

Financial authorities present inclusion program to deal with remittances

- In a joint statement, the Ministry of Finance (MoF), Banxico, the Banking and Securities Commission (CNBV), the Institute of Mexicans Abroad (IME), and Mexico's Banking Association (ABM), announced a series of measures to support migrants and their families for their inclusion into the financial system and to deal more effectively with remittances
- Specifically, focalized actions led by the development bank *Banco del Bienestar* (Welfare Bank) and Banxico, supported by other efforts by the ABM, will be undertaken to achieve these goals
- The effect from these measures will have a deep impact in some of the most remote areas of the of the country, in which bank branches is low
- This is relevant considering an environment in which remittances have maintained an upward trend in recent years, with a record inflow of US\$40.6 billion in 2020
- We believe these efforts by authorities are very favorable, seeking to increase financial inclusion and the development of means by which remittances enter our country
- We find this development to be a very positive one, as these series of actions help families dealing with remittances in cash, while they preserve the central bank's autonomy and the country's macroeconomic stability

A new financial inclusion program focused on cash remittances. In a joint presentation today, the MoF, Banxico, the Banking and Securities Commission (CNBV), the Institute of Mexicans Abroad (IME), and Mexico's Banking Association (ABM), announced a series of measures to support migrants and their families for their inclusion into the financial system and to deal more effectively with remittances and other USD inflows into our country. Specifically, the Minister of Finance, Arturo Herrera, detailed some of the issues that this initiative wants to address. He mentioned that there are no bank branches for the exchange of foreign currency into Mexican pesos in some municipalities. Therefore, beneficiaries of these inflows are obliged to resolve this issue by other means. Broadly speaking, the options available today are characterized by uncompetitive exchange rates and/or high commissions, impacting families' purchasing power.

Two goals, three strategies. In this context, the MoF established two main goals: (1) Improve the exchange rate at which remittances transactions are made; and (2) diminish the costs –in both time and other associated risks– that are linked to cash operations. Hence, three main strategies were presented. First, to promote and facilitate financial inclusion of Mexican migrants and their families, both through retail banks and the Welfare Bank (*Banco del Bienestar*, in Spanish). This would be achieved through the second strategy, which is to develop the possibility of opening checking accounts remotely using migrants' Consulate ID (provided by IME). Third, they will aim to provide the best exchange rate available in the country, eliminating the existing differentiation by geographical zones.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by Refinitiv



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Measures by the Welfare Bank. The Head of the Welfare Bank, Diana Álvarez, detailed three actions that the institution will deploy to attack the problem, which include:

- (1) *New bank accounts for migrants and their families.* They outlined three types of account that will serve different functions. Two of them are targeted especially for migrants and will depend on their migration status. The third one is designed for their families. Within the first two, one is focused for those still living in the US, while the other will be for those who have been deported back to our country.
- (2) *Resources sent through different branches that will be settled by the Welfare Bank.*
- (3) *Purchases of USD in cash to migrants and family members who have a checking account at the Welfare Bank*

In this sense, they detailed some expansion plans for this institution, targeting the opening of around 1,000 branches this year. On top of this, they would add the “People’s Network” (“L@ Red de la Gente”, in Spanish) and centers where benefits from social programs are delivered. These are located at 2,456 municipalities and also include all of those in which remittances are received.

Large scope actions by Banxico. The central bank’s Governor, Alejandro Díaz de León, commented that their strategy is based on fostering the orderly and legal functioning of the FX market. In this context, Banxico’s actions are based on two axes. The first is to carry out direct actions for migrants and recipients of foreign exchange flows. The second is focused on improving exchange rate practices based in cash (e.g. strengthening business relationships between domestic and foreign banks to return excess currency to the country of origin). In this sense, they outlined five targeted actions:

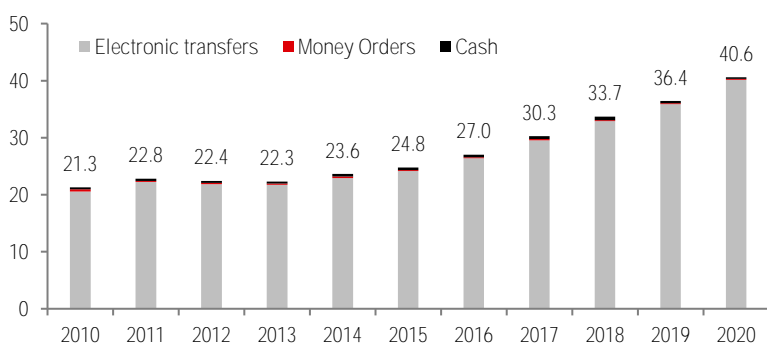
- (1) *Development of a technologic platform that will allow banks to corroborate user’s identities to mitigate operational risks*
- (2) *Provide collateralized contingent financing to institutions facing justified challenges to send back foreign currency, under conditions set by the central bank*
- (3) *Creation of a website and app that will allow migrants to be informed about financial products that address their needs, as well as geographic data on where to acquire them*
- (4) *Establish the conditions that will allow financial institutions to provide prepaid cards denominated in MXN to people entering the country, increasing their options in terms of payment methods*
- (5) *Speed up the process to formalize assets seized by the Mexican government*

On top of this, the Governor commented that they will be working with other institutions with the goal of developing and extending necessary systems to implement these actions. Specifically, he stated that the development of these measures will be done in coming months, hoping to be released as soon as possible.

Commitment from the Banking Association to implement and potentiate these measures. The representative from the ABM, Luis Niño de Rivera, commented that they will seek authorization from the CNBV to open accounts remotely –by using their Consular ID– to incentivize banking penetration. Moreover, he commented that affiliated institutions will be looking to improve their geographic reach to more remote places. Also, he added that the exchange rate offered to their customers will be the most competitive that each institution can provide given market conditions, eliminating some of the disparities that may surface across different regions.

Relevant measures given strong remittances’ growth in recent years. Inflows to our country because of this concept have become increasingly relevant, with an upward trend since 2014 and [totaling US\\$40.6 billion last year](#) (see chart below), a new historical high. The compounded annual growth rate during this period stands at 9.4%, making remittances one of the main sources of foreign currency for our country. For example, oil-related exports reached US\$17.4 billion in 2020. Meanwhile, INEGI estimates that foreign currency obtained from international travelers stood at US\$14.1 billion in the twelve months ended last November (albeit impacted by the pandemic, with a total of US\$24.6 billion in 2019). According to Banxico’s data –and consistent with the comments by Finance Minister Arturo Herrera in the webcast–, only 0.7% of this amount was catalogued as cash, trending downwards in recent years (chart below, left). Going forward, we expect remittances in 2021 to keep growing at a robust pace, supported by, among others: (1) Higher economic growth in the US, the main source of these resources with about 95.5% of the total last year; (2) fiscal support measures in the latter country, including direct transfers to households; and (3) new proposals by the recently installed administration that could boost the number of legal migrants (*e.g.* to preserve and fortify DACA).

Family remittances
US\$ billion



Source: Banxico

Positive initiative to foster more financial inclusion. In our view, authorities’ efforts in this front are positive as they have the goal of strengthening the inclusion of remittances’ inflows into the banking sector. In this sense, we believe this initiative –also focused on increasing the use of financial services by low-income households– is especially relevant as banking penetration in Mexico is still relatively low. Particularly, the latest *National Survey on Financial Inclusion* by INEGI shows that 68% of the population had at least one financial product.

We also highlight as beneficial that some of these measures will take advantage of technological innovations –such as easier digital access with the widespread use of smartphones– to foster the use of banking services among Mexicans abroad, along the development of new options for them to send resources back to their families. All in all, we find this development to be a very positive one, as these series of actions help families dealing with remittances in cash, while they preserve the central bank’s autonomy and the country’s macroeconomic stability.

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