Credit
Peer-to-Peer (P2P)

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- Number of firms: over 8,800 in 2017.
- Assets: around $870 USD bn. (1.16% of the global GDP).
- Investments: from $15.3 USD bn in 2010 to over $101 USD bn in 2017 (TCA 37%).
- Funding: over $105 USD bn
- Main Hubs:
  - USA: California and NY
  - Mexico
  - UK
  - France
  - China
  - Brazil

-Firm size. 54% of firms has between 1 and 10 employees

- Number of Fintech firms: 334
- 85% of firms is less than 5 years

-Main firms statistics:
- Active users: more than 540 thousand.
- Assets: Around $400 MMXN.
- Transactions: more than $17,400 MMXN.
- Employees: more than 400.

- Other relevant data:
- Startup place of birth:
  - Mexico City (61%), Guadalajara (9%), Monterrey (9%), Merida (4%), Puebla (2%)
- Maturity: 31% is in growth and expansión stage, 47% are ready to scale, 22% in beta version.
- Main technologies: Big Data and Analytics (25%), APIs and Open Platforms (17%) and Mobile and Apps (15%).

Source: Finovista 2018
Mexico Fintech Market Segmentation

**FinTech Radar Mexico**

- **Payments and Remittances**
  - 21% (70 startups)
  - Payments: Crypto
  - 2% (5 startups)

- **Scoring, Identity and Fraud**
  - 3% (23 startups)
  - Wealth Management
  - 3% (10 startups)

- **Enterprise Technologies for Financial Institutions**
  - 7% (25 startups)
  - Business Lending
  - 7% (23 startups)

- **Consumer Lending**
  - 15% (49 startups)
  - Trading and Markets
  - 2% (5 startups)

- **Payments**
  - 13% (45 startups)
  - Crypto
  - 2% (5 startups)
  - Enterprise Financial Management
  - 8% (25 startups)

- **Personal Financial Management**
  - 3% (11 startups)
  - PFM: Comparison
  - 6% (19 startups)
  - Insurance
  - 1% (5 startups)

- **Digital Banking**
  - 9% (30 startups)
  - Crowdfunding

Source: Finovista 2018
FinTech sector benefits

- Promotes financial inclusion
- Startup Launch
- More efficient and less costly processes
- Highly scalable models
- Increases the safety and quality of services
- Reduction of systemic risks (TBTF)

... among others.
Instancing:

Financial and systemic risks.

Legal uncertainty.

Lack of consumer protection.

Technological risks.

For instance: impersonation and identity theft, information privacy and platform or database integrity.
Given the risks of the FinTech sector, Mexico’s FinTech Law was built on 6 governing principles that provide flexibility, and secondary regulation which will be actively updated according to the sector needs.
**Crowdfunding Institutions (CFI)**
- Connects suppliers and requesters of credit so that they grant financing to each other, through the use of Apps, internet pages, electronic interfaces, etc.
- Crowdfunding can be categorized in: debt (P2P), equity & co-ownership or royalties.

**Electronic Payment Funds Institutions (EPFI)**
- Issuance, administration, redemption and transmission of electronic payment funds.
- Electronic payment funds: referred to a monetary value and recorded in transactional accounts (e-money).
- Main uses: e-commerce, funds transfers, P2P payments, payment of services.

**Virtual Assets Operations**
- Virtual Assets: Representation of value recorded electronically and used as a mean of payment, whose transfer can only be carried out by electronic means.
- FTI and banks will only be able to operate with the virtual assets authorized by Banxico.

**Regulatory Sandbox**
- Temporary authorization so that regulated and unregulated entities can test innovative models (those that use tools or technological devices with modalities different from the existing in the market).
- Unregulated entities: laws exceptions up to 2 years (possibility of 1 year extension).
- Regulated entities: secondary rules exceptions up to 1 year (possibility of 1 year extension).

**Application programming interfaces (APIs)**
- Objective is to share data. This type of data can be: open, aggregate or transactional.
- Obliged entities: financial entities, financial technology institutions, credit information societies, clearing houses, money transmitters and sandbox participants.
- Charge of comissions is allowed but subject to authorization.
P2P in Mexico: The FinTech Law

- P2P is a type of crowdfunding recognized as a legal activity in the Mexican FinTech Law.
- This activity can only be performed by Financial Technology Institutions (FTIs), which are authorized by the CNBV.
- The FinTech Law establishes 3 types of crowdfunding (non-profit crowdfunding is excluded):

**Debt**
- Refers to the investments in loans, credits, or any other form of financing creating a direct or contingent liability to applicants.
- In Mexico, P2P is actually a type of debt crowdfunding.

**Equity**
- Refers to the raising of funds for business purposes by which investors acquire titles representing the capital of legal entities (shares) acting as applicants.

**Co-ownership or royalties**
- Investors and applicants enter into agreements for the investor to acquire shares/titles of a present or future good or to participate in the income, profits, royalties or losses obtained from carrying out one or more activities or from the projects of the applicants.

Skin in the game:
Fintech Law allows P2P institutions only to invest in or acquire the rights of a project when it comes to schemes to share with investors the risks with the applicants.
Debt Crowdfunding: Relevant aspects in the secondary regulation

- The regulation issued by CNBV on September 2018 recognizes three types of debt crowdfunding:

  **P2B**
  - **Traditional P2B**: Investors grant financing to persons performing business.
  - **Financial leasing**: An asset is acquired by the crowdfunding institution (CFI) on behalf of the investors, and is given in financial lease to the applicant/requester.
  - **Financial factoring**: A part of any credit right that the applicant has in its favor is acquired, and the applicant remains as joint obligor of its debtor, without this right deriving from loans that the applicant previously granted.

  **P2P**
  - It is the traditional form of CF, where applicants are financed by investors, that receive their payments in proportion to their contributions (principal and interest).

  **Real Estate**
  - Investors grant loans to applicants in order to finance real estate building activities (houses, apartments, etc.). Investors receive their payments in proportion to their contributions (principal and interest).

- Secondary regulation makes this classification in order to impose financing limits and apply evaluation, selection and qualification methodologies for applicants and projects.

  - Example: The limit for requesting P2P in a CF platform is 15,000 USD, whereas for the other types of CF is 500,000 USD.

- On issues such as capital requirements, outsourcing, cybersecurity or operational continuity, the secondary regulation apply equally to all CF institutions.
Financing and Investment limits for Crowdfunding

Financing caps go together with investment caps
Investment limits have the purpose to diversify and mitigate possible losses

Personal investment limits in a Crowdfunding Institution

Financing limits per operation

<table>
<thead>
<tr>
<th>Crowdfunding type</th>
<th>Maximum amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal loans</td>
<td>$15,000 USD</td>
</tr>
<tr>
<td>Corporate loans</td>
<td>$500,000 USD</td>
</tr>
<tr>
<td>Real state development</td>
<td>$500,000 USD</td>
</tr>
<tr>
<td>Equity/Co-ownership or royalties</td>
<td>$500,000 USD</td>
</tr>
</tbody>
</table>

- Crowdfunding Institutions will be able to request authorization to CNBV to publish financing applications of up to 2 MUSD (excluding personal loans), only when CFI incorporates additional elements to the project and application evaluation methodology.

- Regulation sets up limits to the resources that an applicant will be able to obtain through CFIs: 2.2 MUSD.

Financing Type | Physic Person | Moral Person
---|---|---
P2P | 7.5% | 20%
P2B | 15% | 20%
Real estate | 15% | 20%
Equity/Co-ownership or royalties | 15% | 20%

- Each new investment commitment that an investor wants to confirm, cannot exceed the described percentages regarding his wealth invested in the platform. **Exceptions:**
  - If the sum of investments and investment commitments of an investor in personal and corporate loans < 600 USD, the investor will be able to invest $200 USD.
  - If the sum of investments and investment commitments of an investor in real estate development, equity and co-ownership es < 2,500 USD, the investor will be able to invest 1,250 USD.
  - CF platforms with less than 25 projects, the maximum between the 5% of the requested amount or 50,000 USD.
  - CF platforms with skin in the game: the investor will be able to exceed the marked percentages of up to 25% when CF platforms match the percentage, only with CNBV authorization and if controlling partners are guarantors.
  - Experienced investors (natural and legal persons): 175,000 USD and 12 months experience; and related with the applicant (4th grade), have no limits. Previous experience in CF platforms will be recognized to be considered as an experienced investor.
Secondary provisions for Financial Technology Institutions (includes P2P)

On September 2018 and March 2019, the following provisions were issued in the Official Gazette:

1. Additional requirements for the application as an FTI
2. Minimum capital requirements.
3. FTI’s cash inflows, as well as national and international funds transfers
4. Continuity plan for operational contingencies
5. Financing and investment limits for crowdfunding.
6. Mandates and commissions contracts by CF clients.
7. Information disclosure (risks, information about the project, etc).
8. Accounting and financial information.
10. Applicant's selection criteria (publishing CF projects and risk assessment methodology).
11. Information to investors regarding the applicant's payment performance (CF).
15. Regulatory reports.
16. Self-correcting programs.
1. Conditions for the investment of Financial Institutions in the capital of FTIs
2. Corporate governance.
3. Application Programming Interfaces (APIs).
5. Remote onboarding.
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