies, including Mexico and Brazil, accounted for about half of the top 20 economies by B2C e-commerce sales in 2018. Online consumers in the two countries accounted for about 35% of Internet users. Lockdowns during COVID-19 have accelerated the growth of e-commerce. According to Corporación Industrial Uruapan (CIU) report, there were 63 million e-commerce users in Mexico in 2020, accounting for 74% of the country's total Internet users, up 13.1% from the level in the second quarter of 2019. IDC, a consulting services firm, estimated that e-commerce in Mexico will grow by 60% in 2021.

• Mexicans are accustomed to paying in cash. About 90% of payments in the country are made in cash, accounting for about 75% of the total consumption amount, despite the diverse alternative methods (such as credit cards, debit cards, online banking, mobile banking, and e-wallets). As an increasing number of traditional retailers join the e-commerce transformation, people's purchase and transaction methods begin to change, spawning a huge demand for fintech services such as e-wallets and digital payments. Now, online payment in Mexico is dominated by local payment methods. More than 50% of purchases are made with credit or debit cards, followed by cash or cash on delivery (including OXXO), and other payment methods such as bank transfer (15%) or PayPal.

• Banxico said that 5 million cash users and 3 million credit and debit card users shifted to mobile apps or other electronic transaction methods in the second half of 2020.

4. New economic development environment

With the advent of fintech in 2012, Mexico has gradually become a hub of fintech companies, leading the pack in Latin America. With a large amount of venture capital flowing into the country, the government has progressively established a regulatory mechanism conducive to the stable and healthy development of the fintech industry.

Mexican Fintech Market

1. Fintech startups

• The Latin American market, with an average annual growth rate of 23% since 2016, is considered as potential as the Southeast Asian market. There were 158 fintech startups in Mexico as of August 2016, and the number grew to 238 by July 2017, 394 by 2019, and 441 by March 2020.

• Fintech companies are distributed across more than 10 fields including payment and transfer methods, technical services for financial institutions, online lending, corporate finance management, individual wealth management and consulting, digital brokerages, crowdfunding, insurance technology, cryptocurrency and blockchain, and digital financial entities/banks.

• Among these fields, startups dedicated to payment and remittance services take up 20%, the biggest share, followed by online lenders, corporate finance management companies, technical service providers for financial institutions, accounting for 12% each, and individual wealth management companies and insurance technology firms, accounting for 9% respectively. Numbers of insurance technology startups and those providing technical services for financial institutions have increased significantly by 46% and 39% respectively.

• In terms of geographic distribution, Mexico City is home to 70% of the fintech companies, followed by Monterey (11%) and Guadalajara (7%).

2. Prospects and investments in the fintech industry

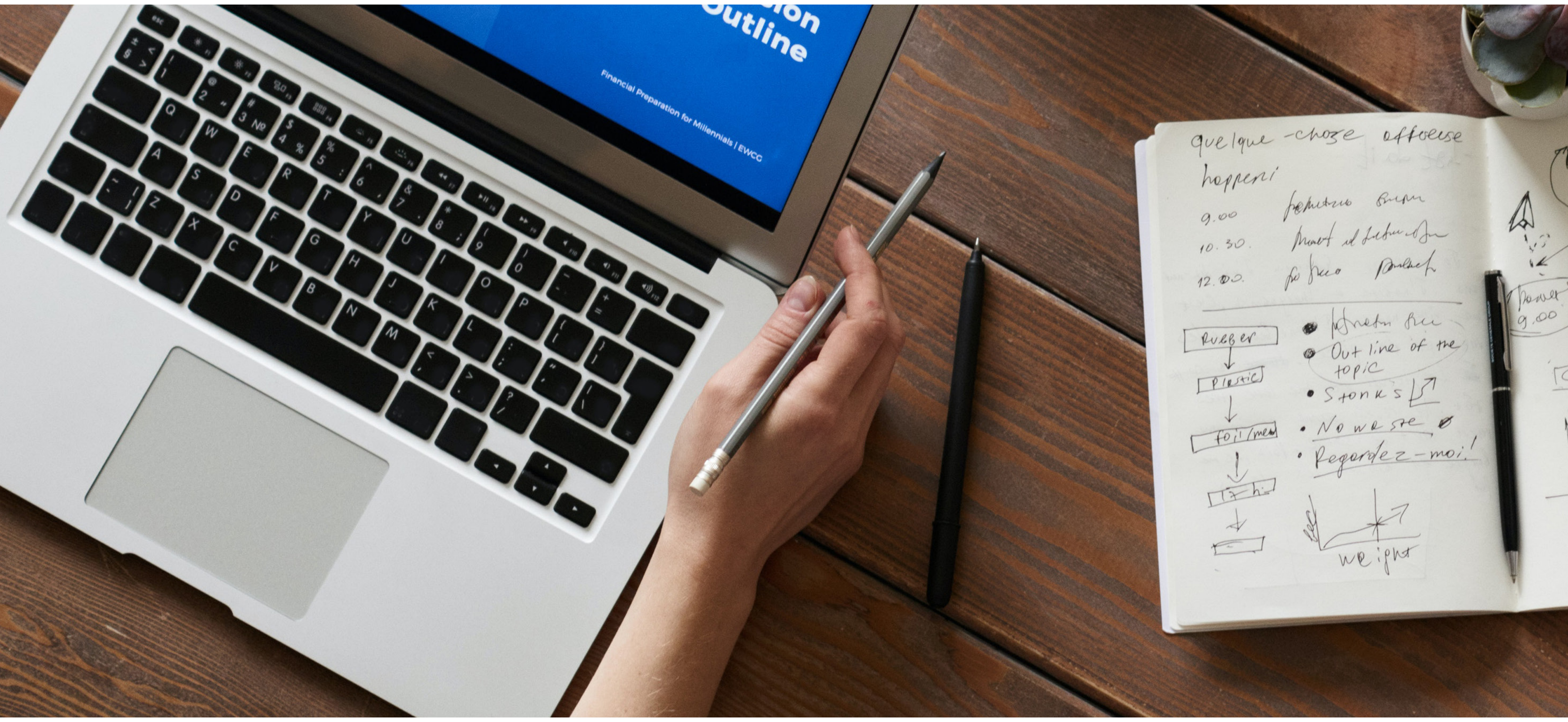
• Marsh, a global risk consulting firm, predicted that the Latin American financial market will exceed USD 150 billion in 2021.

• There are 70 million people with no or insufficient bank accounts in Mexico, presenting an opportunity of leapfrog growth for fintech startups there. KoreFusion, a strategy consulting and M&A advisory services provider, held that only 10% of Mexican fintech companies have disclosed their operational data in 2020. Even so, it is still possible that the industry has generated more than one billion dollars in revenue.

• Venture investment in Latin America has doubled year by year since 2016, and fintech remains a favorite pick for investors. According to the Latin American Fintech Report 2020 by KoreFusion, Mexico's fintech industry had attracted more than USD 1.3 billion of investment as of September 2020. Online lending took in the largest amount of money, hitting USD 941 million, followed by payment services (USD 206 million) and digital banking (USD 98 million).

• As of February 2021, Konfio, a fintech startup in Mexico, had raised more than USD 461 million of funds, outshining its peers in the country. It was closely followed by Credijusto with USD 253 million.

3. Leading fintech companies



Stori
(digital bank credit cards)

• Founded in 2017, the company is headquartered in Mexico City.

• Running as a digital bank, it launched credit cards in January 2020, aiming to provide credit services and create credit records for a wider group of people.

Flink
(debit cards and stock trading)

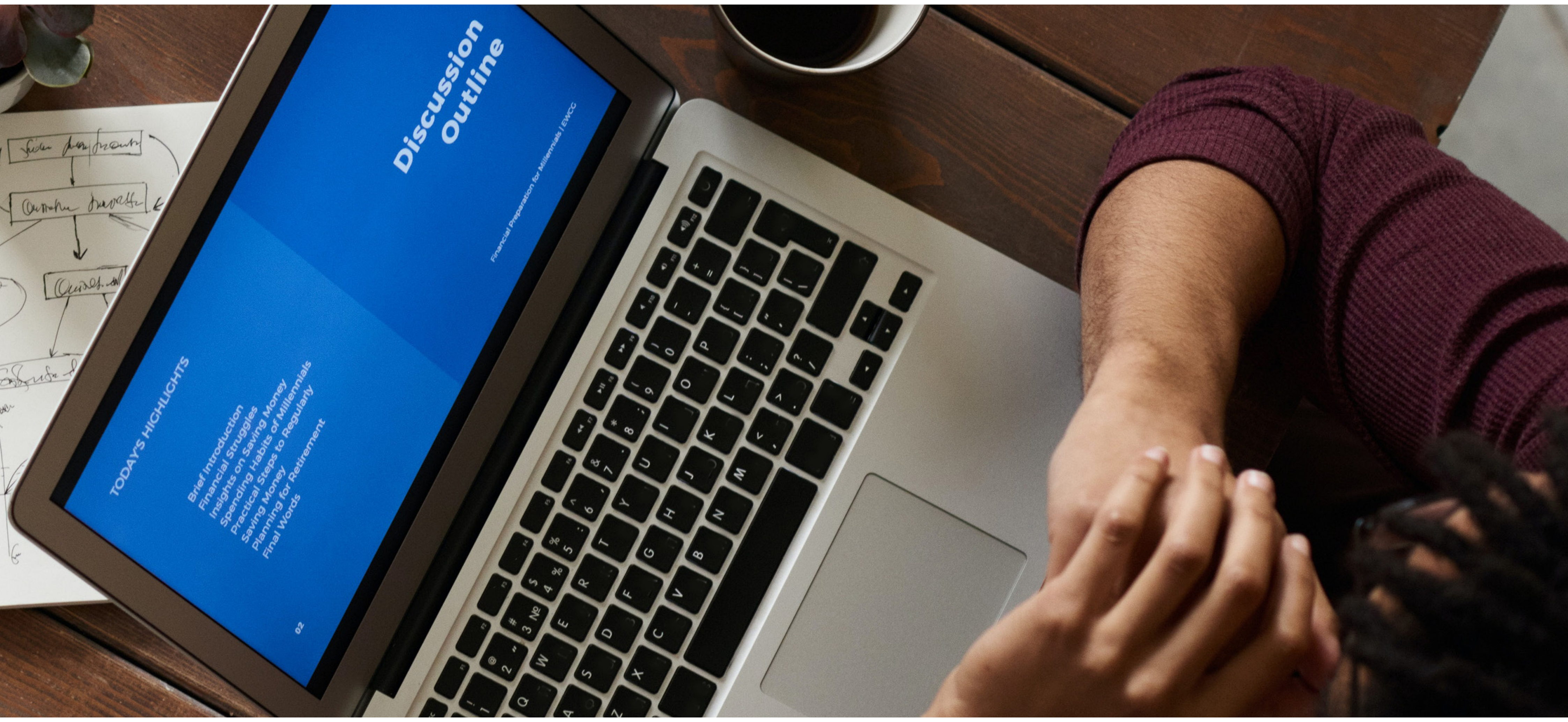
• Founded in 2017, the company is headquartered in Mexico City.

• It issues physical debit cards to Gen Z, allowing them to buy stock shares (in USD 1), without charging commissions. The debit cards can also be used for transactions, transfers, and other purposes. As of February 2021, the company had attracted 1 million registered users, including 500,000 active brokerage accounts, ranking No. 4 in Mexico.

Bitso
(virtual currency exchange)

• Founded in 2014, the company is headquartered in Mexico City.

• A virtual currency exchange, the company has 1.4 million users from Mexico (with a market share of 95%) and Argentina (78%). Now, it is expanding into the Brazilian market.



Rappi
(a super app for food delivery)

- Founded in 2015, the company is headquartered in Colombia.

- It provides food delivery services across Latin American, and is seeking to become a super app like China's Meituan and extend its reach to payment, travel, finance, and other services. The app now has more than 10 million downloads.

Konfio
(SME loan services)

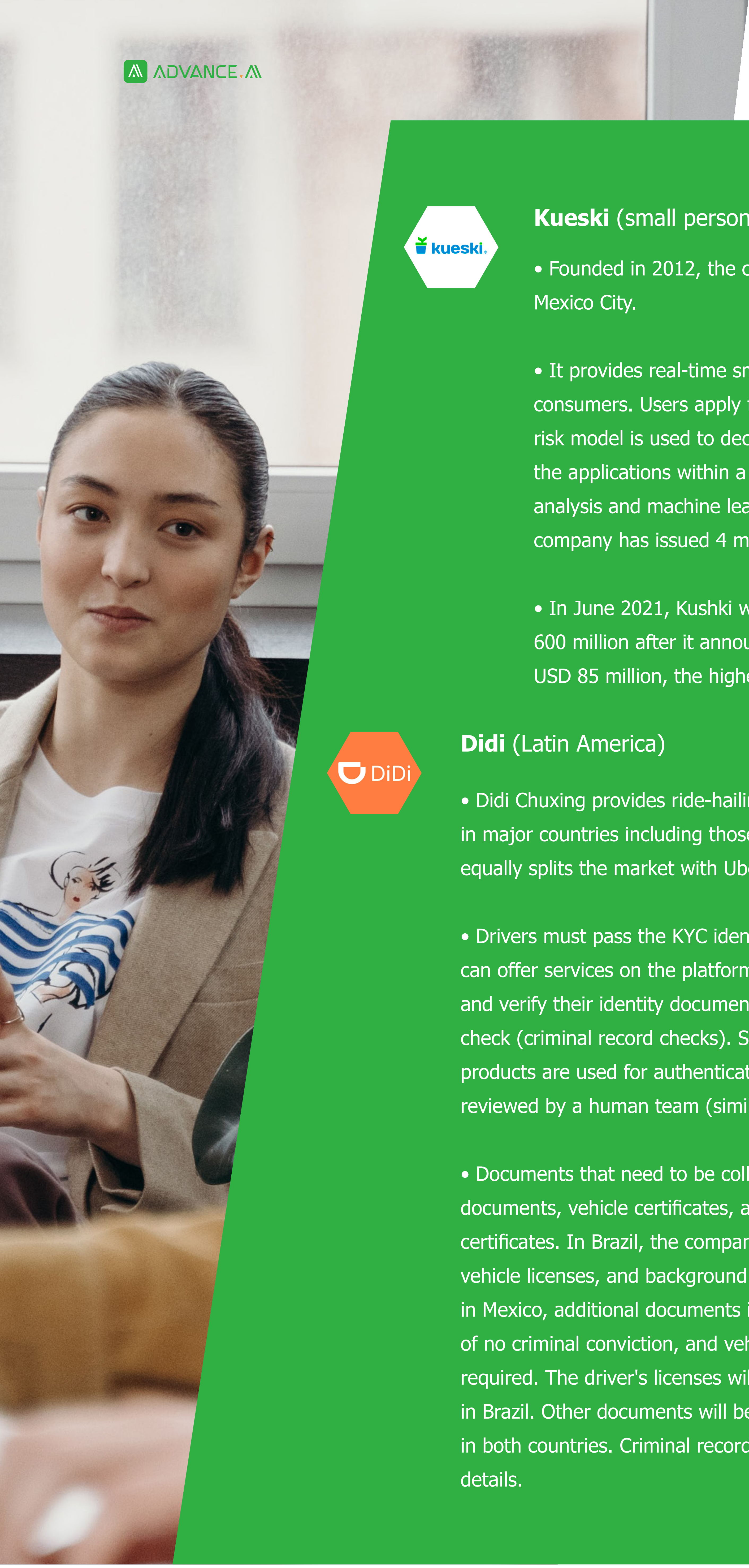
- Founded in 2014, the company is headquartered in Mexico City.

- Leveraging data analysis and AI technologies, it provides funds for companies, most of which do not have any formal credit records.

Kubo Financiero
(P2P)

- Founded in 2012, the company is headquartered in Mexico City.

- As the first P2P lending platform approved by CNBV in Mexico, it mainly engages in micro-finance in fields like fixed assets and education.



Kueski (small personal loans)

• Founded in 2012, the company is headquartered in Mexico City.

• It provides real-time small loans to middle-class consumers. Users apply for loans online, and a credit risk model is used to decide whether to approve or reject the applications within a few seconds based on big data analysis and machine learning. So far, the burgeoning company has issued 4 million loans.

• In June 2021, Kushki was valued at approximately USD 600 million after it announced a Series B financing of USD 85 million, the highest in the Latin American history.

Didi (Latin America)

• Didi Chuxing provides ride-hailing and food delivery services in major countries including those in Latin America. In Mexico, it equally splits the market with Uber.

• Drivers must pass the KYC identity verification before they can offer services on the platform. The company will collect and verify their identity documents, and carry out a background check (criminal record checks). Self-developed facial recognition products are used for authentication, and identity documents are reviewed by a human team (similar to Jumio MTech).

• Documents that need to be collected include personal documents, vehicle certificates, and background check certificates. In Brazil, the company collects driver's licenses, vehicle licenses, and background check certificates. However, in Mexico, additional documents including ID cards, certificates of no criminal conviction, and vehicle insurance policies are also required. The driver's licenses will be verified with a third party in Brazil. Other documents will be verified by the company itself in both countries. Criminal records, if any, should have sufficient details.

Credit Reporting Agencies in Mexico

1. Credit reporting agencies

Credit reporting agencies in Mexico are governed by the Credit Reporting Company Management Law and the General Rules of Credit Reporting Companies, and are regulated by CNBV, Banxico, and SHCP.

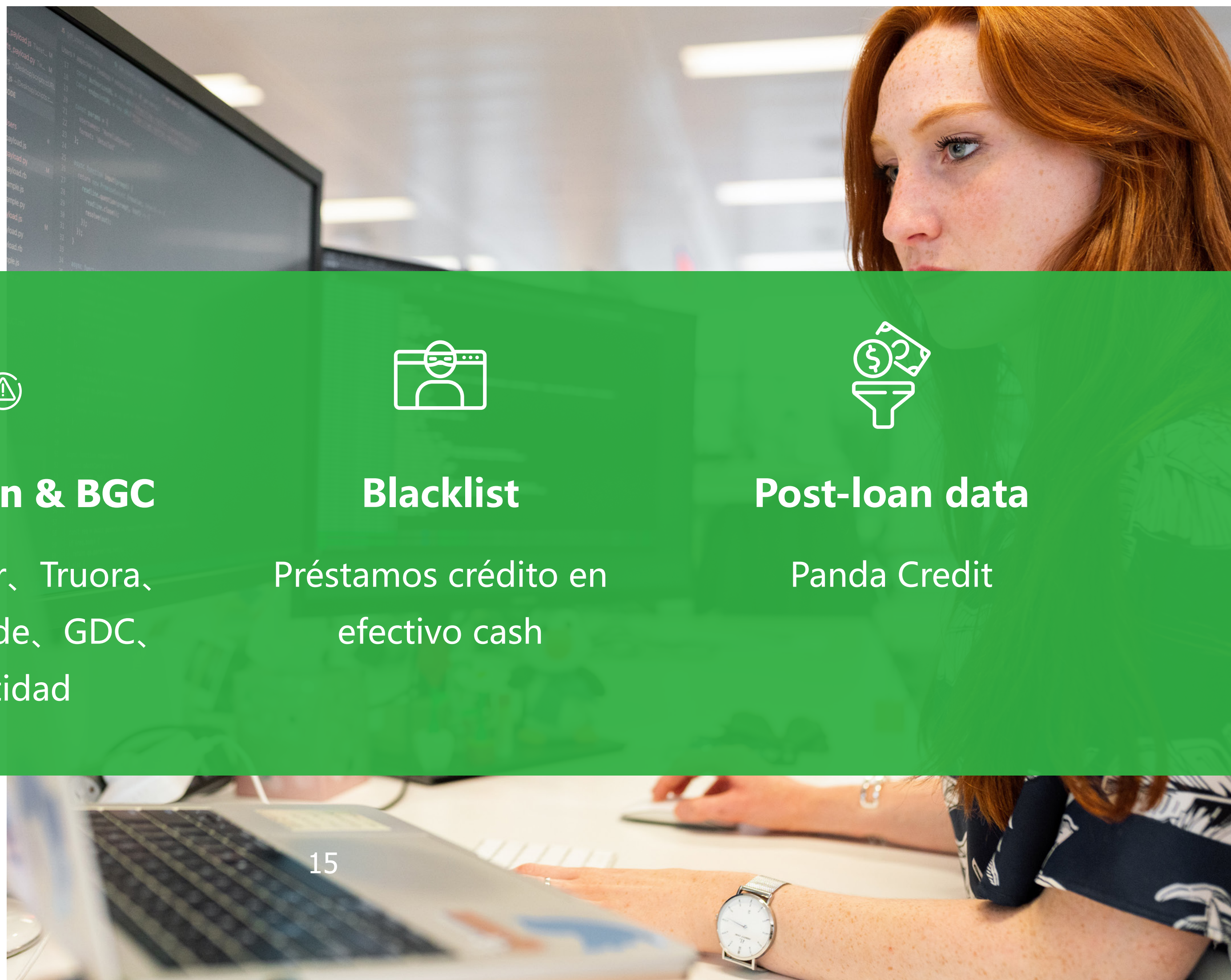
Buró de Crédito

It is the largest credit reporting company in Mexico whose database integrates various credit records of individuals and companies to provide credit information for financing and loan companies.

Circulo de Crédito

It is the second largest credit reporting company in Mexico with a 40% market share. It presents more than 50 million credit reports every year.

2. Data sources



Verification & BGC

Mati、Emptor、Truora、SUMA、incode、GDC、tuidentidad

Blacklist

Préstamos crédito en efectivo cash

Post-loan data

Panda Credit

Fintech Regulatory Policies in Mexico

Mexico experienced a severe financial crisis in 1994, in part due to illegal banking activities which led to a series of frauds and bankruptcies. In addition, the country saw a high rate of money laundering and other crimes. Therefore, the regulator has always kept a tight grip on the financial market. Amid the upsurge of fintech startups in 2012, the Mexican regulator introduced advanced tools such as a regulatory sandbox from the UK and enacted laws for innovative technology industries, as part of a progressive strategy to boost fintech innovation while controlling regulatory risks.

1. Regulatory policies on online lending companies

(1) License type

• A Sociedad Financiera de Objeto Múltiple (SOFOM) is a public limited company registered with CONDUSEF, which can engage in financing, factoring, lending, and digital currency exchange, but cannot accept deposits. It must adhere to the regulations on financial service transparency.

• The SOFOM system was initiated in 2006 with an aim to create an inclusive financial ecosystem independent of the banking system. It is dedicated to providing alternative finance services for users (low-income individuals) uncovered by the product portfolios of banks. SOFOMs offer an easier access to loans than traditional banks.

• There are two types of SOFOMs which are governed by different regulatory agencies.

<1> Unregulated SOFOMs, identified by the suffix of SOFOM E.N.R., are the most common type of companies. Generally, they are not regulated by CNBV unless they violate the regulations against money laundering and terrorist financing (Paragraph 2, Article 95, LGOAAC). They are not required to meet a minimum capital requirement, but it is recommended to be no less than USD 250,000.

<2> Regulated SOFOMs, identified by the suffix of SOFOM E.R., can apply for a full banking license. A SOFOM will be regulated if (1) it has business connections with credit institutions, public finance associations, community finance companies, or savings and loan cooperatives; (2) it is funded by the debt securities registered with the National Registry of Securities (RNV) according to the Securities Market Law; or (3) it volunteers to be regulated by CNBV.

(2) Benefits of a SOFOM

No value-added taxes (Impuesto al valor agregado, IVA) are levied on the interests of the commercial loan portfolio offered by a financial entity.

Bad debt losses are deductible.

The loan portfolio is not included in the calculation of income tax (Impuesto Sobre la Renta, ISR).

Contracts awarded by a SOFOM E.N.R. for credit recording, financial leasing or factoring, accompanied by account statements certified by an entity accountant, will have an administrative title in nature and can be collected by commercial administrative means.

A SOFOM can transfer the right to issue secured loans to an intermediary without the need to notify the debtor or register with the Public Registry of Property and Commerce.

(3) Legislation and regulatory policy trends

• SOFOMs are regulated by CONDUSEF, and their credit business shall be governed by the Credit Institution Law, the Law for Regulation and Transparency of Financial Services, and other applicable laws. Mexico follows the case law system. As the online loan business develops, more and more new issues and cases will appear, and relevant laws will be revised in due course.

• Primarily, there are two types of online loan companies in Mexico: SOFOMs and non-SOFOM companies. The former mainly includes Spanish and US companies dedicated to inclusive finance. The latter is primarily Chinese-funded companies and other foreign-funded companies featuring high interest rates and risks. With the growth of the online loan market, Mexico will gradually tighten its regulation on fintech companies to ensure financial stability. Online loan companies will be required to operate with a license in the future.

2. Related laws

(1) Fintech Law

• In March 2018, Mexico passed the Fintech Institutions Regulation Law (Ley para Regular las Instituciones de Tecnología Financiera) (Fintech Law) and established a regulatory framework for Fintech Institutions (ITF), in a bid to promote inclusive finance and improve the competitive environment in the financial sector. The Law aims to increase the information transparency of fintech institutions and provide legal support for consumers, preventing money laundering and other crimes while ensuring financial stability.

• The Law aims to regulate two types of ITFs:

<1> Crowdfunding institutions (Institución de Financiamiento Colectivo), defined as crowdfunding/P2P platforms based on debts, equity, or franchise rights.

<2> E-payment funds (Fondo de Pago Electrónico), defined as platforms which provide services for the issuance, management and transmission of e-payment funds.

• It is worth noting that Article 76 of the Fintech Law requires financial institutions and fintech companies to develop APIs and share them with their partners. In 2020, Banxico published the rules for using APIs to share information, which means that start-ups and small banks can obtain user data of traditional banks through APIs. This will improve the overall service level of financial institutions and reduce the risk of fraud.

(2) Secondary Regulation of Fintech Law

• In 2019, CNBV enacted the secondary regulation of the Fintech Law, which requires regulators to provide regulatory sandboxes for innovative financial business. The secondary regulation is also designed to boost the confidence of financial service users. It will see to it that all fintech transactions, conducted on apps, on web pages or in social networks, are completed in Mexico's national currency and/or digital currency authorized by Banxico. **Fintech companies are required to analyze users' risk profiles or credit ratings before granting loans to them in case that they bear excessive debts.**

• Fintech companies in operation need to submit applications to CNBV, Banxico, and SHCP before September 25, 2019 for license. Licensed fintech companies will be regulated by the above authorities. The submissions include documents related to their business model, shareholder information, liquidity, and capital and security issues. According to a CNBV report issued in 2020, 85 fintech companies, with 60 e-payment funds and 25 crowdfunding institutions, had applied for a license to continue operations one year after they made the aforesaid submissions.

• Here are the regulatory points for licensed crowdfunding/P2P platforms:

<1> Diversification plays a key role in risk control. Investors have to diversify their investments. They can only invest up to 7.5% of the money they have already invested in the account.

<2> The platforms should collect more user information in compliance with the Anti-Money Laundering Law. For example, a politician needs to provide information including their name, address, tax identification number (RFC), Personal ID Code Number (CURP), mobile number, email address, beneficiary, and transaction information, and an ultimate beneficiary needs to provide their INE or passport and a proof of address.

<3> Money can only be transferred between users' bank accounts and their platform accounts. The platforms are not allowed to accept cash from loan applicants in principle. In exceptional cases, they can accept cash up to UDI 3,000 (approximately 18,000 pesos) per month.

<4> The platforms must explicitly tell each investor about the investment risks, such as loss of money and lack of liquidity.

<5> The platforms are obliged to follow up and supervise the investment projects.

<6> The platforms shall set limits on the amount of each project depending on the platform type (debt, equity, or real estate). For debt-based crowdfunding platforms, the maximum amount is UDI 50,000 (about 300,000 pesos).

<7> The platforms must explicitly disclose the following information: how they rate applicants, commission details, contact information for clarification (UNE), consolidated financial statements (with annual audit reports), and the status of the loan portfolio (including judicial performance and statistics).

<8> The platforms must submit contracts to CONDUSEF and disclose relevant information, such as account statements, to users.

<9> The platforms must have an internal control manual, a business continuity plan, an information security manual, a risk control manual, a conflict of interest policy, a money laundering prevention manual, an automatic transaction detection system, risk disclosure and account separation policies, secure technical infrastructure, and a compliance officer.

(3) Credit institutions and credit laws

• The Credit Institution Law (Ley de Instituciones de Crédito) applies to multi-purpose financial companies (SOFOM). It regulates the operation of banks and credit institutions to promote balanced development of the industry.

• The General Law of Credit Organizations and Auxiliary Activities (Ley General de Organizaciones y Actividades Auxiliares del Crédito, LGOAAC) specifies the requirements and powers of SOFOMs.

(4) Transparency and Financial Order Law

The Transparency and Financial Order Law (Ley para la Transparenciay Ordenamiento de los Servicios Financieros) stipulates that CONDUSEF shall supervise the subsidiary contracts, advertisements, account statements and receipts issued by SOFOMs to increase transparency and objectivity in advertising.

(5) Anti-Money Laundering Law (LFPIORPI)

On March 9, 2018, Mexico amended the Federal Law on the Prevention and Identification of Transactions of Illicit Resources (Ley Federal de Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita) to include fintech business. Fintech companies are obliged to prepare identity documents for their clients and submit a notice carrying operational information to the Mexican Tax Administration Service (SAT).

(6) Law on Protection of Personal Data (Ley de Protección de Datos)

In July 2010, Mexico approved the Federal Law on Protection of Personal Data (Ley Federal de Protección de Datos Personales en Posesión de los Particulares) which stipulates that organizations/individuals which process personal data must comply with the guidelines published by the National Institute for Transparency, Access to Information and Personal Data Protection (INAI). Fintech companies shall fulfill security and confidentiality obligations when acquiring and using personal data. Online loan companies shall not abuse personal data and infringe personal privacy when collecting payments. INAI may impose fines on companies which violate relevant regulations.

Registration and Operation of Online Loan Companies

To run an online loan business in Mexico, you need to set up a localized operation team and partner with a local law firm to go through the procedures of company registration, tax registration, and bank account opening. You must also be familiar with relevant laws and regulatory policies.

1. How to register an online loan company?

(1) SOFOM

• Licensed operations are the mainstream in Mexico's online loan market. Now, there are 2,870 financial entities operating in the country. They have been registered in the Registration System for Financial Service Providers (SIPRES), of which more than 1,600 are SOFOMs, including 1,596 SOFOM E.N.R.s and 47 SOFOM E.R.s.

• Website:
https://www.cnbv.gob.mx/Paginas/PADR%C3%93N-DE-ENTIDADES-SUPERVISADAS.aspx

• To register a SOFOM, you need to apply to CONDUSEF for an online license to conduct online loan business. The process and necessary documents are as follows:
CONDUSEF website: https://www.condusef.gob.mx/

01

<1> Register a public limited company

• Choose a company name and register with the Ministry of Economy.

• A notary formulates the Articles of Association to define the company's governance, purpose, domicile, capital stock, legal representative, management rights and liquidation regulations. The founders shall present their personal information, official ID document and tax number, and sign the Articles of Association.

• The notary registers the Articles of Association in the Public Registry of Property and Commerce.

• Apply for a bank account.

• Register the company with the Federal Register of Taxpayers (Registro Federal de Contribuyentes, RFC).

• Apply to SAT for a Digital Seal Certificate (CSD) to generate official electronic invoices (CFDI).

• Go through relevant formalities with the Mexican Institute of Social Security (IMSS).

02

<2> Notify CONDUSEF of the establishment of the SOFOM company and apply for an online license

• CONDUSEF reviews the application and informs CNBV.

• Prepare the documents concerning the prevention of money laundering and terrorism financing (PLD/FT), referring to CNBV technical regulations.
https://www.cnbv.gob.mx/PrevencionDeLavadoDeDinero/Video-Tutoriales/Paginas/Sofomes-ENR.aspx

• Sign a credit reporting company and determine the KYC service provider.

• Designate a compliance officer to ensure the company complies with local laws.

03

<3> Register with the SIPRES

• You can see the registration process at:
https://www.gob.mx/tramites/ficha/sistema-de-registro-de-prestadores-de-servicios-financieros-sipres/CONDUSEF5011

• You can search for agencies at:
https://webapps.condusef.gob.mx/SIPRES/jsp/pub/index.jsp

(2) S.A. de C.V.

• The S.A. de C.V. (Sociedad Anonima de Capital Variable) is one of the two joint-stock business (S.A) forms under the Mexican Corporate Law. The companies can increase their capital according to the Articles of Association.

• Now, there are about 100 Chinese-funded companies in Mexico which provide online loan services via a S.A. de C.V. company. It is faster to register an S.A. de C.V. company than a SOFOM. Moreover, the former is not subject to regulations as the latter is. But users of all financial service providers are protected by CONDUSEF. In response to possible tougher regulations, some Chinese-funded companies are also ready to register a SOFOM.

The S.A. de C.V. registration process is as follows:

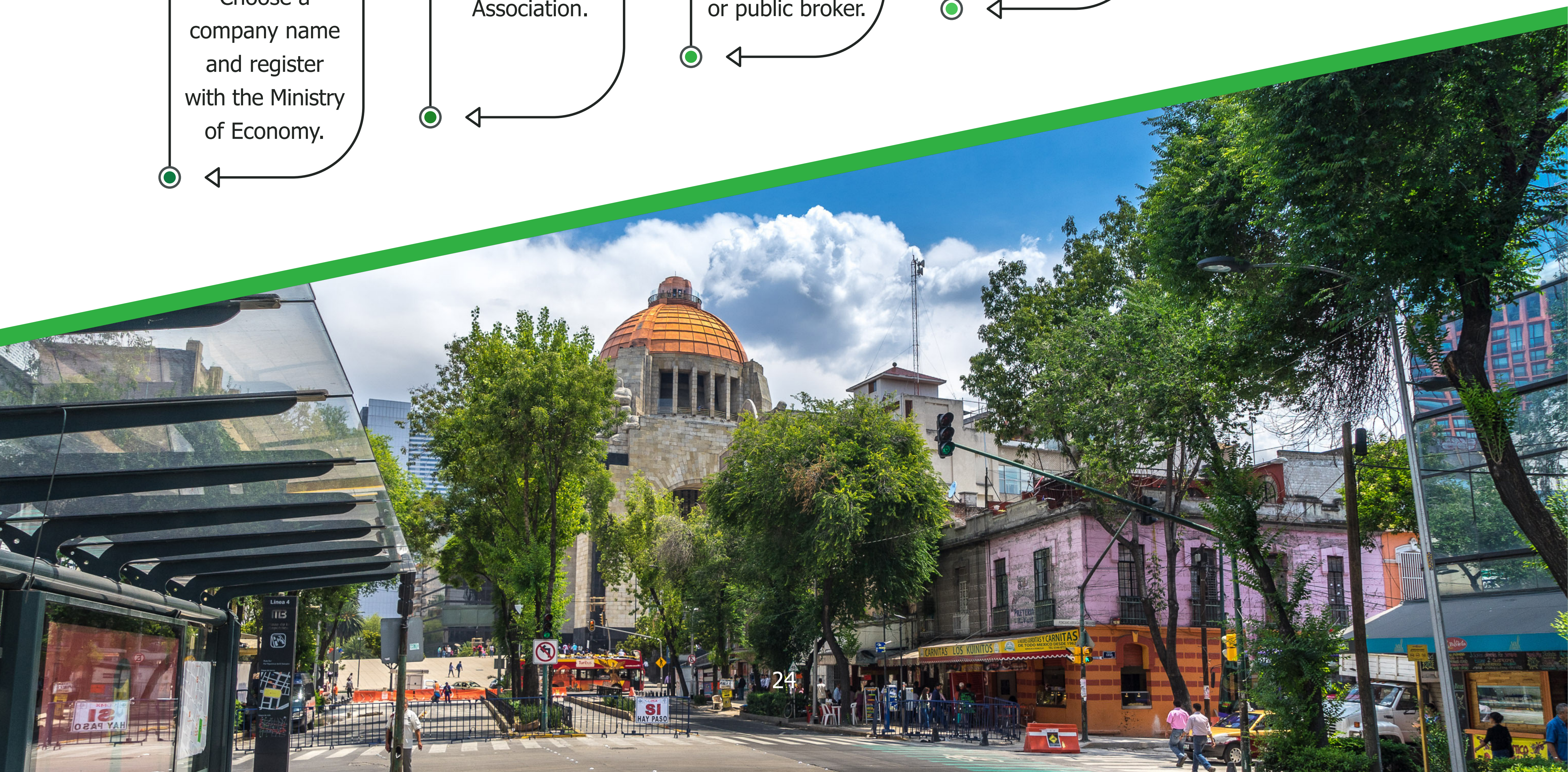
01 Choose a company name and register with the Ministry of Economy.

02 Draft the Articles of Association.

03 Formalize the Articles of Association in front of a notary or public broker.

04 Register the Articles of Association in the Public Registry of Property and Commerce.

05 Complete tax registration and apply for a bank account.



2. Tax registration and tax policies

(1) Tax registration process

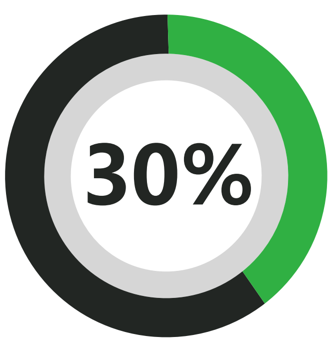
Applicants can take a mock questionnaire on economic activities and tax liabilities on the website of SAT to learn relevant obligations before tax registration or notice renewal. The registration process is as follows:

SAT website:

https://www.sat.gob.mx/empresas/tramites-del-rfc

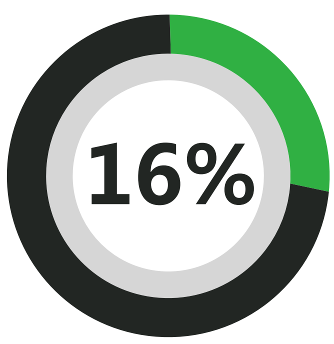
1. The agent makes an appointment with the SAT office, on the SAT website, or via SAT Móvil or Portal GOB.MX, and requests an additional key from RFC.
2. The shareholders and legal representative of a legal entity must be registered with RFC and stay in an active state. They must hold a signed certificate.
3. The legal representative or agent can view the documents required for registration on the official website.
4. Pre-register the company in RFC to speed up the registration process.
5. Encrypt bank records (encryptor). Financial entities and savings and loan cooperatives (SOCAPS) can apply to encrypt documents delivered to SAT for data verification in RFC.
6. Use a unique identity code (CURP) to register two or more staff members in RFC.
7. Register the company in RFC and obtain a unique tax identification card and a QR code.

(2) Tax rates



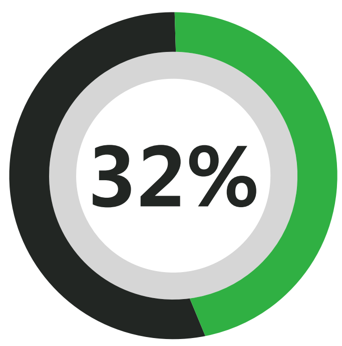
Income tax
(Impuesto Sobre la Renta, ISR)

30% of the profits



Value-added tax
(Impuesto al Valor Agregado, IVA)

16%, deductible



Social taxes
(Impuestos sociales)

about 32%, including the payroll tax and salary tax, social security quota and state payroll tax

3. How to open a bank account?

To open a bank account, you need to provide the following materials (please note that the following content is for reference only, and you need to follow bank-specific requirements):

<1> The registered Articles of Association (Constitutive Act Duly Registered). Note that the "Boleta de Inscripcion" page is required because it indicates that the registration is completed.

<2> The Power of Legal Representative (ACTA), generally included in the Articles of Association. If it is contained in another notarized document, you should also provide such document.

<3> A proof of corporate address such as the utility bill for the last three months. The address must be consistent with that registered with RFC (taxpayer registration information).

<4> Proof of identity of the legal representative: If he/she is Mexican, provide an INE copy (scanned on both sides); If he/she is Chinese, provide his/her passport (the first page of identity information and the last page of signature in case of an old passport) and FM3 (scanned on both sides).

<5> A proof of domicile of the legal representative such as any utility bill for his/her apartment for recent three months. The bill is not necessary to carry the name of the legal representative.

<6> Complete RFC information (taxpayer registration information) of the legal representative, usually in two to three pages.

<7> Complete SHCP/RFC information of the company.

<8> Four photos of the office.

<9> The company's webpage or business introduction (PPT or PDF).

<10> The company's contact information which can be the mobile number and email address of a local employee in Mexico.

<11> The legal representative's contact information which can be the mobile number and email address of a local employee in Mexico same as the company's contact information.

<12> Information of the majority shareholders, i.e., individuals (natural persons) who hold more than 25% shares in the company (for an institutional shareholder, provide the name and date of establishment of the institution):

- Proof of identity. For non-Mexican shareholders, provide their passports and FM3 copies.
- Proof of domicile. For shareholders with legal status in Mexico, provide any utility bill for a Mexican domicile. For those without legal status in Mexico, provide any utility bill for an overseas domicile, and the bill must carry the shareholder's name and detailed address.
- RFC and SHCP (tax number and tax information). Not required if the shareholder does not have a Mexican legal status (FM3).
- Contact information including the email address and mobile number.

4. Localized operation

• Companies may hire local intermediaries and HR companies/headhunters to rent office space and recruit employees. Chinese-funded companies mainly recruit local people as collectors, with a monthly after-tax salary of 6,000-10,000 pesos.

• Marketing and traffic acquisition are mainly carried out via Google and social media. Companies with a high marketing budget can use Google ads. Others can use social media such as Facebook and Instagram to create a service community.

5. Transaction method, payment channel and risk warning

In Mexico, payments are mostly made in cash via STP, OXXO, and PAYNET. Payment companies require customers to comply with local anti-money laundering/anti-terrorism policies. Online loan companies are the primary focus.

STP (Sistema de Transferencias y Pagos)

STP is one of the most commonly used systems in Mexico. It is managed by Banxico and also participates in Interbank Electronic Payments System (SPEI).

OXXO

OXXO is a well-known convenience store chain in Mexico. To adapt to Mexicans' habit of paying in cash, the company created OXXO tickets with barcodes that can be used for payment at any of its 18,000 convenience stores across the country. This payment method suits a broad range of scenarios from utility bill payment to online shopping. OXXO is similar to other payment methods which are widely used in Latin America such as Boleto (in Brazil) and Baloto (in Colombia).

Paynet

Paynet is a payment platform where users can use barcodes to pay for online purchases with cash through its more than 10,000 partner institutions across Mexico.

6. Bad debt rate and local collection regulation

• Chinese-funded companies feature higher product margins and bad debt rates.

• Payment collection in Mexico must comply with the Law on Protection of Personal Data, and the policies of CONDUSEF and PROFECO (consumer protection agencies). For example, it must not interrupt the normal routines of users, involve violence, or infringe the privacy of users and their contacts. Otherwise, users may file a complaint against the collector who will then be fined by a competent authority.

Opportunities and Risks

01 As an important consumer market in the world, Mexico boasts a sound financial ecosystem which has attracted a large number of venture capital firms and multinational financial companies. Fintech startups are very buoyant, and the fintech industry is booming in the country.

02 Mexico's current regulations strive to ensure that new technology can make up for the shortcomings and promote the development of the financial sector. However, the entry of an increasing number of multinational companies and international investors may change the structure of the local financial service market, which may predispose the government to toughen relevant regulations to avoid unfair competition and maintain financial stability.

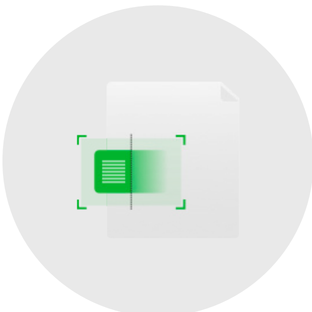
03 However, the poor individual credit information and social credit systems have given rise to plentiful market risks as the country accelerates its pace of moving towards digital payments. A growing number of online transactions has heightened the risk of fraud.

04 According to the 2020 Cybersecurity Report by the Organization of American States (OAS) and the Inter-American Development Bank (IDB), Mexico has made important achievements in cybersecurity, which, however, is still very vulnerable. Fintech companies must be geared up for possible cyberattacks.

05 Social violence is also a matter of concern in Mexico. More than 130 politicians, candidates, journalists and other personages were murdered in the 2018 presidential election alone. Social chaos, drug abuse and gangs are a cancer for the development of foreign companies in Mexico.

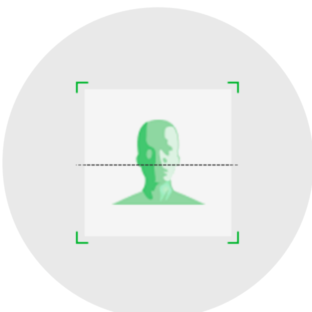
ADVANCE.AI Solutions

As Latin America enters the era of fintech, fraud becomes a main challenge. Mexico has the highest risk of online fraud in the world, followed by Brazil. It is estimated that about 20% of new accounts created in Latin America are fraudulent, almost twice the global level. KYC, KYB, AML and general authentication services there still need to be improved. In addition, credit scores are not widely used in Mexico, which has complicated the underwriting process and pushed up the fees charged to consumers. ADVANCE.AI provides solutions such as ID Check, Blacklist Detection, Multi-platform Detection, and Risk Score to minimize fraud risks in the Mexican online loan market.



ID Check

As an important part of eKYC authentication, the CURP (the National ID Number in Mexico) check verifies the CURP status and returns key user information, including the name, birthday, gender, father's surname, mother's surname, country of birth, and state of birth. The product can provide authentic information and stable services, boasting high accuracy, broad coverage, and great timeliness.

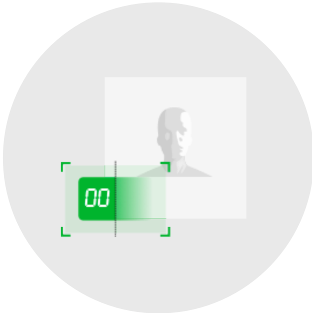


Blacklist Detection

Blacklist Detection can be used in pre-loan anti-fraud rules or as a model variable to accurately identify credit risks and reduce the bad debt rate. The product leverages industry-wide joint prevention and control (by partners in and out of Mexico) and a big data-based laboratory mechanism to obtain data by tracking actual loans and loan behaviors. So far, it has accumulated millions of data, and can check a user's information by entering his CURP or mobile phone number.

Multi-platform Detection

Multi-platform Detection is used to filter out high-risk customers, facilitate pre-loan review and decision-making, and identify excessive debt risks. Relying on the industry-wide joint prevention and control and big data-based laboratory mechanism, the product can effectively identify risk groups who have applied for loans on multiple platforms by time and the number of institutions. It supports real-time return of information, offline back-testing, inclusion into a model, and policy configuration via an online API.



Risk Score

Risk Score is used to rate users' credit worthiness based on their basic ID information, device information, address books, and GPS data. It applies to single-term and short-term installment loans and can perform anti-fraud detection and credit granting for small cash loan applicants, which can effectively reduce the first payment delinquency rate.

About
ADVANCE.AI

ADVANCE.AI is a leading AI and big data company in Asia, helping to solve digital transformation, fraud prevention and process automation for enterprise clients. Founded in 2016, we are the leaders in artificial intelligence, risk management and digital lending solutions. Backed by notable VC firms from Silicon Valley and Asia, we have a regional footprint in the Asia Pacific, with our headquarters in Singapore and other offices in Indonesia, India, China, the Philippines and Vietnam. Sector focuses include banking, financial services, fintech, payment, retail and e-commerce.

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