



OXXO's Saldazo
Success and Challenges

Martha Casanova & Gabriela Zapata
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Saldazo: Summary

Saldazo, a Visa debit card product co-branded with Banamex* bank, has made Mexico's largest corner store retail chain – OXXO – the country's number one transactional account supplier. Saldazo leverages a number of elements:

- Risk-based tiered regulation, which allows for low know-your-customer (KYC) account opening requirements
- The high accessibility of a retail chain with a nationwide footprint and extended daily opening hours (also the largest single banking agent network with full connectivity)
- Strong brand recognition and large customer base
- Synergies with OXXO's convenience store model, which include applying time and cash management optimization procedures to the provision of financial services
- Customer insights for product design and increased client knowledge through card use

Standing at over 5 million accounts today with an average growth of 290,000 accounts per month, OXXO's next challenge is to manage its increasing transaction volumes, which are putting pressure on the company's operational model.

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Market overview



122 million people*



42.6 million adults without an account



89 million unique mobile subscribers



44,429 ATMs



16,395 branches



751,669 POS (Point of Sale devices)



27,422 agents

Source:

*<http://data.worldbank.org/indicator/SP.POP.TOTL?locations=MX>

ENIF 2015

GSMA Country Overview Mexico, June 2016

Simplified accounts in Mexico: A popular choice that has grown over time

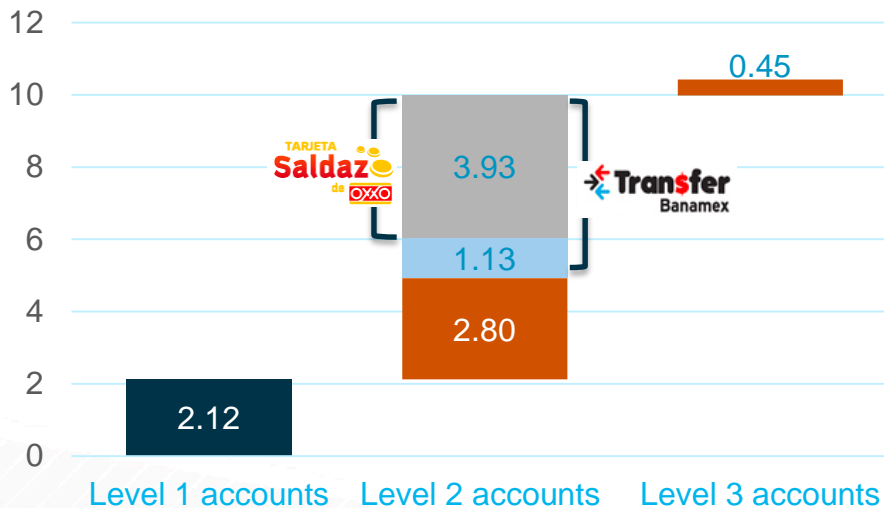
There are over 86 million accounts in Mexico (traditional and simplified), of which 75 million are traditional bank accounts.

Simplified accounts have increased over the past three years, representing more than 16.5% of total accounts in Mexico today.

There are 7.86 million Level 2 accounts; Banamex holds 65% of accounts, while Saldazo represents about 78% of those accounts.

The average balance of these accounts is US \$36.50, compared to US \$368 in traditional bank accounts.

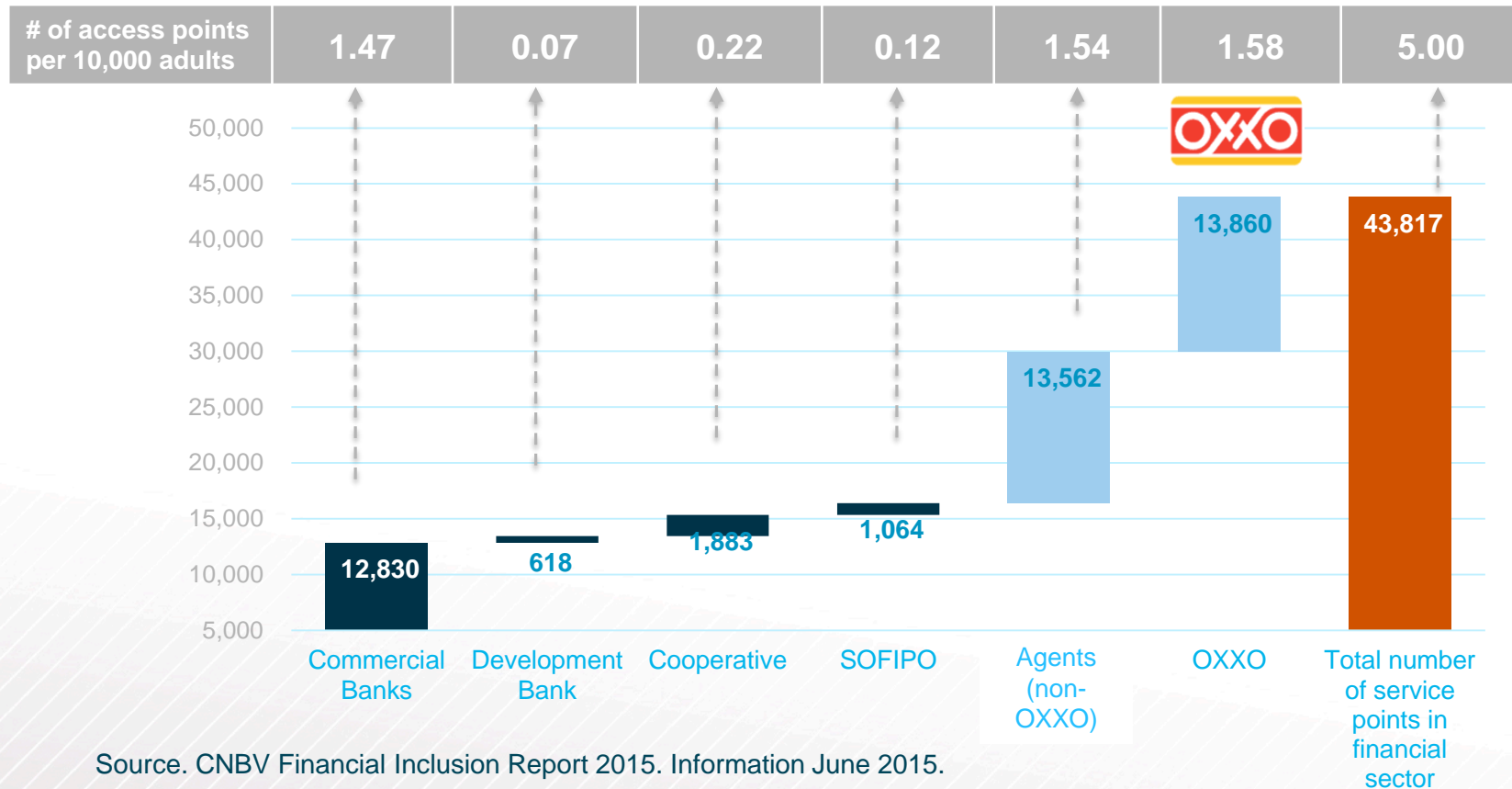
Number of simplified accounts in Mexico
(Millions)



Source. CNBV and OXXO. March 2016

OXXO contributes nearly 32% to the financial services distribution network as a whole

Relative size of distribution networks Number of service points



Source. CNBV Financial Inclusion Report 2015. Information June 2015.

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CGAP's role in Saldazo's early development

In 2011, CGAP assisted OXXO with setting up a non-exclusive agent network to deliver savings and other payments services to low-income people living in different regions of Mexico.

In particular, the project aimed to help OXXO:

1. Add processing consumer-banking transactions functionality to its existing store network
2. Develop and implement a basic OXXO-branded transactional consumer account to be offered through its existing store network, which would operate like an electronic wallet but be a bank account (branded and marketed by OXXO, and accessible either through a card or mobile phone)

The project concluded in 2013. Today, OXXO is the largest banking agent in Mexico and is the only retailer that has developed an account/electronic wallet that is branded and marketed in partnership with a bank.

Key players



OXXO is Mexico's largest corner store retail chain, with over 14,000 outlets nationwide. It remains at the core of multiple branchless banking initiatives, acting as a shared channel for different retail banks and taking on a variety of roles such as multi-bank agent, CICO network, payments agent, person-to-person (P2P) transfer platform, remittance payer, and airtime reseller.



Grupo Financiero Banamex is a leading financial group in Mexico, offering a variety of financial services. Banamex has an extensive distribution network of 1,700 branches and serves more than 20 million customers, who make more than 17.5 million transactions per day through 7,100 ATMs, over 102,000 POSs, and more than 18,800 agents throughout the country, including OXXO.



Telcel is Mexico's largest mobile network operator (MNO), with a 69% market share. It is owned by America Móvil.



Saldazo: First retailer-branded transactional account in Mexico

- In 2012, OXXO, Banamex and Visa introduced Saldazo, a new co-branded debit card linked to a savings account. Saldazo enables a mostly cash-based retailer to offer an account and learn about the purchasing and spending habits of its clients through card use.
- The card is the first of its kind in Mexico. Available at OXXO stores for less than US \$2, it requires an official ID and no minimum balance.
- A year after its national launch, Saldazo sold over a million accounts. It is the fastest growing account in Mexico, selling around 290,000 accounts per month and totaling over 7 million transactions per month. Today, they have 5 million customers.
- OXXO's Saldazo experience provides a wealth of learning that could be useful to the financial inclusion industry in general, as it considers non-traditional ways to expand financial services to low-income populations where retail chains can be leveraged.

Product features

REQUIREMENTS FOR OPENING AN ACCOUNT

1. Go to any OXXO store.
2. Give name, address, date and place of birth.
3. Show ID
4. Pay initial fee of US \$1.7
5. Optional: Provide mobile phone to receive SMS and activate Transfer Banamex mobile service if your mobile service provider is Telcel.

BANAMEX TRANSFER SERVICE

Once the Saldazo account has been activated, it provides optional access to Banamex's Transfer mobile service—the mobile payment platform that enables mobile payments, transfers, balance inquiry, withdrawals and airtime purchases without a Banamex card. Transfer works via SMS only on mobile phones with Telcel service and is available 24/7.

WHAT DO YOU GET?

1. Banamex/VISA debit card
2. Access to OXXO's loyalty program
3. Cash in/out at 14,000 OXXO stores and more than 1,700 Banamex branches and network ATMs
4. No minimum balance required
5. All transactions generate an SMS sent to those with a registered mobile phone with Telcel

LIMITS AND RESTRICTIONS










1. Monthly deposits up to US \$830 (Level 2 limit)*
2. Up to US \$55 in withdrawals (MX \$1,000) per transaction and US \$278 (MX \$5,000) per deposit.
3. In-store transactions from 8:00 am to 8:00 pm, 7 days a week

FEES

- INITIAL FEE: **US \$1.7 (30 pesos)**
- MONTHLY FEE IF BANK'S TRADITIONAL CHANNELS USED: **US \$0.83 (15 pesos)**
- DEPOSIT IN OXXO: **Free**
- WITHDRAWAL IN OXXO: **US \$0.7 (10 pesos flat fee)**
- AIRTIME TOP UP: **US \$0.06 (1 peso)**
- P2P: **US \$0.06 (1 peso)**

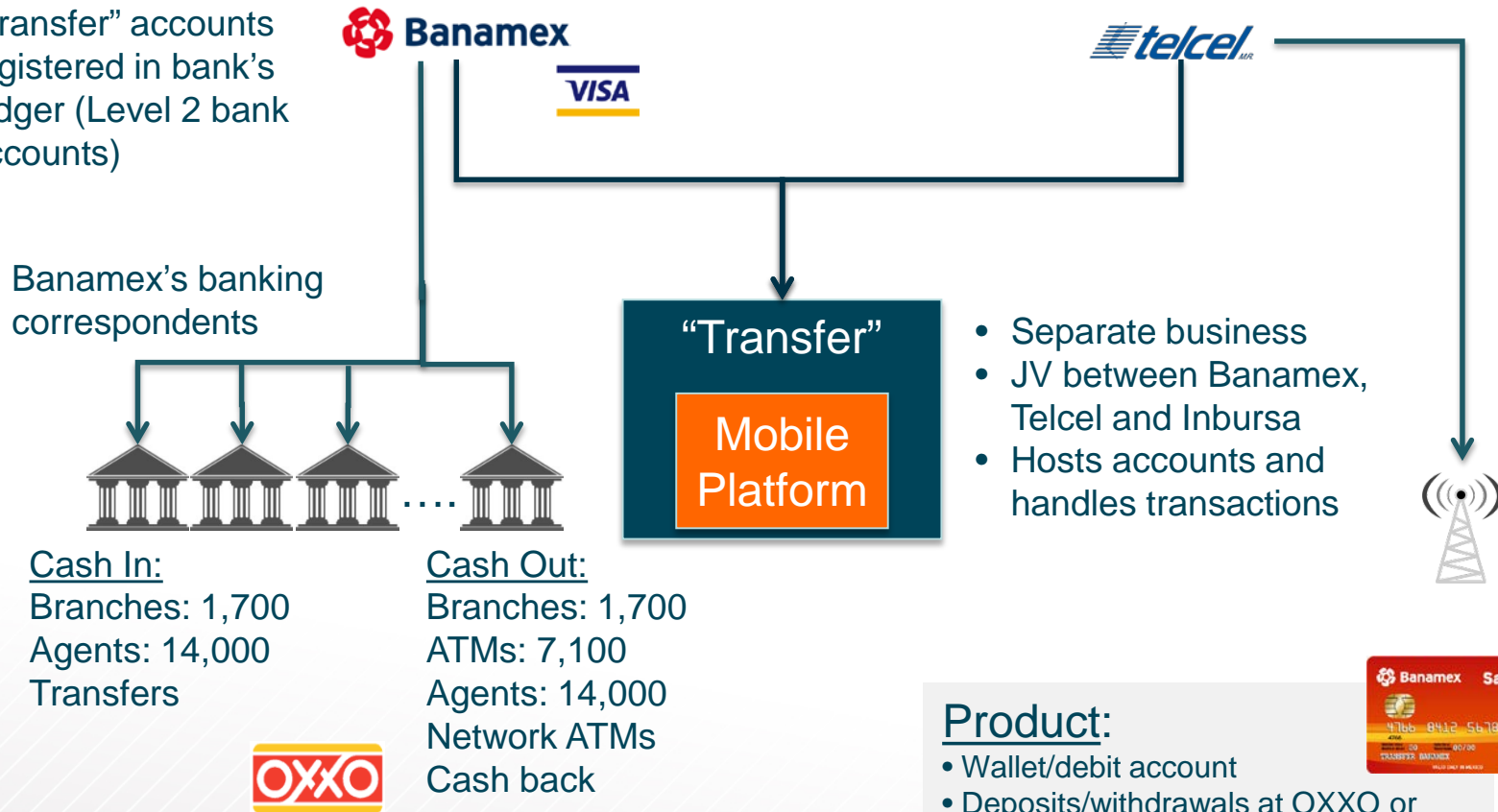


Different branding & modalities: Banamex Transfer vs Saldazo

					
Modalities			 		 
Cash in	7Eleven, OXXO, Soriana, Banamex branch, account transfer	Banamex branch, account transfer	7Eleven, OXXO, Soriana, Banamex branch, account transfer	OXXO, Banamex branch, account transfer	7Eleven, OXXO, Soriana, Banamex branch, account transfer
Cash out	ATM	ATM, branch, cash back at participating retailers	ATM, branch, cash back at participating retailers	OXXO, ATM, branch, cash back at participating retailers	OXXO, ATM, branch, cash back at participating retailers
Money transfer	Mobile	At branch	Mobile, at branch	At OXXO	Mobile, at OXXO
In-store purchases	No	Yes	Yes, with card	Yes	Yes, with card
Online purchases	No	Yes	Yes, with card	Yes* (limited to certain e-commerce)	Yes, with card* (limited to certain e-commerce)

How does it work?

- “Transfer” accounts registered in bank’s ledger (Level 2 bank accounts)

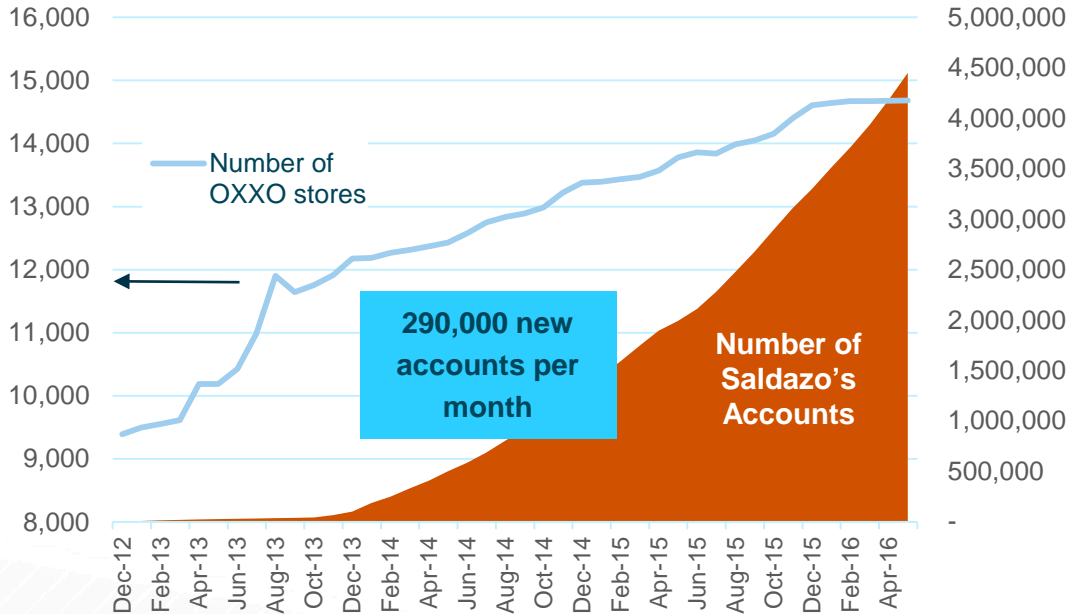


* Inbursa bank also connected to platform

*Using Banamex's branch or ATM network triggers a monthly "rent" fee of MXP \$15 (USD\$0.83).

Rapid growth of Saldazo accounts

Account evolution



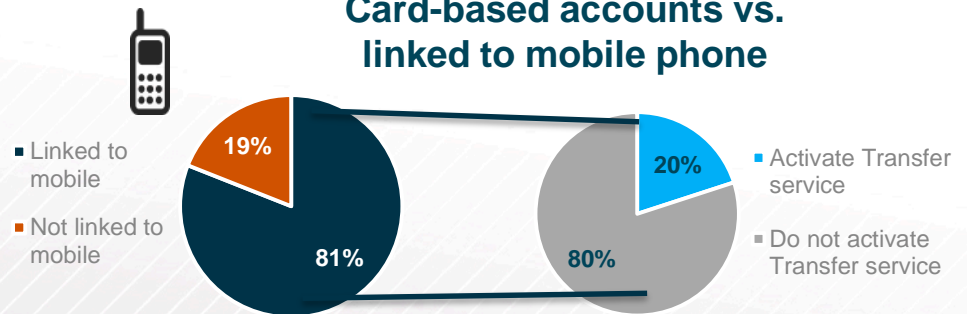
Source: CNBV and OXXO

¹ Activity rate: Positive balance in the account or at least 1 tx (monetary or non monetary) in the last 8 weeks.

5 million accounts*

- Saldazo represents around 57% of the total Level 2 accounts in Mexico.
- On average, 8,500 Saldazo cards are sold nationwide daily.
- 81% linked to mobile phone
- 16% activate mobile Transfer service.
- 61% active accounts¹
- Average balance ~ US\$20

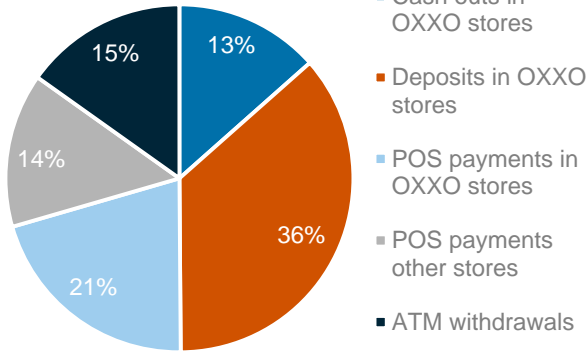
Card-based accounts vs. linked to mobile phone



At least 1.2 transactions per active account per week

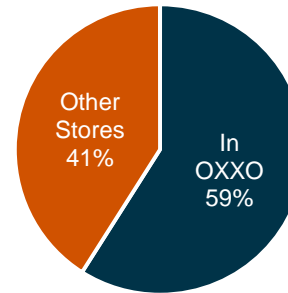
Transactionality distribution*

On average, customers make 1.15 deposits per month.

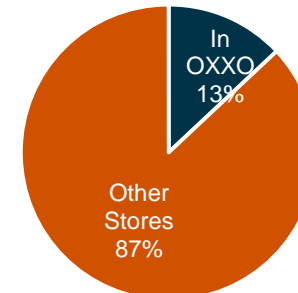


POS payments distribution

Number of transactions



Amount



POS payments outside OXXO stores have increased over time, helped by SMS-driven promotions

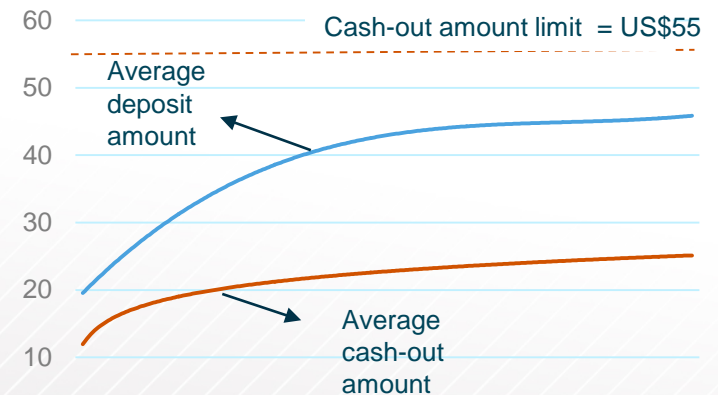
*Online transactions data estimated around 1%

Average amount per transaction USD



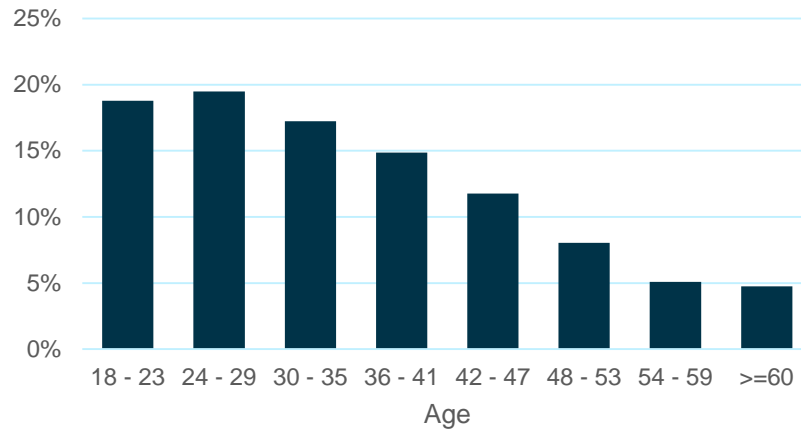
Cash-out limit is USD \$55 and USD \$278 per deposit; on average they remain well below the allowed amounts.

Cash in/out trends Average amount per transaction USD

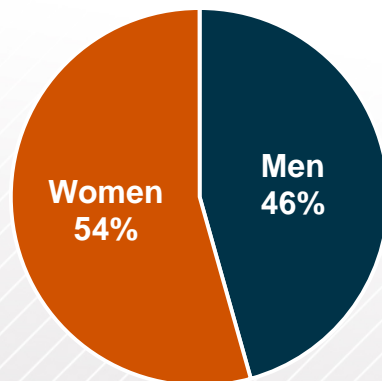


Successful product uptake among younger population and women

Age distribution



Gender



Source: OXXO

- Although 70% of clients are below 41 years of age, Saldazo also shows acceptance among older users.
- OXXO estimates that around 40% of their clients are in the C- or less segment.
- Women show greater product acceptance.
- The most successful locations are in Mexico's southeast, likely due to low banking penetration in the area as well as informal workers' presence, making Saldazo a good option that satisfies their financial needs.

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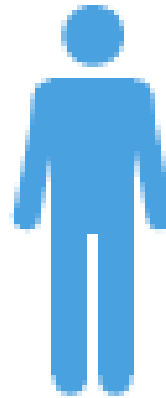
Saldazo: Leveraging a retailer's ubiquity, brand recognition and business efficiency to drive financial service uptake and use

- Convenience store model built to process high volumes of cash-based transactions expediently and reliably
- Has necessary connectivity to accept card payments and perform other financial transactions
- Has built-in efficiencies to carry out transactions, and processes bill payments and airtime top-ups
- Large footprint and extended hours of operation
- Ability to manage cash-flow following safety procedures



Product design: Clear and simple, focused on customer needs

Client-centricity



Previous market research to understand the customer

Clear fees:
Pay for use

Tangibility

Bundling: loyalty program

Simple and accessible concept

Speed and ease of activation

Wide access to cash in/out options

Retailer branded card means customers feel more identified with the product

Is accessibility the key to Saldazo adoption?



OXXO stores' wide footprint and convenience

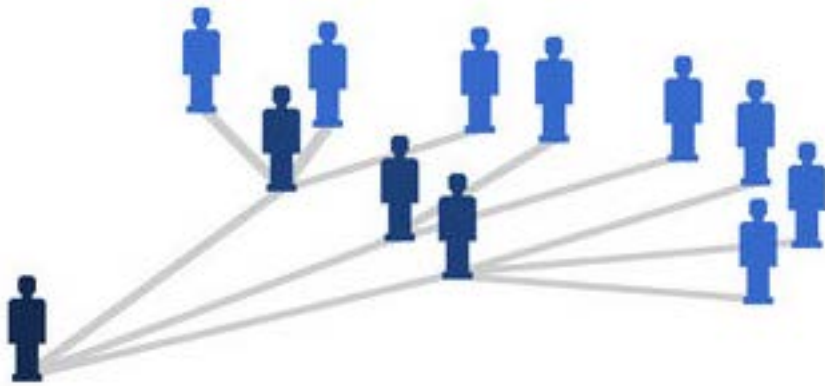


Account opening at the store in 4 - 4.5 minutes with minimum requirements



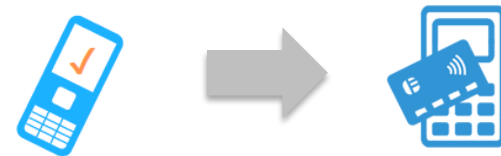
Over-the-counter (OTC) services during extended hours (8 a.m. – 8 p.m., seven days a week)

Best advertising according to OXXO management: word of mouth



OXXO launched several marketing campaigns, but word of mouth appears to be most successful.

Driving customer behavior through SMS has proved to be successful, particularly for encouraging and increasing purchases outside OXXO stores.



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Making the account profitable: Considerations



- 1 Central Bank is opposed to allowing banks to charge fees to clients for own-channel use (i.e., branches and ATMs).
- 2 Customer behavior directly influences profits. Accounts are primarily used to store money. The majority of deposits and Banamex ATM withdrawals not profitable.
- 3 Increased cash-handling and transfer costs due to a higher transaction volume make it more difficult to achieve profitability.
- 4 SMS marketing can be useful in driving more profitable transactions, such as purchases outside OXXO stores.
- 5 Banamex monthly "rent" of US \$0.83* could increase if the bank faces profitability issues, potentially affecting Saldazo clients' behavior.
- 6 Driving cheaper transactions, such as mobile transactions, remains a challenge.
- 7 Is leveraging data analytics a way to improve profitability?



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Insights on a retail-branded account: The case of Saldazo

- OXXO's strong brand recognition and trust play an important role in driving retailer-branded account acquisition among lower-income segments, overcoming trust barriers that traditional banks often face—the differentiating factor with the Banamex-branded Transfer account.
- OXXO's high accessibility (wide retail footprint, extended opening hours and convenience), client centricity, and highly efficient processes (account opening, staff training) enable and drive account uptake and use.
- A retailer-branded debit card (providing access to in-store promotions, in addition to being a savings account with mobile functionality), constitutes a more robust value proposition for customers, involves fewer investments in marketing, and can make more money for all players in the value chain.
- The provision of financial services by a retailer creates costing challenges related to service provision itself (time and commissions vs. sale of consumer goods). It also leads to fluctuating cash-handling and cash-transfers due to product demand and use, particularly due to clients' preference for OTC transactions with the card rather than mobile.
- Behavior change can be motivated by marketing and incentives initiatives supplemented by SMS reminders, tips and promotions.

CGAP

Advancing financial inclusion to improve the lives of the poor



Global Affairs
Canada



BILL & MELINDA
GATES foundation



MetLife Foundation
Ensuring Access. Empowering Communities.



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG



Australian Government
Department of Foreign Affairs and Trade



Citi Foundation



www.cgap.org

Annex. In 2010, Mexico's banking regulator introduced a risk-based tiered scheme for deposit accounts

	Level 1 Prepaid card	Level 2 Low transactionality	Level 3 Low risk	Level 4 Traditional bank account
Information required	None (anonymous)	Name / State & Date of birth / Gender, / Address	Same as level 2 plus: Country of birth / Nationality / Occupation Phone / e-mail Population registration code (CURP) Tax ID number (RFC)	
Opening requirements	None Can be opened remotely	Information only, no physical copies Remotely or in person	Remotely or in person Information must be verified but no physical copies kept	Must be in person Requires physical copies
Channels available to open account	Branch Banking agent E-channels (internet and phone) Stores	Branch Banking agent E-channels	Branch Banking agent Online	Branch
Limits in USD*	222 monthly deposit 295 maximum balance	887 monthly deposit No limit or maximum balance	2,957 monthly deposit No limit or maximum balance	Monthly deposit and balance has not limit, determined by bank
Channels available	Branch ATM POS Banking agent	Branch ATM POS Banking agent Online banking Mobile	Branch ATM POS Banking agent Online banking Mobile	Branch ATM POS Banking agent Online banking Mobile Checks

* Limits defined in a metric of Investment Units (UDIS); figures in USD to allow for international comparison; UDI and exchange rates as of June 2016.
Source: CNBV.