



## **Technology Program Country Note**

### **MEXICO**



**March 2011**

# Mexico



Population: 112 million

- 29% under the age of 15
- 77% of the population is urban
- 91% literate

Gross domestic product (GDP) per capita:  
\$13,500

Poverty: 20 million people under poverty line<sup>1</sup>

Financial inclusion:

- 30–40% of households w/ bank accounts
- 25% has savings account
- 65% of municipalities without bank branches

## Introduction

Mexico's financial sector is beginning a significant transformation that is setting the stage for a broader commercial offering that would reach lower income segments of the population through innovative products. Appetite to reach these segments increased in the past decade following the notable growth of Banco Azteca and Compartamos. More recently, new regulations enabling the use of nonbank correspondents (also known as banking agents) make it possible for financial institutions to increase their reach at lower costs both for banks and potential customers. These regulations reduce competitive barriers in the banking sector and open opportunities for banks to serve lower income segments historically served by other financial service providers (financial cooperatives, microfinance institutions [MFIs], microfinance banks, and retail stores-cum-banks). Large retail chains (including the state-owned telegraph network) are developing shared correspondent networks, and most major players are adopting aggressive outreach strategies. However, most of these strategies are still about improving the cost to serve existing customers and much less about reaching lower income segments. The price points of shared channels, the lack of sensibility to poor people's needs, and to a certain extent, the mandate to banks to give free transactions on their own automatic teller machines (ATMs) are slowing the development of meaningful offerings. New partnership models and ambitious experiments involving key players may drive the market toward more efficient models and more affordable low-income offerings beyond credit, but the learning curve is uncertain and is likely to require time.

<sup>1</sup> [2009-10] UNDP, CIA; 'poverty line' as defined by national authority

The Mexico market has a unique trajectory in financial access, with notable success stories, such as Compartamos, Banco Azteca (a retail chain with a banking license and mini branches), and some of the largest regulated financial cooperatives in Latin America. More than a dozen banks entered the market in recent years following the lure of these successes. However, this has not yet translated into more competitive services or more equitable access for the underbanked. In all, 35 percent of the economically active population completely lacks any form of formal financial services, 57 percent of the municipalities has no banking access neither through a bank nor MFI, and only 25 percent of the Mexican population has a savings account. While Banco Azteca and Compartamos have added more than 10 million people to the formal financial system, the average interest rate for credit at these institutions is high. Low-income segments in Mexico still need affordable payment services, savings, and insurance products that are easy to access and more options for credit.

Credit has been a major driver for take-up of financial services. As a result, most banks, particularly new entrants, took a hit in the recent global financial crisis. (Mexico's gross domestic product dropped 6.5 percent in 2009 as a result of the crisis.)<sup>2</sup> Many of these banks (multiple retail chains setting up a new bank) are ailing with high portfolios at risk, while other larger banks are seeing a significant deterioration on their earnings. The appetite to cater to lower income segments remains, but the priority seems to be on stabilizing credit portfolios, and therefore, banks are likely to be cautious in devoting significant resources to initiatives that look risky.

New regulations on branchless banking have paved the way for the industry to develop a variety of branchless banking services, despite regulations' complexity and excruciating detail. They permit a range of approaches that encourage banking innovation (including licenses for specialized payments banks). Financial authorities have taken important steps to promote the development of the industry. As expected, these regulations have stirred the market. Institutions have revitalized plans that were on hold, and a number of new entrants are waiting in the wings. Banco Wal Mart was the first to get approved. Nine other banks presented their business plans for setting up agents and were subsequently authorized. Based on the expansion plans presented by these banks, the number of municipalities that would have a local bank presence would increase, thereby reducing the geographic exclusion barrier from 65 percent to 35 percent. In at least half of the cases, these plans include offering products beyond receiving bills payments.

Large and efficient distribution networks and retailers within reach of poor people are preparing to serve as agents to banks. Multiple large-scale implementations of shared agent networks are underway and are being led by Oxxo, Telecom, <sup>3</sup> and several supermarkets. Retail chains acting as agents seem better placed to drive the business for agency banking because of their consumer-goods orientation. Banks appear to be comfortable with the shared agent model—the ATM network already has been shared for more than 10 years—so the model is expected to thrive. Some of the bill payments and airtime aggregators (for instance, PagaTodo, Puntoclave,

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<sup>2</sup> CIA's *The World Factbook*

<sup>3</sup> Telecom is the state-owned telegraph network.

among others) could play an important role by adding networks of mom-and-pop shops to the agent landscape.

Mobile network operators (MNOs) have been cautious in approaching the opportunity, but are taking bold steps. Telcel, the largest operator, with 70 percent market share, has developed a SIM application that enables Banamex users to access their accounts. Telefonica, the second contender, with a market share of 20 percent, recently set up a joint venture with MasterCard to develop a mobile payments offering throughout Latin America.<sup>4</sup>

Some of these agent networks and mobile banking implementations have been in the works for years. The new regulations don't necessarily improve the business case for banks, particularly where the business case was not strong or well understood to begin with. The price points currently being negotiated between banks and their agent partners suggest a slim possibility of making the business case work for lower income segments.

## Situation Analysis

### Regulatory framework

Overall, regulation has paved the way for the development of branchless banking. In February 2008, a change to banking law formally enabled agent banking, giving regulatory/supervisory powers to CNBV and holding banks liable for agents. In December 2008, CNBV issued regulation that permits banks to hire legal entities and individuals as agents, subject to CNBV's authorization. In February 2010, another reform allowed MNOs to set up agent networks and manage mobile accounts on behalf of banks, based on an outsourcing relationship. Finally, December 2009 regulation provides for the creation of niche banks under a license that allows deposit-taking for the purpose of processing payments—practically speaking, permitting nonbanks to get a license to issue electronic money.

CGAP conducted a survey across 27 banks at the end of August 2010, to understand their perspective regarding regulation, particularly in relation to how regulation is (or is not) facilitating their plans for branchless banking. Key outcomes are as follows:

- Seventy-six percent say they either have or are planning to have agents within the next year. Of the other 24 percent, most feel that regulation is the main obstacle.
- The two largest issues identified are as follows:
  - Mandatory certification of agents by CNBV would be burdensome and time consuming. It is unclear how detailed this inspection would be and what the size of the sample of agents would be. In addition, CNBV may not have the capacity to do this quickly, particularly if there are numerous banks requiring certification.
  - The requirement to have online settlement of transactions would be technically complex.

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<sup>4</sup> Telefonica, MasterCard press release, 25 January 2011.

To facilitate market response to the applicable regulation for anti-money laundering and combating the financing of terrorism (AML/CFT), authorities with input from the market, developed a tiered scheme of accounts that ranges from anonymous accounts at one end of the spectrum, to full-fledged accounts on the other. This is an innovative, unique approach that establishes several intermediate levels of accounts, with increasing degrees of identification requirements and higher caps in transactions, accordingly. This draft regulation is expected to be formalized around summer 2011. Main characteristics to date are as follows:

- **Level 1.** A Level 1 account is an “anonymous” account that can be opened at branches, at agents, through the Web, or “sold” through retailers. It is capped in terms of transaction amounts to 750 UDIs<sup>5</sup>/month. It can receive transfers from other bank accounts, but customers cannot send funds out of the account (except to pay or withdraw cash at ATMs and agents).
- **Level 2.** Level 2 accounts are “named” accounts that can be opened remotely. Customers self-report name, date of birth, and address. Transaction amount is capped at 1,500 UDIs/month. Customers can send funds to any other account.
- **Level 3.** Level 3 accounts are the same as Level 2 accounts, except that the bank may validate the self-declared data online against a public database and that the cap in transaction amount doubles to 3,000 UDIs/month.
- **Level 4.** Level 4 accounts can be opened only at branches, agents, and enterprises (for mass payroll). It requires the same information as in Level 3, plus address, telephone number and occupation. The account needs to be registered online. Transaction amount is capped at 10,000 UDIs/month.
- **Level 5.** Level 5 accounts are full-fledged, unlimited bank accounts that can be opened only at branches. The bank needs to file copies of identification, proof of address, and tax identification number; the information required is the same as that in Level 4.

When the regulation was first passed, there was a strong concern about the application of the “Impuesto a los Depositos en Efectivo” (or IDE tax<sup>6</sup>) to agent prefunded accounts. It seems that, in the end, these accounts are considered operations accounts (aiding bank operation) and, therefore, would not be subject to such tax.

Other ongoing issues include the following:

- Different agencies (CNBV, Banxico, and MoF<sup>7</sup>) are involved in the regulation that is relevant to branchless banking; this creates challenges in issuing consistent regulation.
- Valid identification authenticity procedures of both clients and agents may generate additional costs and discourage banks.
- Permission to engage agents is not extended to Cajas and financial cooperatives.
- Banxico recently issued a circular that prohibits banks from charging most fees on deposit accounts, including same-bank ATMs. There is an ongoing debate on whether this will affect the business case for banks (in using correspondent agents), since banking agents typically don’t charge for deposits, and the income generated by withdrawals (to compensate the cost of all transactions—deposits and withdrawals—at

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<sup>5</sup> UDI is Unidad de Inversion; estimated at 4.5 pesos per UDI.

<sup>6</sup> A 3 percent withholding that applies to all cash deposits in banking system that accumulate above 15,000 pesos within a month. It’s annually accreditable toward income tax, but it forces merchants to become formal.

<sup>7</sup> CGAP, Update on Branchless Banking Policy and Regulation in Mexico, January 2010.

agents) could be hindered if customers migrate their withdrawal transactions to ATMs (given that those would be free). While this may be true in fact, the actual effect is more difficult to predict, given that it will vary by bank, depending on the overlap of its banking agents and its ATM footprint. In any case, the burden of proof is left to product managers in banks, who now will need to predict this effect before they can make the case for investment in products for lower income segments.

At a broader policy level, CNBV has adopted a financial inclusion agenda with the highest priority, and has become the main promoter of it at the policy level with Hacienda and Banxico. As part of this, it sponsors a number of research projects to improve information on the state of financial access, needs of the poor, and general financial capability. At a global level, Mexican Luis Urrutia has taken over the presidency of FATF (which could help keep financial inclusion on top of the agenda), while CNBV participates in the Alliance for Financial Inclusion's Directive Committee and leads three of its five working groups.

### **Industry Analysis**

Overall there are a number of business model experiments underway: (1) shared-agent platforms—retailers or distributors building capability and business in handling transactions on behalf of multiple banks (e.g., Telecomm, Oxxo,<sup>8</sup> others<sup>9</sup>); (2) nonbank-led account initiatives—nonbanks driving design, marketing, and management of customer accounts directly (with a pooled bank account); and (3) specialized transaction account offerings from banks (e.g., Bancomer's Cuenta Express). All initiatives are in early stages.

### *Banking Sector*

Years of policy to promote sector growth (particularly to increase competition and reduce interest rates through market forces) have led to multiple actors providing formal financial services:

- Commercial banks, serving 25 million to 35 million customers<sup>10</sup>
- Microfinance sector, which includes MFIs (microcredit, no deposits), financial cooperatives (credit, deposits, cooperative ownership), and the popular financial institutions (credit, savings, private ownership). Those that are regulated serve approximately 3.4 million customers.<sup>11</sup>
- Government development banks, including Bansefi, Financiera Rural, and SHF, among others; in total, they serve about 5 million users.
- Other credit-driven entities, such as Sofomes (credit only).

The commercial banking system comprises 42 commercial banks operating nearly 10,800 branches, but the sector is highly concentrated, with six banks holding close to 80 percent of assets.

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<sup>8</sup> Oxxo initially launched with Bancomer, but it is expected to incorporate other banks starting in 2011.

<sup>9</sup> In late 2010, 7-Eleven started operating a banking agent service for Banorte through its 1,100 stores. It is unclear if 7-Eleven will open the service to other banks.

<sup>10</sup> Banks report the number of accounts, not individuals; this is an estimate.

<sup>11</sup> CNBV; Reporte Estadístico de Septiembre de 2010

**Table 2. Key actors in the Mexican commercial banking sector**

Bank name	Total Assets (1000 Mn Ps)	ROA % (last 12 mos.)	Branches	ATMs	Individual checking accounts (Mn)	Savings accounts (Mn)	Payroll accounts (Mn)	Total deposit accounts (Mn)
Banamex	343.2	1.45	1,663	5,786	10.5	0.0	12.4	<b>22.9</b>
Bancomer	515.8	1.61	1,796	6,370	1.2	7.3	5.9	<b>14.4</b>
Santander	199.7	2.02	1,068	4,285	5.9	0.1	6.0	<b>11.9</b>
Banorte	222.6	0.94	1,098	4,539	0.6	5.3	3.8	<b>9.7</b>
HSBC	155.8	0.08	1,191	6,358	1.7	0.1	1.9	<b>3.7</b>
Scotiabank	100.6	1.32	607	1,462	1.6	0.0	0.6	<b>2.1</b>
Azteca	23.0	0.91	1,209	90	0.0	9.3	0.4	<b>9.7</b>
Bancoppel	2.3	-3.18	695	22	4.1	-	0.1	<b>4.2</b>
Wal-Mart	0.2	-37.97	205	10	0.0	0.2	0.1	<b>0.3</b>
Other (33)	401.6		1,248	5,441	1.0	0.8	0.4	<b>2.2</b>
<b>Total</b>	<b>1,964.8</b>	<b>1.31</b>	<b>10,780</b>	<b>34,363</b>	<b>26.5</b>	<b>23.1</b>	<b>31.5</b>	<b>81.1</b>

Source: CNBV report on Financial Indicators, March 2010

The microfinance sector comprises more than 600 credit and savings organizations. Most of these are credit and savings cooperatives. About 99 of them are regulated and supervised by the National Banking Commission and, jointly, have more than 1,000 branches serving 5.6 million users. It is estimated that they represent more than 68 percent of total assets in the microfinance sector. They are present nationwide, but they are most notably concentrated in the Centro-Occidente region.

A recent study by the Ministry of Finance showed that people between 15 and 44 years of age with access to financial services grew from 45 percent in 2007 to 59 percent in 2009. However, almost half of these people had access to only a single product. More broadly, access to formal financial services across the population is estimated at 35–40 percent.

Mexican financial institutions such as Compartamos, Banco Azteca, and Bansefi have demonstrated that low-income customers can be provided financial services profitably and at scale, having added more than 10 million people to the formal financial system in recent years. Though these institutions have shown signs of success, none has demonstrated a clear winning model (that other banks can replicate) for low-income banking.

Following the exponential growth of Banco Azteca, a number of new banks followed. These banks have driven credit primarily at the forefront of their offering, but are far from reaching Banco Azteca's scale. As a result of the recent worldwide financial crisis, some have suffered significant financial deterioration.

In spite of all this, interest in offering services down-market is growing in the commercial sector driven by a largely unmet credit demand: payroll accounts (simplified accounts to receive salaries) turned out to be a huge success through the cross-sale of payroll loans; direct

consumer lending through credit cards and other forms of consumer credit have been a key part of the growth formula of some of the sector's financial institutions.

### *Branchless banking*

Banks have been pursuing the use of mobile phones and agent banking (through Telecomm and more recently others) as a channel, but the business case for banks has not been validated by a large-scale success story. Managers are still wary of these new channels, at least in the short term. In most cases, market positioning is the main driver. Larger banks are willing to invest to learn (i.e., go for it now, find the business case later), but this has led to overly conservative efforts. Most banks have expressed high uncertainty in key aspects of the business case; they expect that agents constitute a lower cost transactional channel.

Large players going for large plays:

- **BBVA Bancomer** has a large footprint, with 1,800 branches. Very successful payroll account and lending business. Moving forward with thoughtful strategy for engaging informal poor segments leveraging agents (with OXXO, Telecomm, and other retail stores, such as Chedraui). Has developed Bancomer Express around easier, quicker, and more convenient access to accounts, to migrate current customers to partner agent networks. It has also developed Cuenta Express, a transactional account served purely through branchless channels.<sup>12</sup>
- **Banamex** has 1,660 branches. Like Bancomer, has developed an important business on payroll lending. Has set up a partnership with Telcel for a SIM-based application to allow its current customer base to access/transact using the mobile phone as a channel. This seems like an obvious first step given the likely high overlap in their mutual customer base.

Other banks taking interesting approaches include the following:

- **Banorte** led the way on accessing a large-scale agent network by partnering with 7-Eleven at the end of 2010, which added 1,200 agents to Banorte's branch network (an incremental change of about 80 percent).
- **HSBC** has 1,200 branches. Strong channel-management focus. Highly efficient at deploying large ATM network. Has 6,500 ATMs, which process 40 percent of transactions in Mexico.
- **Santander** wants to pursue branchless banking, already working with Telecomm as agent.

Low-income banks doing smaller experiments include the following:

- **Compartamos** currently serves 1.8 million customers. Even if authorized to operate as a full bank, Compartamos has yet to develop its deposit-taking operations. Regulation for branchless banking should pose an opportunity to develop a significant savings account offering, particularly leveraging its existing partnerships with retailers that collect loan payments. Compartamos recently announced its expansion into other Latin American markets, issued bonds for US\$80 million, and confirmed the acquisition of Financiera CREA

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<sup>12</sup> Information from Bancomer Web site.

in Peru, a nonbank credit company for US\$63 million.<sup>13</sup> In addition it got a US\$32 million loan from IDB to develop small and medium enterprise lending in Mexico.

- **Bansefi**, a state-owned bank with over 500 branches, offers savings accounts to low-income customers and pays cash transfer programs (mostly Oportunidades). It is currently conducting a pilot to pay social transfers via Diconsa stores.

**Banco Wal-Mart** is a new entrant to the market. It has set up a number of mini-branches in about 1,300 stores nationally. Because a significant portion of the low-income population in Mexico shop at Wal-Mart daily, the concept of proximity (not necessarily geographically, but relationship-wise) is significant. These mini-branches in stores promote and open accounts; however, deposits and withdrawals are conducted at the stores' cash registers (more than 20 per store) that actually operate as the bank's agents. The main offerings include savings and credit.

#### *Mobile Network Operators*

While there are about 78 million total cell phone accounts, many customers have multiple phones, so it's not clear how many people actually have phones—some estimate about 55 million (roughly 50 percent of the population).

**Table 3. Key actors in the Mexican commercial banking sector**

MNO	Mobile phones Mn	Market share (subscriber lines)
Telcel	55.9	72%
Telefonica	15.5	20%
Rest	6.2	8%
Total	77.7	100%

Moreover, there are still coverage issues in parts of Mexico. The market is dominated by a single MNO, Telcel, who enjoys about 72 percent market share. Telefonica is slowly gaining ground and currently has about 20 percent share, with IUSA and Nextel reaching about 8 percent, combined. The market is heavily prepaid (93 percent); 74 percent of use is for SMS.<sup>14</sup>

- **Telcel** has a partnership with Banamex, but also works as a channel for existing banking customers, such as Bancomer, HSBC, and others. Given Telcel's scale and likely overlap with existing banked segments, the transactional channel business may be easier to approach and develop than mobile accounts at the bottom of the pyramid (which in addition would require development of an expanded cash-conversion network). However, the scale of Telcel, its position in the market, and the generalized demand for payments services provide positive market conditions for a likely mobile payments proposition. Telcel has been

<sup>13</sup> 28 March 2011, Compartamos Web site.

<sup>14</sup> CNBV Presentation, Marco Normativo Corresponsalias y Medios Electronicos, January 2010.

conservative in its approach, leaving open the possibility of developing its approach further in the near future.

- **Telefonica** has worked longer to set up a mobile account/mobile payments offering catering to lower unbanked segments (C-, D, and E) of the population. This could expand and consolidate its existing customer base. However, this effort has taken longer to consolidate. More recently, Telefonica announced a joint venture with MasterCard to develop a mobile payments offering for 12 countries in Latin America, including Mexico. Through this mobile wallet, customers will be able to “use their mobile phones for person-to-person money transfers, bill payment, mobile airtime reload and retail purchases, among other services.”<sup>15</sup> It’s unclear yet what shape this effort will take in Mexico.

While the Telefonica/MasterCard offering seems to have a strong promise for a sensible mobile payments offering in the market sooner, Telcel’s position in the telecommunications market is an important stepping stone for a mass payments product. In both cases, it seems banks will play a key role in supporting the development of a ubiquitous network of cash-conversion points.

### *Payment Systems*

Banxico (Banco de Mexico) is the country’s central bank and operates the main wholesale payment system, called SPEI (*sistema de pagos electronicos interbancarios*), used for large-volume almost-real-time transfers between banks and a retail payments system, called TEF (*transferencias electronicas de fondos*), which is basically a next-day retail payments system that transfers money among individual accounts in the banking system. All accounts in the banking system are uniquely identified by a CLABE (Clave Bancaria Estandarizada), and banks are required to offer TEF and SPEI services to their customers. Recently, SPEI was opened to retail payments, as a strategy to promote electronic payments and reduce the use of checks, a move that will probably lead to the disappearance of TEF. This contributed significantly to the interconnectedness of the banking system. Today, bank customers are able to transfer funds from across bank accounts in less than 15 minutes, regardless of which banks hold the accounts sit. This brings an interesting angle to interoperability (or interconnectivity) of mobile accounts, since the ability to move funds across accounts operated through different MNOs does not require that MNOs talk to each other.

There is a robust and widespread ATM network across the country (35,000 units) that serves customers from most banks, and more than 450,000 POS devices at merchant locations. There are two main switches in the country, Prosa and E-Global. Prosa is owned by a limited number of banks, but is governed by a consortium of all the member banks it serves. E-Global was set up by the two largest banks (Bancomer and Banamex) as a shared switch. Both switches are interconnected so that all ATMs in the country can serve customers of any bank. Other switches are developing and operate at a much smaller scale. Prosa drives an acquiring network of 120,000 POS devices. It is possible that it may convert some of these merchants into shared agents for the banking sector (following a similar model to VisaNet/Cielo in Brazil). The possibility to do this as a shared infrastructure (instead of duplicate networks) may create

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<sup>15</sup> Press release, 25 January 2011. MasterCard Web site.

opportunities for a lower cost offering. Because Prosa already operates a shared acquiring network, the cost to do this could be marginal. It is unclear how banks would respond to this proposition, though it could be attractive to smaller financial institutions.

Another important actor is FIMPE, a trust fund setup by the Ministry of Finance in 2005 in partnership with the banking sector. This fund was seeded fully by tax contributions, and its purpose was to invest in and manage a massive network of POS stations on behalf of banks. FIMPE setup more than 330,000 POS stations across the country in the past years, connecting them to PROSA and E-GLOBAL (the other two switches set up by the commercial banks). FIMPE had a short incursion (2007) into mobile banking (by integrating a mobile account platform to its offering), but this initiative did not gain traction.

### *Distribution networks*

A multibank, shared agent business is beginning to emerge, piggybacking on well-established retail and distribution networks. Several elements point to positive expectations:

- Agent companies better placed than banks to drive business because of FMCG orientation.
- Banks seem comfortable participating in shared agent networks because of sharing ATM networks for 10 years as well as sharing Telecomm
- Shared agent networks may need to drive some of the products offered through the network to improve the business case and to profit from their knowledge of customer needs
- Mom-and-pop shops are at the customer's doorstep, making them the most convenient location for services.

However, high price points (US\$0.50–1.00 per transaction) being charged by agent partners reduce incentives for banks to drive customers to agents. An offering from the best positioned actors is starting to consolidate:

- **Telecomm** (medium scale, semiurban/rural)—this is the state-owned national telegram service that, for several decades, has also been operating domestic remittances (giros) and bringing Internet connectivity to small and isolated communities. It has relevant presence in communities with little or no bank presence. It currently manages over 1,600 locations and serves as an agent to six banks. It has the elements to be a key driver in the market.
- **Oxxo** (large scale, urban/semiurban)—the largest retail chain, with nearly 8,000 store locations. Primarily urban with significant traffic and sales to lower income customers. Currently developing a shared agent network for multiple banks. Started to rollout its agent platform through its stores in late 2010, but the rollout is likely to finalize in mid-2011. Initially operating only with Bancomer.
- **7-Eleven** (medium scale, urban/semiurban)—a chain of convenience stores with nearly 1,200 urban and semi-urban locations. In late 2010, it became a correspondent agent network for Banorte.

- **PagaTodo** (large scale, semiurban)—PagaTodo is a bills payments aggregator and airtime reseller that has been in the market for the past 10 years. It is the largest airtime top-up processor in Mexico, with more than 50,000 points of service, out of which 10,000 are mom-and-pop stores.<sup>16</sup> There is a strong opportunity for PagaTodo to offer correspondent banking through smaller retailers (at least a fraction of its 10,000 mom-and-pop shops) for multiple banks.
- **PuntoClave**—an independent bills payments and cards processor with more than 2000 access points. It is ready with a turn-key solution to convert its network into banking correspondents for banks. It may be specially positioned to reach low-end segments of the population. It has an interesting approach to using cash asymmetries across different types of stores to optimize particular kinds of transactions (for instance, drive cash-out transactions through cash-rich points, while limiting cash-poor stores to do only cash-in transactions).
- **Diconsa**—is working with Bansefi to pilot the payment of Oportunidades through 300 of its rural stores. A key problem faced seems to be the lack of connectivity, but this is being addressed through the use of smartcards and offline POS devices. This scheme is likely to scale up substantively, but mostly in the realm of improving social payments as part of the Bansefi network.

Other specialized mobile platforms are taking the lead and/or spurring important initiatives in the market:

- **RÊV Mexico**—Austin-based RÊV is a global organization that offers end-to-end payment solutions focusing in underserved markets. RÊV's processing platform is able to aggregate volume and consolidate operations across implementations, which allows it to offer its services competitively. In Mexico, RÊV has been very active in the past five years, processing more than 400,000 co-branded prepaid cards for low-income segments. RÊV's platform supports electronic accounts that can be accessed through cards, mobiles, and the Internet. In Mexico it is supporting several initiatives in the market.

### *G2P Payments*

There are several federal-, state-, and municipal-level programs that deliver conditional cash transfer programs in Mexico. The largest and most notorious is Oportunidades. This program delivers payments every two months to more than 5 million households. Bansefi and Telecomm each share about 50 percent of the payments. In Bansefi's case, about 50 percent are delivered through deposits on bank accounts, and the other 50 percent are paid in cash. Telecomm makes all payments in cash. In both cases (Bansefi and Telecomm), additional "moving" service points need to be set up during payment season to cover areas that are not covered through its branch network. Bansefi uses some service points from La Red de la Gente (a network of cooperatives to pay remittances) to deliver some of the payments.

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<sup>16</sup> The other 40,000 points are set up in large supermarkets under ANTAD (the national association of supermarket stores).

Bansefi has been actively improving its capacity to deliver these payments more efficiently. In the past couple of years, with funding by the Bill & Melinda Gates Foundation, it has conducted pilots to deliver Oportunidades payments through Diconsa. Recipients save about 74 percent in the cost to access the resources.<sup>17</sup> This seems to be the most advanced initiative to bancarize CCTs.

### *International Remittances*

In Mexico international remittances is a very broad topic. The largest players paying networks are Bancomer and Elektra (affiliated to Western Union), but many other smaller networks exist. New implementations may open opportunities in this market for broader mobile payments.

**M-Via** is a U.S.-based company that has a mobile wallet platform that allows sending remittances between wallets through SMS. On the sending side (from the United States), remitters can purchase a magnetic stripe card at 7-Elevens, charge it, and associate it to their mobile number. They can then send the remittance to a mobile number in Mexico. The service then sends a message to the recipient in Mexico who can cash-out at a number of partner retail stores. M-Via settles directly with the paying network through an account it holds in a Mexican bank. Interesting variants to pricing (on the sending side) enable “micro-remittances” that are smaller in value but more frequent. This points to schemes that seem far more convenient to customers who adopt the service and use it regularly.

### *Other stakeholders*

- IDB. IDB/MIF recently set up a fund to support projects that leverage information technology to advance financial inclusion. The fund covers Latin America, but it is working with some initiatives in Mexico.
- Bill & Melinda Gates Foundation, Rockefeller Philanthropy Advisors, and Bankable Frontier Associates. At a global level, these organizations are working on a project called “Gateway for Financial Innovations” (GAFIS), which aims to promote useful savings behavior among poor households by leveraging existing cash flows to support the development of small savings. In Mexico, GAFIS is working with Bansefi to leverage social payments to develop savings accounts.<sup>18</sup>
- Bill & Melinda Gates Foundation. In addition, the Bill & Melinda Gates Foundation is supporting CNBV to develop a national survey on access and use of financial services, in coordination with the national bureau of statistics (the INEGI, which is the “Instituto Nacional de Estadística, Geografía e Informática”).
- Microfinance Networks. Both ACCION and FINCA International have operations in Mexico. ACCION has taken a more robust stance in identifying paths for expanding financial inclusion to benefit the market. In 2009, ACCION, in partnership with McKinsey, published a paper on 2020 scenarios for financial inclusion in Mexico.

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<sup>17</sup> McKinsey report

<sup>18</sup> GAFIS Web site ([www.gatewaytosavings.org](http://www.gatewaytosavings.org))

## Key Challenges and Opportunities

### Challenges

- **Market still weary.** Regulation has opened the door for new models to increase outreach and develop a lower cost product offering; however, for the commercial banking sector, it is still unclear what opportunities this brings beyond improving channel economics to serve current clientele.
- **Limited understanding of lower income customers.** The lack of detailed understanding of the needs and wants of poorer segments of the population makes it difficult to nail down a value proposition meaningful to them.
- **Channel pricing is still high.** This makes it difficult for banks to develop low-value/high-transaction accounts. One challenge is calibrating product pricing with channel economics.
- **Regulation of fees on deposit accounts.** While the regulatory framework is comprehensive and enabling, mandating free ATM transactions (on ATMs of the same bank) may limit the business case for banks developing a lower income offering.

### Opportunities

- **Actors are proactive and willing to experiment.** Many business models are currently being developed; several of them already are playing a role in mass plays.
- **The regulator is highly engaged and open-minded.** Financial inclusion is high on the agenda.
- **The infrastructure is in place.** The cellular infrastructure, payments systems, and established retailers/distributors are available.