

MEXICAN POPULAR FINANCIAL SECTOR REGULATORY FRAMEWORK

The National Banking and Securities (CNBV)

Vice-presidency of Development Banking and Finance Popular

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- **BACKGROUND**
- **CHANGES TO THE LEGAL FRAMEWORK IN MEXICO**
- **RISKS AND CHALLENGES**
- **CONCLUSIONS**



CNBV MISSION

“To safeguard the stability of the Mexican Financial System and promote its efficiency and inclusive development in benefit of the Mexican society”

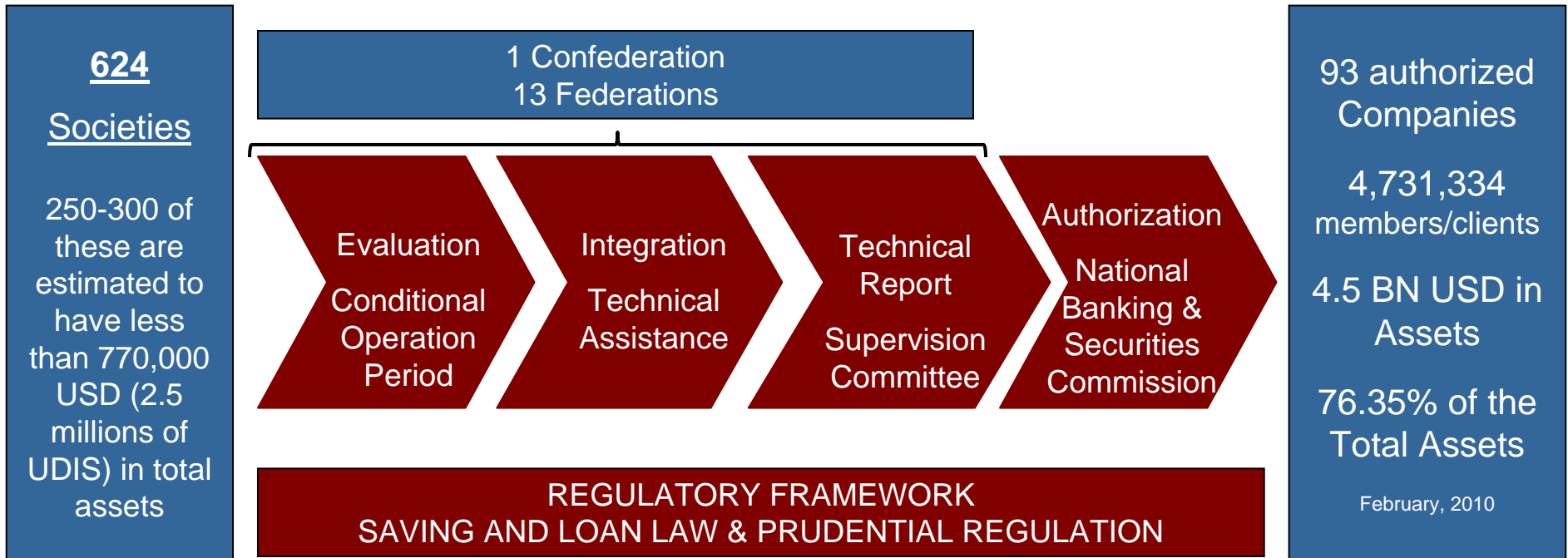


Mexican Popular Savings and Loans Sector:

- There are more than 624 identified societies with diverse size and different legal structures, some of them have been operating for more than 50 years, with presence in the whole country.
- Total assets as of February 2010, for more than 5.9 Billions USD (77,952 million Mexican pesos), serving 6 million members/clients.
- The regulatory framework was published for the first time in 2001 and has had important changes since then. Today we are still in an intensive process of regulatory transformation.



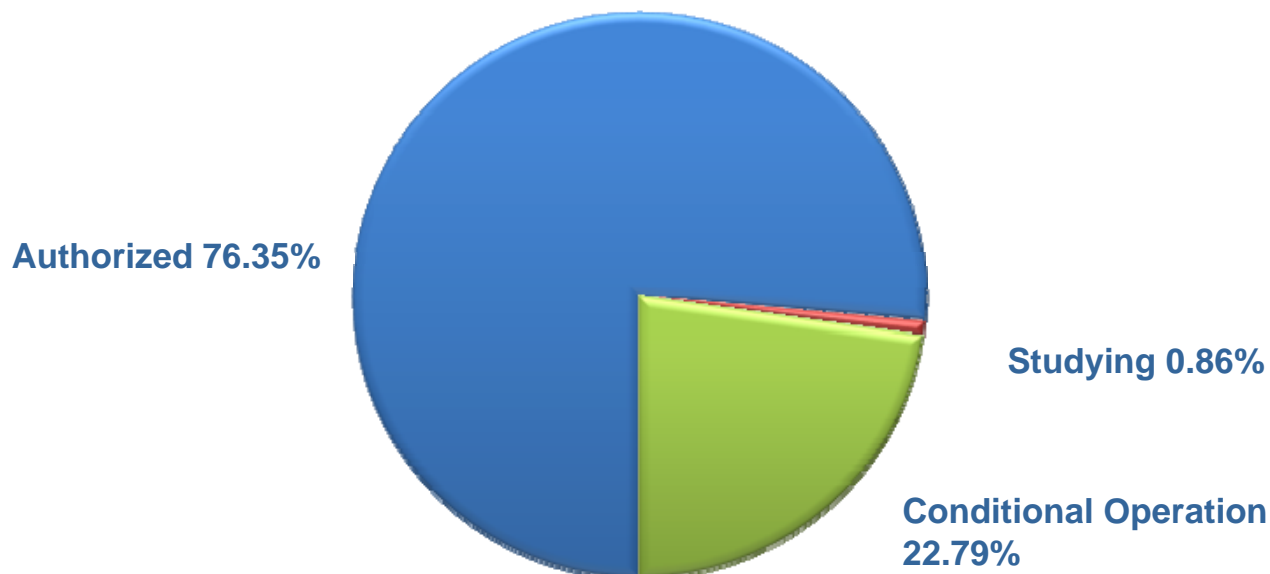
AUTHORIZED ENTITIES' PROCESS





REGULARIZATION'S PROGRESS

Information available as of february, 2010
Popular Saving and Loan Sector



INFO / CATEGORY	AUTHORIZED	STUDYING	CONDITIONAL OPERATION	TOTAL
NO. SOCIETIES	93	7	265	365
ASSETS USD	4,554,349	51,254	1,359,185	5,964,788
MEMBERS	4,731,334	45,463	1,356,752	6,133,549
ASSET %	76.35%	0.86%	22.79%	100.00%
MEMBERS %	77.14%	0.74%	22.12%	100.00%

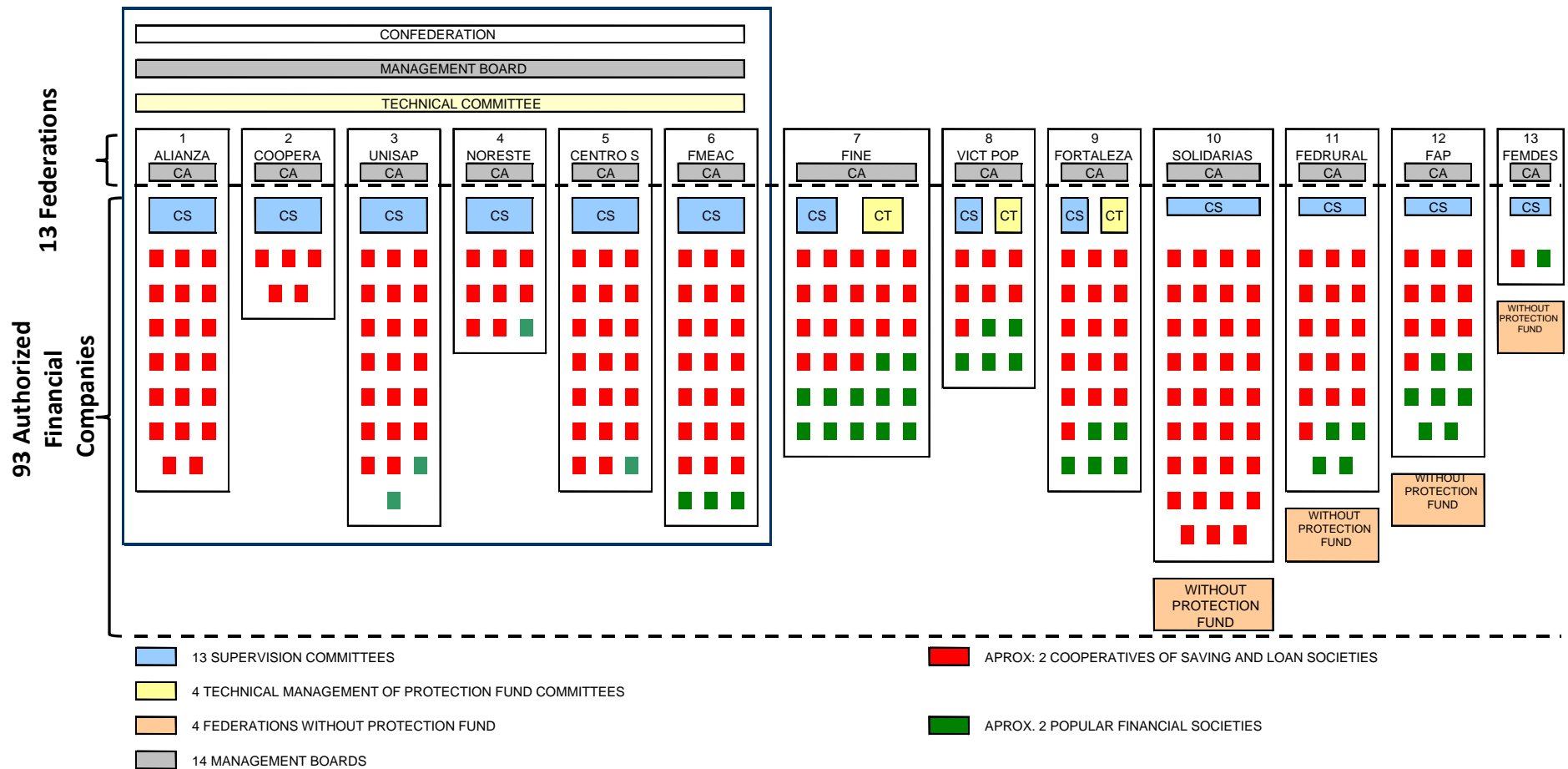
Notes:

In Mexico there are 122 Societies operating by Article 4 BIS Law on Savings and Popular Credit (LACP).

Exchange rate assumed MXP/USD: 13.0687 as of February 5th, 2010.



CURRENT STRUCTURE TO THE SAVING AND LOAN SECTOR





AUXILIARY SUPERVISION

Supervisory assistant through the Federations have identified the following disadvantages as described below:



- Free affiliation scheme has made inefficient the auxiliary supervision system; an entity may be auxiliary supervised by a supervision committee in a far away country-state even though another supervision committee of another federation exists in the same country-state where it operates.
- The Current Savings and Loan Law (LACP) generates a conflict of interest inside federations since the Law gives them both on one side, the faculty to provide financial entities with technical assistance, and on the other hand, to auxiliary supervise them. This conflict of interest is even higher when the number of affiliates is small and there is a dominant entity.



AUXILIARY SUPERVISION



- It has been detected that trained staff in supervisory committees don't remain long, particularly in federations with little financial feasibility.
- Supervisory fees are established with no restraints by each federation. As a result entities may select a federation based on cost and not on the quality of its supervisory services.
- Up to date it has not been possible to identify the exact number and place of all the financial cooperatives operating. This situation makes it more difficult for the authorities to avoid fraud and to implement assistance and support mechanisms for the rest of the financial cooperatives.



AUXILIARY SUPERVISION



In our judgment these are some key elements for an adequate auxiliary supervision:

- To consider in the legal framework the auxiliary supervision activities by region, without overlapping.
- To establish:
 - Mechanisms to provide training and to certify auxiliary supervisors.
 - Processes for constantly developing specialized human capital that supports a high auxiliary supervisors rotation and the need of the sector for specialized professionals.
 - Processes to standardized practices: a common supervision manual.
 - A mechanism to avoid conflicts of interest by prohibiting former auxiliary supervisors to work in the entities that were supervised by them.
 - Mechanisms to clarify how are the supervisory fees established.



DEFINITION OF MICROCREDIT



Microcredit.- Loans granted to micro/small entrepreneurs, whose source of repayment comes from their productive activity, different from a salary payment.

Benefits:

- It contributes to differentiate associated risks when financing productive activities against consumer loans, creating incentives to invest in new credit technology.
- Enhances financial education for the micro/small entrepreneurs, generating awareness over the cash flow associated to their productive activity.
- With this in mind, it develops the foundations for the entrepreneur development in popular communities and sectors.

Financial education has gained relevance around the world and Mexico is no exception.

This has generated synergies in the implementation of various financial education programs, where the design, operation and evaluation has been done together by the public, private and social sector.

The objective is to promote a higher and better financial planning culture for improving life conditions. Help avoid over debt, increase savings and insurance practices.

The Popular Savings and Loan Sector in Mexico is a fundamental actor for this purpose. Offering microcredits using sound credit process contributes to enhance a better financial education in remote regions of the country and for low income persons.





Credit Bureaus are essential for a sound development of microfinance. To consult and to give the information of members or clients of the Popular Savings and Loans Sector to the credit bureaus are crucial for a healthy growth of these popular sectors in Mexico. The permanent use of credit bureaus will help achieve the following.

1. Non-granting credits to people above their payment capacity. Practice that will harm them instead of giving them benefits (avoid over debt).
2. Get to know the borrowers credit history, important for an adequate credit risk measure.
3. Generate credit history for the Popular Savings and Loans Sector. Within time this will allow the users of these sector to have other financing options.



CHANGES TO THE LEGAL FRAMEWORK IN MEXICO



MAIN OBJECTIVES OF THE REFORMS



- One of the principal objectives served, was the recognition that savings and loans cooperative (SCAP, by initials in Spanish) and the Popular Finance Societies (SOFIPOS) have different purpose and nature, so their legal framework must be different too.
- Respecting the nature of SCAP as a nonprofit corporation belonging to the social sector and member of the Mexican financial system, as well as its organization nature.
- Recognize the actions taken by the SCAP under the LACP.
- Reaffirm the powers of the CNBV: authorization, supervision, regulation and punishment of the sector, to foster healthy development in protecting savers.



MAIN OBJECTIVES OF THE REFORMS



- To regulate all cooperatives that offer services of savings and loans to their members, recognizing the smallest ones as the basic level.
- To give the necessary transition for the SCAP to cope with its standards, keeping order in the authorization process.
- To strengthen the protection system of the savings and the auxiliary supervision scheme.
- As a result of experience in regulating the sector, redefine concepts and processes that were inefficient or inappropriate at the past regime.



ESTABLISHMENT OF NEW COOPERATIVES



- It must be respected the organization, social nature and constitution of the SCAP and should comply to the General Law of Cooperative Societies (LGSC) in these matters.
- The election of chief officers and appointment of officials will be made by the SCAP. The selection and appointment procedures and requirements should be established in the constituent norms considered so the criteria to elect them will be held by the assembly. However, the CNBV has the right to veto or remove such officials in cases of severe improper behavior.



RECORD OF SAVINGS AND LOANS COOPERATIVES



- All cooperatives that carry out savings and loans activities must be registered within the Supervision Auxiliary Committee. The Federations formed under the LGSC may cooperate with the SCAP to comply with this record.
- In this sense, we expected for the first quarter of next year to have a complete record of the SCAP.
- SCAP with assets less than 770,000 USD (2.5 million UDIS) do not need any authorization nor to be supervised by CNBV, but must be registered and must send financial information periodically to the Supervision Auxiliary Committee.



RECORD OF SAVINGS AND LOANS COOPERATIVES



- SCAP with assets above 770,000 USD (2.5 million UDIS) must require authorization in one of four different operating levels by the CNBV and will continue to be supervised and regulated as SCAP.
- The Federations and Confederation, are regulated by the Societies Cooperative Law (LGSC), recognizing their associative and cooperative character, but without auxiliary supervision powers or protection fund administration, respectively.



SUPERVISION AUXILIARY COMMITTEE AND PROTECTION FUND UNIQUE



- The Protection Fund will be private, established in a trust to carry functions through: i) The Supervision Auxiliary Committee and ii) another independent committee, named Administrative Committee of the Protection Fund.
- The new legal framework will provide the creation of a single supervision auxiliary committee, that will support the Protection Fund and the CNBV. This Committee not linked to any Federation, will make his work through a central and regional offices and must inform to CNBV the results of their job.

This will allow the allocation of resources based on the needs of the sector, and all authorized SCAPs will have a more homogeneous auxiliary monitoring service.



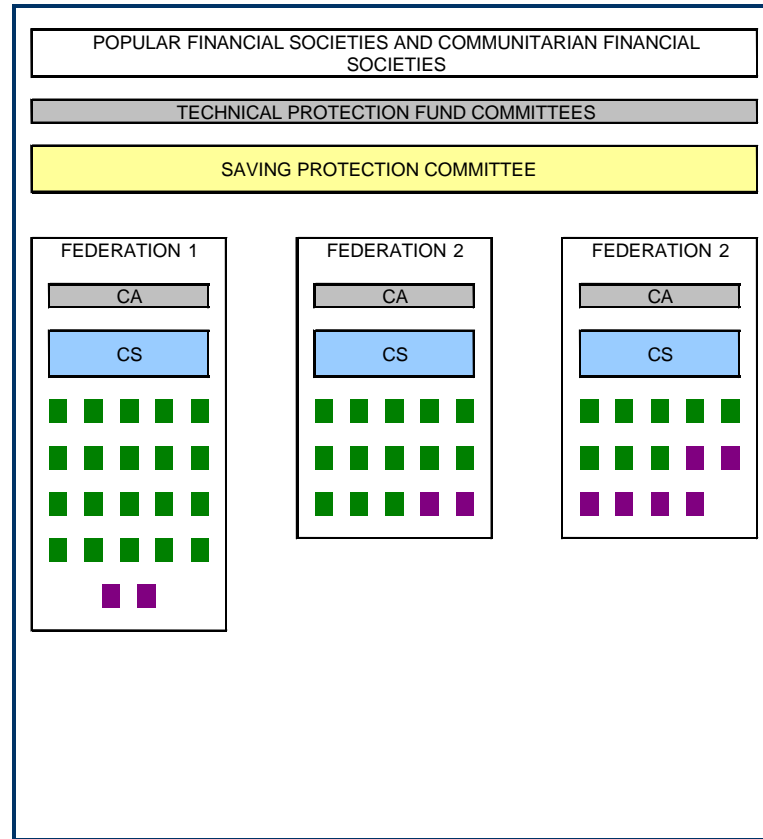
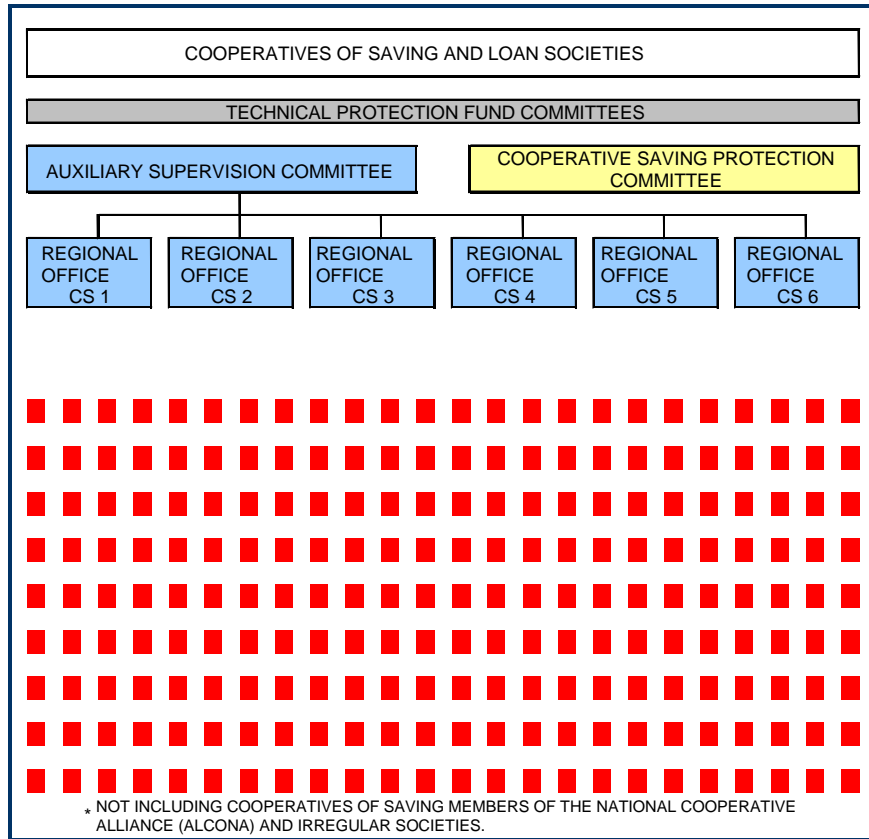
PROTECTION FOUND



- The contributions will be determined by the Technical Committee, based on the regulation issued by the CNBV considering the risk profile of each financial entity, and will cover between 1 and 3 per thousand to the annual amount of liabilities.
- It will be increased the coverage of the protection fund from 1,300 USD - 3,400 USD approximately (4,000 - 10,000 udis) by each saver, depending on the level to the operations, to up to 8,600 USD (25,000 udis) estimated amount which covers at 100% over 99% of savers in the sector.



SECTOR STRUCTURE AFTER THE LAW REFORM



- 4 SUPERVISION COMMITTEES
- 2 SAVING PROTECTION COMMITTEES
- 5 MANAGEMENT UNITS (EQUAL TO MANAGEMENT BOARD)

- COOPERATIVES OF SANVING AND LOAN SOCIETIES
- POPULAR FINANCIAL SOCIETIES
- COMMUNITARIAN FINANCIAL SOCIETIES



EXTENSION OF THE LEGAL MANDATE OF CNBV

- The CNBV Law recognizes that the Mexican financial system has two main sections, the first is the financial institutions formed the basis of trade laws and financial, for the public and private sector, and the second corresponding to the SCAP as societies incorporated to the LGSC, members of the social sector and recognizing that there are non-profit financial intermediaries.
- Therefore, it has been established a specialized administrative unit inside the CNBV, devoted exclusively to monitor the **SCAP** and **Protection Fund**.





RISKS AND CHALLENGES



DEVELOPMENT OF THE POPULAR SAVINGS AND LOANS SECTOR



Main challenges to accomplish a planned development of Mexico's Popular Savings and Loans Sector:

1. The transformation and authorization of societies into recognized entities by the regulatory framework.
2. To continue to enhance efficient mechanisms for the resolution of businesses' solvency problems.
3. The model consolidation of auxiliary supervision.
4. The increase of sector participants' financial and management knowledge, through financial education programs.
5. The achievement of a generalized use of the information given by credit bureaus.
6. The adjustment of the regulatory framework as needed, without losing what has been gained up to date.



RISKS AND CHALLENGES

To continue the promotion of Law by eliminating the abuses of irregular savings collectors.

By ensuring that as there are more authorized and supervised SCAP, SOFIPO, SFC and OIFR, together with the ones in the process of doing so, and with an access to a better offer of financial services, we are convinced that more partners will want to operate with these SCAP businesses and the potential growth of the other not regulated companies will be limited.

This will be supported by greater disclosure of information, a protection fund, better financial education and the actions that the authority will be made by the rule of law.





FUTURE CHALLENGES

1. To at least achieve what has been previously stated.
2. To create the proper incentives with more emphasis on positive one's. It is important to consider that an authority that is not willing to act with determination when it is necessary will not work.
3. To properly coordinate all the government programs making sure they are consistent with each other and that the incentives are aligned.





PRINCIPAL CHALLENGES

One of the most important pillars for achieving financial inclusion with social meaning is to assure that the Popular Savings and Loans Sector provides an adequate offer of financial services with quality and at fair prices to lower income classes, generating a more fair and competitive financial system in Mexico.

This is not accomplished without adequate supervision and regulation.





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THANK YOU

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