ANNEX 5: MEXICO

Diversification without Contestability

This Annex is part of the CGAP Focus Note 'Advancing Competition for Financial Inclusion: Six Policy Considerations for Financial Authorities' published May 2026.

For more than 15 years, Mexico has undertaken a sustained program of financial sector reforms seeking to make financial markets more diverse and inclusive. Authorities simplified account opening, expanded agent banking, modernized payment infrastructure, introduced a comprehensive fintech law, established innovation sandboxes, and mandated a data-sharing framework, among others. Moreover, Mexico was an early adopter of several of these reforms, preceding many regional peers and other Emerging Markets and Developing Economies (Maravalle and González Pandiella 2022).

Yet, financial inclusion in Mexico remains well below levels observed elsewhere in Latin America and in other upper-middle-income economies. Just over half of adults have an account, compared with about 70 percent in the region. The gap is wider for women, among whom account ownership stands at 47 percent. Only four in ten adults make or receive digital payments. While 34 percent have a digitally enabled account that can be used with a card or phone, only 10 percent have a mobile money account. This contrasts sharply with high levels of digital access, where more than 80 percent of adults, including women and those in the poorest households, own a personal mobile phone (Klapper et al. 2025).

What explains these outcomes after sustained policy reforms? How did policy design and implementation shape market incentives and consumer behaviour, and where did they fall short? The answer lies in how policy reforms broadened access and encouraged entry but left incumbents' structural advantages largely undisturbed. Consequently, diversification did not translate into meaningful contestability, as the mechanisms anchoring primary customer relationships remained in place.

Strong Banks, Weak Competition, Open for a Few

The roots of banking concentration in Mexico's financial sector are not unusual by international standards. Episodes of nationalization, privatization, recurrent financial crises, and the failure of several financial institutions ultimately gave way to consolidation under largely foreign-owned banks, within a policy framework that prioritized stability of the system and a strong prudential core. Over time, banks came to dominate deposits, payments, and credit, with the three largest institutions—BBVA México, Santander México, and Citibanamex—controlling roughly half of assets over the last 20 years (World Bank 2024). They also benefited from limited price competition, with persistently high spreads and fee

income, notably the interest rates on consumer credit being significantly high by international standards (Lartigue-Mendoza, Ayala-Navarro, and Sauri-Alpuche 2020). These conditions have been most costly for SMEs, with loan-level evidence showing that higher bank market power in Mexico is associated with significantly higher interest rates, and with costs concentrated among micro and small firms that lack viable outside options (Cañón, Cortés, and Guerrero 2020).

This dominance extended beyond lending into transaction accounts and payment flows, where incumbency advantages were especially strong. Payroll processing is a central mechanism. Wages in Mexico are typically paid through bank accounts, and employers often designate a single bank to manage payroll services for their workforce. Workers are therefore assigned a primary transaction account at the employer's chosen bank, raising switching costs and limiting effective choice, particularly for lower-income employees (CONAIF 2016). Government transfers reinforce similar dynamics. Pensions, social benefits, and other payments from the government have been historically channelled through a limited set of banks, providing incumbents with regular inflows, stable balances, and transaction data that entrenched their dominance over primary accounts (Babatz 2013; COFECE 2014).

Alongside private incumbents, the state also became a more prominent player. Banco del Bienestar, created through the restructuring and expansion of the former Banco del Ahorro Nacional y Servicios Financieros to channel social transfers and promote inclusion, strengthened the government's payment delivery capacity but concentrated public payment flows within a single institution, reinforcing account stickiness rather than consumer choice (Banco del Bienestar n.d.). Evidence suggests this expansion also reshaped local market dynamics. In municipalities where Banco del Bienestar branches expanded rapidly after 2021, commercial bank branch presence declined within the following year, consistent with crowding out of private branch infrastructure (Ares de Parga Regalado 2023).

Despite this institutional depth, formal financial services played a limited role in the daily lives of many households and small firms, with only 27 percent of adults having an account in 2011 (Demirgüç-Kunt and Klapper 2013). Cash continued to dominate, particularly in informal and low-income segments, even as account ownership expanded. Nonbank providers operate largely at the margins of the system: microfinance institutions, cooperatives and newer digital providers have expanded access in niches including small-scale lending and digital payments, but their limited scale, narrower product range, and dependence on banks for settlement and safeguarding customer funds have constrained their ability to exert sustained competitive pressure. Demand-side constraints compound these structural features. High informality, low trust in financial institutions, and uneven financial capability further dampen regular usage. Together, these conditions have produced a financial system that is stable and well regulated, yet weakly contested and limited in its reach.

Laying the Groundwork: Agents, Simplified Onboarding, and Payment Systems

The earliest reforms were distribution-led, and although access points widened rapidly, the underlying relationship between customers and the banks that sponsored each access channel remained unchanged.

In 2010, the banking regulator, Comisión Nacional Bancaria y de Valores (CNBV), authorized the use of banking correspondents, allowing banks to deliver basic services through third-party retail outlets. The model reduced the cost of physical expansion in a geographically large, low-density market and scaled rapidly. By 2023, Mexico had more than 53,000 correspondent banking agents; 86 percent of municipalities had at least one financial access point (bank branch, ATM, or agent), and more than 99 percent of the population lived in a municipality with some form of formal access (CNBV 2024). The Saldazo prepaid debit card, issued by Citibanamex in partnership with OXXO, a nationwide convenience store chain, scaled to five million active accounts within three years, drawing previously cash-reliant users into formal payment and savings channels (Banco de México 2020). Evidence shows that municipalities gaining agents experienced increases in account ownership and deposit activity, indicating that reduced distance and transaction costs facilitated first-time entry into the formal system (Peña and Vázquez 2012). In practice, however, most agent arrangements were exclusive, with agents contractually tied to a single bank and unable to offer services across institutions. While this facilitated rapid expansion, it did little to enhance competition as customers accessing services through an agent remained confined to the partner bank's products (Maravalle and González Pandiella 2022). In effect, agent expansion and simplified onboarding removed geography as a binding constraint to access but left control over customer relationships firmly with incumbent banks (CONAIF 2016; Maravalle and González Pandiella 2022).

These distribution gains were supported by parallel reforms to onboarding and payments infrastructure. Simplified and tiered KYC requirements allowed low-value accounts to be opened with minimal documentation and transaction limits, enabling banks to onboard new customers at scale through agents and mass-retail channels (CONAIF 2016). In parallel, to reduce incumbents' control over proprietary payment rails by placing settlement on a neutral, central-bank-operated platform, Banco de México modernized the Interbank Electronic Payment System (SPEI), progressively extending it to a near-real-time, 24/7 system with broad access for banks and licensed nonbanks under common operating rules (Banco de México 2017). At this stage, SPEI primarily improved efficiency and safety in interbank transfers, retail interfaces and customer experience remained bank-controlled, and electronic transfers were not yet positioned as substitutes for cash in everyday transactions.

The launch of Cobro Digital (CoDi) in 2019 added a retail payments layer on top of SPEI. CoDi enabled free QR-code and near-field-communication payments for person-to-person and merchant transactions and was accessible to any institution connected to SPEI (Zapata Alvarez and Casanova 2016). Two years after launch, more than 9 million accounts had been enabled, but usage remained limited. By end-2023, 38 institutions offered CoDi, yet the platform averaged only around 12,000

transactions a day (Banco de México 2024). Banco de México's diagnostics point to low awareness, weak merchant incentives, competition from established card and fintech payment solutions, and persistent informality sustaining cash use (Banco de México 2024; OECD 2025). Building on these lessons, Banco de México introduced Dinero Móvil (DiMo) in 2023, allowing transfers to be initiated using a mobile phone number linked to a bank account and settled over SPEI. By removing the need for QR initiation, DiMo sought to reduce frictions observed in CoDi's design and simplify person-to-person transfers. While still early in its rollout, DiMo reflects continued efforts to expand retail use of instant payments, even as structural adoption constraints persist (Banco de México 2024).

The CNBV and Banco de México also have opened a public consultation on capping interchange fees for card issuers at 0.3 percent for debit card transactions and 0.6 percent for credit card transactions, well below current average interchange rates in Mexico of 0.45 percent and 1.35 percent, respectively (CNBV and Banco de México 2025; Banco de México 2025). While lower interchange could reduce merchant costs and support wider card acceptance, it may also dampen competition by reducing revenue for smaller card issuers, thus weakening incentives to invest in payments infrastructure or serve higher-risk segments; and shift cost recovery to other fees rather than expanding inclusion (Allende 2025). Its net effect on competition and inclusion remains to be seen.

Competition Concerns Take Centre Stage

Mounting concern over weak competition rose to the centre of the policy agenda as early distribution-led gains left pricing power and customer lock-in largely intact, culminating in the 2014 Financial Reform (COFECE 2014; IMF 2016). The reform sought to expand credit, improve consumer outcomes, and elevate competition as a financial system-level objective (SHCP 2014). Led by the federal executive through the Ministry of Finance (Secretaría de Hacienda y Crédito Público), the reform was implemented through amendments to multiple financial sector laws. Institutional responsibilities for financial regulation remained largely unchanged, with CNBV retaining prudential supervision and Banco de México its monetary and payment roles. The key shift lay in coordination: COFECE was tasked with diagnosing competition problems in the financial sector, with financial authorities responsible for implementation of solutions (SHCP 2014).

COFECE was mandated to conduct a comprehensive market inquiry into competition in financial services, covering retail banking, payments, credit, and related market conduct. The diagnostic identified structural and behavioural constraints on competition, including payroll arrangements that locked customers into specific banks, limited portability of accounts and loans, information asymmetries, and weak consumer responsiveness (COFECE 2014). Following the diagnostic, a narrow set of measures was adopted through legislative amendments and subsequent regulation by financial authorities. Payroll account and loan portability rules were introduced to allow workers to redirect wage payments and refinance payroll-linked loans across banks, directly targeting employer-driven lock-in. Transparency and conduct measures, including standardized disclosure of fees and interest rates and restrictions on bundling, aimed to make prices and contract terms more comparable for consumers (IMF 2016). Reforms also strengthened credit infrastructure, including requirements to share positive credit information through credit bureaus, aiming to reduce information asymmetries that favoured incumbents with large proprietary datasets (COFECE 2014). Toward the end of the

decade, policymakers increasingly recognized that weak competition was constraining not only market efficiency but also financial inclusion, prompting a shift in reform priorities.

Expanding Entry, with Limited Contestability

The push to strengthen competition increasingly shifted toward facilitating market entry, with the 2018 Fintech Law as its centrepiece. Entry increased, particularly in payments and short-term unsecured credit, but the mechanisms tying customers to incumbent banks, including primary accounts, payroll arrangements, and social transfers, remained intact. The law established a dedicated licensing regime for electronic payment institutions and crowdfunding platforms; provided legal certainty for new business models; and sought to lower barriers for nonbank providers to operate at scale (CNBV 2018). Mexico was among the earlier adopters in Latin America of a comprehensive fintech framework, reinforcing expectations that entry would translate into greater choice and competitive pressure in retail finance. The initial response was strong. Mexico quickly emerged as one of Latin America's largest fintech markets with an estimated market size of US$22.5 billion, and with more than 650 fintech providers operating across payments, digital wallets, consumer lending, and SME finance (IMARC Group 2025; ITA 2024). New providers introduced lower-cost digital products and expanded access in specific niches, particularly for payments and short-term credit, and many of them went on to become national players with sustained investor interest. However, this did not translate into sustained competitive pressure. These reforms were complemented by a proportionate prudential approach: lighter capital and reporting requirements for Popular Financial Societies, which focus on low-income households and MSMEs, cooperatives, and e-money institutions lowered barriers to entry in underserved areas; however, they did little to erode incumbents' advantages in scale, funding, or customer acquisition (IMF 2016).

Several factors blunted the competitive impact of this wave of entry. On the one hand, policy design constrained scale as these fintech licences did not permit deposit-taking and did not alter banks' control over primary transaction accounts and payroll-linked relationships, where incumbents' advantages were strongest (COFECE 2014). As a result, most fintech activity remained concentrated in payments, unsecured consumer credit, and niche lending rather than in core retail banking. (U.S. Department of Commerce 2023). On the other hand, implementation further slowed momentum. Authorization processes proved lengthy and uncertain, with evolving supervisory expectations and a large backlog of applications, raising compliance costs and limiting scale for smaller entrants (Banco de México 2024). Market behaviour further reinforced these constraints. Customer switching remained limited, particularly for payroll-linked accounts while incumbents adapted quickly by adjusting pricing, bundling products, and leveraging superior data and distribution. Many fintechs responded by partnering with banks rather than competing head-on, embedding themselves within incumbent-led ecosystems. The outcome was entry without contestability: a more crowded periphery with new providers, but little change in the structural advantages underpinning incumbent dominance at the core of the system.

An Open Finance Framework, Waiting in the Wings

The 2018 Fintech Law also laid the foundation for open finance by mandating regulated financial institutions to share customer data through standardized APIs under a phased, open, aggregated, and transactional model (CNBV 2018). However, regulators have been slow to issue and operationalize the detailed technical and supervisory rules required for customer-permissioned transactional data sharing that would support switching and competition, leaving implementation largely confined to product and pricing data (Belvo 2023; Vixio 2023). Adoption has therefore been gradual. While some major banks have implemented open banking APIs for data sharing, coverage and interoperability remain uneven to date (Noda 2025). Consequently, open finance is formally in place but only partially implemented, limiting its impact on competition.

Lessons for Regulators

Mexico's experience illustrates how policy reforms can expand market diversity without translating into deeper financial inclusion when incumbent advantages persist:

- **Expanding access without choice reinforces incumbency:** Policy measures such as agent banking and the digitization of social transfers can raise account ownership without deepening usage when customers lack meaningful choice. Where new users enter through exclusive agent arrangements, employer-designated payroll accounts, or government transfers routed through a limited set of institutions, their ability to select or switch providers remains constrained. This curtails the use and broader benefits of financial access while reinforcing incumbents' control over customer relationships.
- **Fostering entry without addressing incumbent advantages mutes competition:** Fintech licensing nominally expanded the number of providers, but most remained peripheral and did not materially alter competitive dynamics, as market structure continued to reflect incumbent banks' default access to primary transaction accounts and recurring payment inflows. Payroll arrangements and government transfers anchored wages and social benefits to existing banks, even as new providers emerged. Although portability frameworks were introduced later, low consumer awareness and limited take-up meant switching remained rare. New entrants therefore layered services on top of incumbent accounts, while incumbent banks maintained advantages in transaction flows, data, and customer mobility.
- **State-led inclusion efforts can have unintended consequences:** Government initiatives to expand financial access, such as channelling social transfers through public institutions can materially improve payment delivery, particularly in underserved areas. At the same time, concentrating public payment flows within one institution alters local competitive dynamics. Where inflows are effectively pre-assigned, private banks may respond by scaling back branch networks rather than competing for those customers, as observed following the expansion of Banco del Bienestar. Such approaches can improve access while reshaping markets in ways regulators did not anticipate, underscoring the need to manage potential crowding-out effects.
- **Interoperability without addressing incentives limits adoption:** Investments in interoperable, low-cost payment infrastructure can reduce technical barriers and improve system efficiency,

but do not guarantee adoption. In the rollout of CoDi, merchants faced onboarding and compliance requirements with limited incremental benefits relative to cash and cards. Consumers saw little added value for everyday transactions, while incumbent banks retained control over the mobile applications through which CoDi could be used. Without parallel measures to address merchant economics and control over customer-facing interfaces, interoperability alone proved insufficient to support widespread retail adoption.

- **Delayed implementation blunts impacts of well-meaning reforms:** If implementation lags, policy reforms can establish the conditions for greater competition without delivering meaningful change. Although Mexico was an early mover in legislating a licensing framework for fintechs, onerous requirements and lengthy approvals imposed costs on new entrants and deterred several of them. Likewise, despite a mandated data-sharing framework, there were delays in issuing technical standards, thus weakening the positive effects of competition-enhancing policy tools. In this case, execution capacity and timely follow-through proved as important as policy design.

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