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# INTRODUCTION OF BASIC ACCOUNTS IN MEXICO TO ADDRESS THE ISSUE OF ACCESS TO THE BANKING SYSTEM: DESIGN AND EXPECTED IMPACT\*

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## Abstract

**T**his article presents the Mexican experience with the introduction of basic transaction accounts. Basic accounts are relatively cheap simple banking products with restricted functionality targeted at social groups that have limited access to transaction accounts. In Mexico, basic payroll accounts and accounts for the general public were introduced. By law, these products must be offered by all institutions engaged in receiving deposits and withdrawals, and balance inquiry and account opening fees may not be charged. This article analyzes the potential impact of the introduction of these products by estimating the access frontier using MxFLS data. It has been estimated that there are approximately 10 million potential basic account holders. For basic payroll accounts, it has been estimated that over 5 million individuals could benefit. Finally, this article presents lessons from international cases as well as from the Mexican experience with the introduction of basic accounts, which could be useful to other countries.

— Key words: Financial access, transaction accounts, bank fees, basic accounts, Mexico.  
Classification JEL: G2, G21, O21.

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\*We would like to make clear that the views presented in this article are exclusively those of the authors and do not necessarily represent the views of *Banco de México*. Any errors are the sole responsibility of the authors.

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## Introduction

Recent evidence has shown that not only does a correlation exist between financial development and economic development but also that the former causes the latter. (Levine 1997, 2005; Caprio and Honohan 2001). It has also been found that access to banking services is an effective mechanism in the fight against poverty and inequality (Claessens 2005, Burgess and Pande 2005, Department for International Development 2004). Thus, one of the objectives of regulators interested in economic development is to promote the development of the financial system.

Access to banking services is one of the components of developed financial systems. Banking services are varied since they range from transaction and savings accounts to different types of credit and insurance services. Most literature has focused on access to credit services by individuals and small companies (Jappelli 1990; Beck, Demirgüç-Kunt, Laeven and Maksimovic 2006). However, access to transaction accounts is also relevant to the well-being of families.

This article analyzes a mechanism to promote access to transaction bank accounts, namely, the introduction of basic accounts (BA) or standard products. BAs are relatively simple and therefore inexpensive banking products with restricted functionality targeted at social groups that have limited access to transaction accounts. They are not predominantly a savings account or credit product by nature.

Additionally, we document the recent Mexican experience with the introduction of BAs, and using the Mexican Family Life Survey (MxFLS) data, we analyze the potential impact of these products on access. After comparing the Mexican case with international experience, we derive some lessons which might be useful to other emerging countries in the potential implementation of such products.

There is evidence that access to banking accounts is limited in Mexico. To address this issue, in 2007, the Mexican Congress made it mandatory for all institutions engaged in the business of accepting deposits from the public to offer two basic products, payroll accounts and accounts for the general public; the law mandates that banking institutions may not charge account opening, withdrawal or balance enquiry fees for these products. *Banco de México*, responsible for providing content to this law, established wide functionality for basic products, not only in terms of the variety of services included but also by not limiting the number of free transactions, as opposed to what has been done in other countries. Thus, the scope of Mexican basic products is very wide since they are provided by many institutions and are extremely generous products for consumers both in terms of cost and functionality.

Using MxFLS data, the access frontier was set up to estimate the number of individuals that could potentially benefit from the introduction of basic products. A fraction of the group of favored individuals is made up by new customers and another fraction by already existing bank users. In the case of the basic product for the general public, it has been estimated that there are around 10 million potential beneficiaries; 5 million are individuals who previously had not been capable of acquiring bank products but as a result of the low prices of these basic products, will

now be able to do so. In the case of payroll products, around 5 million customers are potential beneficiaries. About one tenth of these individuals are potential new users as a result of the low prices of the basic products.

As expected, less than a year after the introduction of these basic products, there are already 7.5 million accounts, representing 13% of total demand accounts in Mexico. Most current beneficiaries are individuals who were already bank product users and became basic product consumers when these were introduced. In other words, the impact of basic products on access is still limited, although it is expected to increase over time.

Basic products were originally introduced in financially developed countries to provide services to small groups that were considered vulnerable and had been excluded from financial services. Recently, however, in several emerging countries where only a small fraction of the population has access to banking services, basic products have been implemented to offer large population groups the possibility of making bank transactions.

Basic products eliminate certain factors causing limited access to transaction accounts. In the first place, since these are relatively inexpensive products, a greater number of individuals who currently have no access would be able to acquire them. In the second place, since these are products with restricted functionality, they are simple and unsophisticated; this implies that even people with low educational levels could easily learn how to use them. In addition, banking products have become more sophisticated and have wider functionality, partly because they have been designed for high income and highly educated groups; this makes it difficult to compare services offered by different institutions. The simplicity of basic products allows for a direct comparison between different offerings because in most cases fees are reduced to only one dimension. That is, comparisons between basic products offered by different banks are transparent. In the third place, basic product offerings usually require minimum documentation to open an account. The objective is to make it possible for low income individuals who usually have trouble providing identification to access basic products.

Basic products provide additional benefits. On one hand, customers who already have access and are currently consuming complex and expensive products whose wide functionality they do not utilize, can switch to basic products and save. On the other hand, basic products could become a benchmark for costs and characteristics of non-basic services offered by banks since now customers have the option to consume basic products.

The rest of the study is organized as follows. The first section discusses the issue of access to transaction accounts in Mexico and users and non-users are characterized according to the Mexican Family Life Survey (MxFLS) data. The second section presents a review of international experience with the introduction of basic products. The third discusses the Mexican regulatory framework for the introduction of BAs. The fourth section presents the expected impact of the introduction of BAs and their performance to date. Finally, the fifth section presents certain policy suggestions derived from international as well as from the Mexican experience with the design and introduction of BAs.

## 1. The Issue of Access to Transaction Accounts in Mexico: Magnitude and Characteristics

It is widely known that Mexico has serious financial exclusion problems. However, the fact that this affects both credit access as well as a wide range of products such as savings and investment accounts and transaction accounts, which are the object of this study, is less known.

In fact, the availability of specialized data on the percentage of the population that does not use banking services is quite limited. Although several studies have attempted to measure the percentage of individuals who have no access to financial products in Mexico, these analyses use surveys carried out expressly for this purpose and there is no follow up to provide periodical data on the subject. This implies that it is difficult to know precisely the magnitude of the problem of lack of access in Mexico and its evolution.

Additionally, analyzing the issue of access is complex because there is no good definition for financial access. De la Torre, et al. (2007) identified similar issues in the case of credit access. They argue that lack of access does not necessarily represent a problem. Thus, they define that credit access problems exist only when a company is not able to obtain external financing for a project that would have been financed with internal resources if they were available. However, lack of access to transaction accounts differs from the credit case because the issues of adverse selection and moral hazard that characterize the granting of loans are not present. In fact, some countries have considered that having access to transaction accounts is a right, and this implies that the whole population should have this right. Thus, it has been necessary to consider access to transaction accounts separately from access to other banking services.

This article suggests that there are transaction account access problems when households whose characteristics (education, income, wealth, for example) seem to suggest that having a transaction account would be beneficial, do not have one. That is, it is assumed that certain households do not require a transaction account because they have no use for one; these households should not be considered part of the population affected by not having a bank account. Thus, this approach suggests that it is necessary to characterize the population affected by this problem in order to understand it.

A study by Helms et al. (2006) estimates that between 15 and 25 percent of the urban population and 6 percent of the rural population in Mexico hold an account with a financial institution. The authors point out that obtaining the exact number of individuals and households that have bank accounts is difficult because one individual could have many accounts and many of these accounts might be inactive. However, they suggest that there are approximately 20 million bank account users, 2.9 million holding accounts with popular financial institutions, 2.65 million with *Bansefi*, and the rest with commercial banks. In total, they estimated that in 2006, there were 25 million bank accounts in Mexico. They also concluded that individuals from every economic stratum save but that lower income populations do so through informal mechanisms. This might be due to lack of confidence in institutions, the complexity and high costs of banking products, lack of financial education in the country and the great distances people in rural communities have to travel to find a branch.

A World Bank survey for Mexico City indicates that between 75 and 85 percent of the adult population does not have an account with a bank or a formal financial institution (World Bank 2003). For many of these individuals, banking products are too expensive, difficult to access, do not cover their specific needs and do not provide immediate benefits. However, the phenomenon of debankarization is not only originated by demand. The study mentions that bank products have high maintenance costs and bank branches are located in places that are difficult to access by non-bankarized populations. Additionally, some of the problems on the supply side are related to regulatory costs, as in the case of small banks. The study indicates that the issue of financial inclusion could be partially solved through a healthy development of the legal system, by improving the definition of property rights and enhancing information-sharing mechanisms among financial institutions.

Castañeda and Ruíz Durán (2006) point out that the limited reach of the financial system in Mexico is due, among other things, to the absence of certain markets and financial intermediaries that provide services to certain population groups, to the absence of databases and credit bureaus and to a lack of competition that inhibits the entry of new system participants.

In the brief review presented above we can appreciate that, in general, specific information on access to transaction accounts is limited. The MxFLS offers an alternative way to measure the problem of access to this product (Rubalcava and Teruel 2006 and 2008). Although the MxFLS is not a survey that specializes in gathering financial information from households, it includes certain questions providing information on the subject, in addition to extensive individual level socioeconomic and sociodemographic data and community level infrastructure data. The survey inquires whether individuals save and if the answer is affirmative, whether they do so with a bank. However, this question poses two problems. The first arises because transaction accounts are not necessarily savings accounts and the second because certain individuals who do have a bank account and use it to make transactions might have not saved during the previous year and would therefore report not having access to an account. Thus, information based on this question would surely underestimate the number of people in Mexico who have a bank account.

Despite this inconvenience, our study uses the variable of saving in a bank account or not as a proxy for holding transactional bank accounts. This allows us to measure the problem and characterize individuals who have and do not have an account. Thus, from now on, the term access to an account will be used to characterize those individuals who in the MxFLS reported having saved with a bank.

The analysis uses results from both MxFLS surveys (2002 and 2005-2006) and only includes people 15 or older since it considers that people can benefit from accessing an account starting at this age. Also, only individuals who provided complete information on variables of interest such as education, income level, sex or access to a bank, just to mention a few, are included. After applying these restrictions, 19,162 individuals (7,781 households) were included for 2002 and 19,936 individuals (7,785 households) were included for the period 2005-2006.

According to Table 1, for 2002, only 824 households (10.6%) had access to savings bank accounts. Translating this figure to individual levels, the percentage is even lower since only 5.2% of the 19,162 individuals have savings bank accounts. The percentage of individuals and households that have access to a bank account decreases for the period 2005-2006. During this period, 5.7% of households and 4.5% of individuals declared that they had savings with banks.

**Table 1**  
**Access to Savings Bank Accounts**

Variables	Savings bank account					
	2002			2005		
	Total	Have	Do not have	Total	Have	Do not have
Households	7,781	824	6,975	7,885	447	7,438
%	100.0	10.6	89.4	100.0	5.7	94.3
Individuals	19,162	995	18,167	19,935	890	19,045
%	100.0	5.2	94.8	100.0	4.5	95.5

Source: MxFLS-1 and MxFLS-2.

By characterizing those individuals who have and do not have access to a bank account, we can appreciate differences in education level between both groups (Table 2). In terms of years of study, the average for those who had a savings account with a bank in 2002 was 12 years, while the average for those who did not save with a bank was 5 years less. In addition, almost 45% of the people who held a savings bank account had received technical, university or postgraduate education, while only 10.4% of those who did not save with a bank had the same education level (see Table 2).

Individuals who have bank accounts live mainly in urban areas and in towns that have bank branches. Moreover, intergroup comparisons demonstrate that there are barriers hindering bankarization, for example, the data for 2005-2006 shows that 77% of the households that have access to an account live in urban populations and 82.7% live in communities that have banks.



**Table 2**  
**Individual Level Sociodemographic Characteristics**

Variables	Savings bank account			
	2002		2005	
	Have	Do not have	Have	Do not have
<b>Education</b> (years)	12	7	11	7
No education (%)	1.6	10.3	2.7	10.6
Primary (%)	16.3	38.3	20.3	38.2
Secondary (%)	19.7	27.6	21.9	27.8
High School (%)	17.4	13.4	17.9	13.7
Technical, university and postgraduate (%)	44.9	10.4	36.7	9.4
<b>Age</b>	39	37	40	38
15 to 17 years (%)	1.3	8.8	2.6	10.0
18 to 45 years (%)	68.6	63.1	63.1	57.1
46 to 60 years (%)	20.1	18.3	20.4	19.1
61 years and older (%)	10.0	9.8	13.8	13.7
<b>Sex</b>				
Male (%)	54.1	43.2	54.5	43.3
<b>Work</b>				
Formal (%)	47.1	19.1	38.8	16.2
<b>Area</b>				
Urban (%)	76.9	56.0	76.9	45.9
<b>Lives in a location that has access to banks (%)</b>	61.0	46.5	82.7	64.5

Source: MxFLS-1 and MxFLS-2.

Another important determinant of bank account access is income level, including both labor and non-labor income (Table 3). On average, those who have savings accounts have higher incomes than those who do not have a savings account. In addition, the banking population is highly concentrated, with a higher percentage of individuals in the highest income and education distribution deciles.

On the other hand, the clear differences that exist between communities where there is at least one banking institution and those where there are no banking institutions can be corroborated using a test for differences in means and proportions (Table 4). We can conclude that differences in education, income and formal work levels between both groups are statistically significant.

The description of Table 4 helps us distinguish certain factors correlated with access to banking accounts. In this sense, BAs address precisely two of the most obvious differences: income and education. In the first place, BAs are relatively inexpensive and this reduces the relevance of income as a determinant of access and makes opening a transaction account more attractive to many customers. In the second place, BAs are simple products and this limits the significance of education levels in bank access.

**Table 3**  
**Individual Level Socioeconomic Characteristics**

Variables	Savings bank account							
	2002				2005			
	Have		Do not have		Have		Do not have	
<b>Annual income</b>	61,264		22,588		71,972		25,007	
<b>Total income deciles</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Decile I	-	5.4	-	10.2	50	7.4	54	10.1
Decile II	-	6.8	-	9.9	57	8	57	10.1
Decile III	-	5.4	-	8.7	57	7	57	10.1
Decile IV	39	7.7	39	13.6	56	6.3	66	10.1
Decile V	1,195	6.6	1,339	8.3	1,342	4	1,258	10.4
Decile VI	7,696	6.3	7,295	10.2	7,289	5.3	7,593	10.2
Decile VII	18,750	6.7	18,278	10.5	20,998	5.3	20,531	10.3
Decile VIII	31,717	9.4	30,845	10.3	33,073	7.6	32,323	9
Decile IX	42,675	11.5	42,687	9.7	48,266	11.3	47,002	10.1
Decile X	133,348	34	112,408	8.6	165,295	37.8	150,081	9.5

Source: MxFLS-1 and MxFLS-2.

**Table 4**  
**Differences between Areas that Have and Do Not Have Access to Banking Accounts**

<b>Variables</b>	<b>Community that has no access to banks</b>	<b>Community that has access to banks</b>	<b>t-statistic for average differences</b>
<b>Education</b> (number of years)	6	8	(-27.017)***
No education (%)	14	8	(12.354)***
Primary (%)	43	34	(12.930)***
Secondary (%)	26	28	(-2.875)**
High School (%)	10	16	(-11.921)***
Technical, university and postgraduate (%)	7	14	(-19.556)***
<b>Age</b>	39	38	(2.906)**
15 to 17 years of age (%)	10	10	(-1.281)
18 to 45 years of age (%)	56	58	(-3.803)***
46 to 60 years of age (%)	20	19	(-1.218)
61 years of age and older (%)	14	13	(2.929)**
<b>Sex</b> (Male=1; %)	45	43	(-1.847)
<b>Formal work</b> (%)	11	20	(-18.311)***
<b>Annual income</b>	17,731	32,086	(-6.837)***
<b>Deciles</b>			
Decile I (%)	11	9	(4.299)***
Decile II (%)	7	12	(-11.136)***
Decile III (%)	5	13	(-21.275)***
Decile IV (%)	14	8	(14.335)***
Decile V (%)	16	7	(17.935)***
Decile VI (%)	13	8	(10.898)***
Decile VII (%)	11	10	(3.252)***
Decile VIII (%)	9	9	(-1.380)
Decile IX (%)	8	11	(-8.262)***
Decile X (%)	6	13	(-17.968)***
<b>Have phone</b> (%)	33	56	(-32.384)***
<b>Urban area</b> (%)	14	64	(-83.965)***

*Note:* \* Significant at the 10% level; \*\* Significant at the 5% level; \*\*\*Significant at the 1% level.

*Source:* MxFLS-1 and MxFLS-2.

## 2. International Experience with Basic Product Offerings

There is ample international experience in product offerings that, by law, have been designed for sectors excluded from banking services. In general, BAs can be introduced through agreements among banks or through regulation issued by the authorities. In both cases, it is an attempt to reduce offer restrictions by providing a simple service, with limited functionality, at a low price. In most countries where they have been introduced, their functionality is so limited that basic products are not attractive to non-basic product customers; thus, substitution effects are expected to be small. Another interesting difference has to do with the cost recovery mechanism associated with these accounts since in some cases the government subsidizes consumers while in others, maintenance fees are charged.

In general, the objective of industrialized countries that have introduced these accounts has been to provide banking services to sectors of the population that would otherwise have been excluded; while in countries like Brazil, South Africa and Mexico, BAs seek to solve the problem of access for a large sector of the population whose income is low. This section presents a brief description of the experience of certain countries with BA offerings.

In Canada, in 1999, the Department of Finance published “Reforming Canada’s Financial Services Sector: A Framework for the Future”, which included 57 proposals for reform to the financial system, many of which are now part of legislation issued by the Parliament of Canada. The reforms proposed by this legislation included rules for banks to offer bank accounts which could be opened with minimum amounts, regardless of the job held or the credit history of the applicant and minimum identification requirements. New rules were also introduced allowing the government to establish regulations concerning the provision of low cost accounts to Canadians; however, banks were given the opportunity to voluntarily agree to offer this type of product before the government established these regulations. Thus, in 2001, eight financial institutions based in Canada signed a memorandum of agreement with the government committing themselves to offer low cost accounts to their customers.

Basic products in Canada have the following characteristics: i) there are no deposit fees; ii) a debit card is provided; iii) lower check issuing fees are offered; iv) eight to fifteen free transactions per month, of which at least two can be made at branches and v) a maximum monthly fee of CAD \$4 according to the number of branch transactions made and the total number of transactions allowed. Despite the fact that these are standard products, there is a wide variety of options regarding additional services provided and fees charged by each bank for these accounts.

In the United States, regulation concerning the introduction of basic products has been approved both at federal and state level. At the federal level, as a result of the issuance of the “Debt Collection Improvement Act”, federal salaries and benefits are paid through electronic means. For this reason, the federal government encouraged the introduction of low cost accounts called “Electronic Transfer Accounts” for those receiving government benefits. These accounts provide a debit card and allow a minimum of four withdrawals at no cost, in addition to offering the

possibility of receiving other deposits. These accounts charge a monthly fee that is not to exceed US\$3 and in some cases, they might require a minimum average balance. To expand product offerings, the government provided banks a subsidy of US\$12.6 per account.

In the State of New York, as a result of legislation approved by the “New York State Legislature”, as of January 31, 1995, most banks and institutions in the state must offer consumers a specific type of transaction account, such as, for example, a checking account for the general public. These accounts are known as basic accounts. To be eligible to open a BA, individuals must not have another account in New York and both their salary and any benefits received by these consumers must be deposited directly to this account.

In New York, BA characteristics are as follows: i) the initial opening deposit required must not exceed \$25 US dollars; ii) the minimum balance required by the banking institution must not exceed \$0.10 US dollars; iii) the monthly maintenance fee must not exceed \$3 US dollars; iv) the minimum number of free cash withdrawals per period (28 to 31 days) is eight. A cash withdrawal transaction is issuing a check or withdrawing cash at an Automatic Teller Machine (ATM) operated by the same bank. If another bank’s ATM is used, additional fees may be charged; v) there are no restrictions on the number of free deposits made to the account unless deposits are made at a different bank’s ATM; vi) fees for services not included in the BA will be charged to consumers just like they are charged to any other users.

In Massachusetts, in 1994, the Massachusetts Community & Banking Council (MCBC) introduced the program “Basic Banking for Massachusetts”, whose objective was to expand access to bank products and services and encourage low income individuals to establish relationships with the financial sector. Every year, participating banks certify that they provide low cost savings and checking accounts that comply with established requirements. There are currently 131 banks participating in the program. Minimum BA standards are divided into standards for checking accounts and standards for savings accounts. The following are the characteristics of checking accounts: i) a maximum monthly fee that must not exceed \$3 US dollars; ii) a minimum of eight free withdrawals per month; iii) a minimum deposit of \$25 US dollars to open the account; iv) a maximum fee of US\$1 for withdrawals exceeding the number of free transactions. The characteristics of savings accounts are: i) a maximum monthly fee that must not exceed US \$1 and ii) an initial opening deposit that must not exceed \$10 US dollars.

In the United Kingdom, an assessment of the financial system (Cruickshank 2000) recognized the problem financial exclusion represents and a recommendation was made to the government to develop basic bank products and, should it be necessary, to analyze granting subsidies to such product offerings. Both the Ministry of Finance and the Financial Services Authority subsequently carried out studies on exclusion in financial services. As of 2000, banks were required to offer BAs and standards for “Charges, Access and Terms” (CAT) were introduced in “Standards for Retail Financial Products”. Additionally, in 2003, the government launched the program “Universal Banking”, changing the method of payment for government benefits and tax credits to basic bank accounts or Post Office Accounts.<sup>1</sup>

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<sup>1</sup> Banks contributed £182 million to create this account.

The terms and conditions of BAs in the United Kingdom are the following: i) no initial deposit or regular deposits are required; ii) customers must be provided the following services: ATMs, check and cash deposits, direct debits and standing orders; iii) banks and financial companies must provide a certain number of free basic bank services; iv) information regarding these accounts must be clear, direct and fair; v) account holders must receive information regarding any CAT changes; iv) account holders may withdraw all their funds when they should so desire.

Currently, 17 banks in the United Kingdom provide BA services jointly with the Post Office. Services provided by the different accounts include the possibility of making free cash withdrawals at any post office branch and in addition, some of these branches allow account holders the possibility of withdrawing up to £10 whenever their available balance is lower. Something worth mentioning is that no account provides check services and only two (the accounts offered by Co-operative Bank and NatWest) provide debit cards to make point of sale payments.

According to statistics from the British Bankers Association, the number of BAs has increased. As of December 31, 2006, there were 6.71 million BAs, of which 3.84 million are accounts that can be accessed from branches and ATMs and 2.87 million can be accessed from Post Office branches. The latter are associated with the Universal Banking Program where, as of the last quarter of 2006, the number of net open accounts (open accounts minus cancelled accounts) exceeded 150,000. On the other hand, according to a study conducted by the BBA, 51% of those consumers who open a BA that can be accessed from Post Office branches were non-bankarized consumers, so a net total of 1.2 million open accounts belong to consumers with no previous banking experience.

In France, in 1984, the Banking Act (Article 58) made access to a bank account a legal right. Thus, any individual denied an account by a commercial bank can resort to the Bank of France, who in turn will appoint an institution to provide an account to the customer in question. This right was restricted to opening a bank account and gaining access to branch cash transactions and did not include the use of other payment means. In addition, since many individuals were not aware that they had this right or did not know how to exercise it, the scope of this legislation was limited.

As a result, in 1992, the Bankers' Association of France signed a letter of agreement committing itself to open bank accounts at accessible costs and offering the possibility of using different payment services such as cash cards, free access to the ATM network, distance payments, statements of account and checks (the number of checks would be negotiated with consumers).

On the other hand, in July 1998, the law against exclusion was issued, clarifying that the right to a bank account had to be accompanied by access to the relevant means of payment (Article 137). This right extends to those who had been denied access because of previous incidents such as returned checks. This law established that a decree would define the characteristics and fees for services rendered. Finally, on January 17, 2001, the decree was issued, establishing the right to a simple transaction account that would also provide a card to make ATM cash withdrawals without overdraft privileges.

Two recent experiences with the introduction of basic products are particularly relevant to the Mexican case: South Africa and Brazil. In these countries, basic products were introduced to face massive financial exclusion issues. In South Africa, these products were introduced by agreement among banks; while in Brazil, services are provided directly by a government bank. Both cases have been quite successful, as described below.

In South Africa, in October 2004, the four most important banks and the Post Office launched a BA designed to integrate individuals who only used cash into the financial system. The *Mzansi* account is easy to open since only an official identification is required and standards are common to all banks, but each institution establishes its own fees. This initiative arose from the 2003 Financial Sector Charter. The agreement involved a covenant among the most important industries in the financial sector—banks, insurance companies, brokers and brokerage houses—in a series of objectives including providing access to financial services to the poorest sectors of the population.

The minimum characteristics of the *Mzansi* account are as follows: i) deposits, withdrawals and debit card payments (although at first the card could be used only to make cash withdrawals) are allowed; ii) at least one free deposit per month; iii) there is no account handling fee; iv) there is a fee for each transaction and each bank establishes its own fees; v) the same amount should be charged when using the bank's own ATMs as when using other bank's ATM network although each bank establishes its own price.

The *Mzansi* (a colloquial expression meaning "South") account, has been quite successful. There are currently over 3 million accounts and, according to the Bankers Association of South Africa, 91.3% of these *Mzansi* account holders are new customers of the bank where they opened their account. This could indicate that the goal of reaching individuals who previously had no access to financial services is being achieved.

In Brazil, in September 2005, the government announced the creation of *Banco Popular do Brasil*, a subsidiary of *Banco do Brasil* whose objective is to offer financial services to low income populations, particularly to those working in the informal economy; craftspeople, merchants, domestic employees, messengers, taxi drivers, etc. this subsidiary has no branches but operates through correspondents or service centers located in drugstores, bakeries, supermarkets and other establishments located in marginalized areas.

Products and services offered include a simplified account, targeted at individuals who currently do not have a similar service; account opening requirements are the original and a copy of an identity card and a taxpayer identification number. This account provides access to cash withdrawal, deposit and direct payment services by presenting a magnetic card at service centers. There is no opening or account handling fee. It offers 4 free deposits, 4 free cash withdrawals and 4 free account statements per month, and there is a federal tax equivalent to 0.38% of debit amounts.

An interesting experience despite the fact that it did not conclude with the introduction of basic products, is the Australian experience. In May 2002, 10 members of the Australian Banker's Association sent the Australian Competition & Consumer Agency a proposal of agreement to launch a BA targeting the low income population.

The banks argued that these accounts would increase the number of options for consumers in addition to enhancing consumer knowledge, thus making decision-making easier. Finally, it established that banks would be free to offer BAs with additional characteristics.

In December 2002, the Australian Competition and Consumer Agency (ACCC) decided to reject the banks' proposal because it considered that the result would not be an increase in the number of options for consumers. This decision was made based on the 1974 Trade Practices Act, which prohibits competitors from agreeing to work jointly in ways that reduce competition among them. The act establishes that authorization provides immunity before the court, but that such authorization could only be granted once the ACCC was convinced that the public good provided by the agreement compensates any public harm that might be generated.

The ACCC argued that most similar products in the market already provided a significant number of free transactions and satisfied certain other product characteristics mentioned by the banks. On the other hand, the ACCC also stated that the proposal made by the banks could have a negative effect on competition because the minimum characteristics established in their agreement might become the industry's standards.

Even though the banks' proposal was not accepted, in Australia there are currently around 90 accounts that offer at least 6 free services and do not charge account handling fees. Accounts of this type have been segmented to cover different sectors of the population that would otherwise have problems opening a low cost account, such as pensioners and students. As in Canada, in Australia there is a great variety of services and differences in the fees charged by each bank for these accounts. Banks also offer additional services to those considered basic in other countries; this is the case of certain banks that include checks and credit cards in products that are similar to BAs.

### **3. The Mexican Regulatory Framework: *LIC* and Rules**

#### **3.1 The credit institutions law (*LIC*)<sup>2</sup>**

Several years ago, the Mexican Congress began expressing its concern regarding the issue of access to bank services. Thus, in 2007, several initiatives were presented in an attempt to introduce legislative modifications to address this problem. The deciding commission of the Chamber of

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<sup>2</sup> Credit Institutions Law (*Ley de Instituciones de Crédito*).



Deputies, based on the deliberations of the Ministry of Treasury and Public Credit, indicated that "...it is essential to adjust regulation both to incorporate the non-bankarized sector of the population to the user network by establishing basic bank products...". It also indicated that "currently, the population faces offerings of a wide range of banking services whose costs are not comparable because product characteristics are very different." In view of the above, we are seeking to introduce a reform to "...facilitate the entry of new users through a basic bank product, in such a way that the element of price be easily comparable for users since the product would have the same characteristics in every institution offering it." In addition, they indicate "the advantage of this resolution is that it promotes competition in the financial system by allowing savers to compare products with similar characteristics offered by different institutions" (Gaceta Parlamentaria de la Cámara de Diputados 2007).

Thus, in 2007, a reform to Article 48 of the *LIC* was approved to introduce a basic bank deposit product that would accomplish two objectives. In the first place, to provide consumers access to the banking system through a product that would offer basic bank services at reasonable prices. In the second place, it would seek to encourage competition in the system through the basic product by facilitating comparisons between practically homogeneous services offered by banking institutions. The reformed article reads as follows:

*Article 48 Bis 2.- Credit institutions engaged in receiving demand bank deposits from individuals shall be obliged to offer a basic deposit bank product, including a payroll product, under the terms and conditions determined by Banco de México through general provisions, considering that those accounts whose monthly amounts deposited do not exceed an amount equivalent to one hundred and sixty five minimum daily salaries in effect in the Distrito Federal, be exempt from opening, withdrawal and inquiry fees in the institution opening the account.*

*Banco de México will take into consideration the opinions presented by the obliged credit institutions with regard to the design and offering of the product mentioned in the previous paragraph.*

In sum, the basic bank product is a deposit account for which consumers will not have to pay entry costs and which, in addition, allows the use of certain payment services free of charge; some of these are debit card cash withdrawals and inquiries at the bank's own ATM network. The Article appoints *Banco de México* as the institution responsible for determining the terms and conditions that will apply to the basic bank product (or basic account, BA) after previous consultation with the credit institutions. There are certain elements in the Article which require further discussion.

In terms of products that must be offered, these are demand deposit accounts from which withdrawals can be made at any time and through different means.<sup>3</sup> It can be inferred from Article 48 of the *LIC* that two products may be offered, a basic payroll account (BPA) and a basic account accessible by the general public (BAGP). The difference between them is that in practice, the BPA is generally opened by employers with a particular bank and it is only in this bank that employees can open their accounts.

Regarding institutions obliged to offer this service, the Article indicates that all “credit institutions engaged in receiving demand bank deposits from individuals” must offer BAs. This means that not only commercial banks, but development banks also, must offer BAs. The purpose behind making it mandatory for all banks to offer basic products is to expand their scope.

The *LIC* Article indicates that benefits provided by this product will be restricted to customers whose monthly amounts deposited are equivalent to less than 165 minimum Federal District (D.F.) daily salaries, equivalent to 8,344 pesos. This restriction was imposed because BAs are targeted at lower income populations.

In terms of products for which no charges may be made, the Article indicates that these include account opening, withdrawals and inquiries made at offices or own ATMs of the institution opening the account; this is known as “same bank” transactions. It is interesting to point out that, as previously indicated, in countries that have introduced BAs, the number of free transactions has been limited; however, in Mexico, the number of transactions is not limited as long as they are “same bank” withdrawals and inquiries.

### 3.2 Rules issued by *Banco de México*

The Law states that *Banco de México* is to determine the terms and conditions that should apply to basic bank product offerings after previous consultation with the banks. Once this process had been observed, on July 16, 2007, *Banco de México* issued the “Regulations credit institutions must adhere to regarding the basic payroll account and the basic access account for the general public referred to in Article 48 Section 2 of the Credit Institutions Law (The Rules)<sup>4</sup> where BA characteristics are established.

The Rules indicate that credit institutions cannot deny the opening of BPAs and BAGPs to eligible individuals. As opposed to what is happening in other countries, BA opening requirements are the same as those institutions apply to open any other account. Typically, banks require that

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<sup>3</sup> See Banco de México’s Circular 2019, M.11.1, where withdrawals from demand deposits are defined: “Funds deposited may be withdrawn through fund transfers and by, among other things, the following: i) issuing checks [...], or ii) using a debit card [...].”

<sup>4</sup> Modified November 30, 2007.

an application form be filled out and personal identification be presented as proof of address.<sup>5</sup> However, credit institutions may limit each person to one BA.<sup>6</sup> With respect to services included in BAs and their respective fees, Table 5 summarizes the terms and conditions that apply to these accounts.

For both types of BAs, no fees may be charged for withdrawals and inquiries at own ATMs, regardless of the number; in cases where banks have no own ATMs or their ATMs are out of order, account holders can make free cash withdrawals at bank branches. The number of payments made at point of sale terminals is not limited either.<sup>7</sup>

Banks may include more services than the ones mentioned in Table 5 if they should so desire and are free to set fees for these additional services as long as no fees are charged for services defined as basic. However, requesting additional services must be voluntary and should be done by previous agreement and in writing. To prevent institutions from charging excessive fees for

**Table 5**  
**Characteristics of Basic Accounts**

<b>Service</b>	<b>Basic Payroll Account</b>	<b>Basic Account for the General Public</b>
Account opening and closing	No fee	
Minimum opening amount	No fee	
Account maintenance	No fee	
Closing of account	No fee	
Debit card for principal account holder	No fee	
Deposits made through any means	No fee	
Withdrawals and inquiries in own ATMs	No fee	
Purchase of goods and services	No fee	
Standing orders	No fee	
Card replacement or renewal	No fee	
Average balance	No fee	Fees are determined by each bank
Services not considered	Fees are determined by each bank	

*Source:* Banco de México.

<sup>5</sup> Restrictions relating to money laundering prevention rules apply to the opening of BAs. See “General Provisions in Article 115 of the *LIC*” dated November 28, 2006.

<sup>6</sup> Other countries usually set an age limit to open an account. However, this is not the case in Mexico.

<sup>7</sup> Once the labor relationship between the account holder and the employer who originated the BPA is terminated, credit institutions may charge customers fees after 30 days advanced notification.

additional services, the rules provide that fee amounts for additional services are not to exceed the lower fee amount charged by the institution for similar services associated with other products.<sup>8</sup>

There are certain differences between BPAs and BAGP. One of these differences is that in BAGP, banks are free to determine minimum monthly average balances; these balances are presented in Table 6.

Minimum balance requirements represent an implicit cost for consumers and allow institutions to recover service costs and avoid government subsidies. However, if customers do not maintain the required minimum balance, institutions are not allowed to charge a fee. The penalty for customers for not maintaining the required minimum balance during three consecutive months is that the bank can close their account.<sup>9</sup>

Another difference between BAs is that BAGP require that monthly amounts deposited be less than the equivalent of 165 minimum salaries, a non-existent condition in BPAs.<sup>10</sup> Should

**Table 6**  
**Minimum Average Balance for Basic Accounts<sup>1/</sup>**  
(Mexican Pesos)

<b>Institution</b>	<b>Average balance</b>	<b>Institution</b>	<b>Average balance</b>
Ahorro FAMSA	0	Bajío	500
American Express	0	Banamex	1,000
Banco Amigo	0	BBVA Bancomer	1,000
Bancoppel	0	Mifel	1,000
Ve por Más	0	Santander	1,000
Wal-Mart	0	Scotiabank	1,000
Banregio	0	Multiva	1,500
Bansi	0	Inbursa	1,577
HSBC	0	BANSEFI	2,000
Azteca	200	Interacciones	2,000
Banjército	250	Banco Autofin	3,000
Afirme	500	IXE	3,000

*Note:* 1/Figures as of December 2007.

*Source:* Banco de México.

<sup>8</sup> Please note that even though it is not provided in the regulation, basic products are not expected to generate interest because they are predominantly transaction, and not savings, products. However, nothing prevents deposit institutions from offering interest to compete with other banks.

<sup>9</sup> The first time customers fail to comply with minimum balance requirements, the bank must notify them that if they also fail to comply in the following 60 day period, their BAGP could be closed.

<sup>10</sup> This decision was made by deposit institutions due to administrative difficulties associated with establishing this limit for BPAs.

deposits exceed the maximum amount for three consecutive months, institutions may charge a fee the following month. This fee must be established in the contract.

Finally, as indicated, BPAs may be opened only by the company employing the account holder. Thus, employers must sign an agreement with the credit institution where deposits are to be made. An exception to this arrangement are individuals who are employed, hold a position or have been commissioned to the public sector and open a BPA with a credit institution; for this sector of the population, it is no longer necessary for employers to sign an agreement with the banking institution.<sup>11</sup> Please note that in this case, account costs are recovered through payroll distribution fees charged by the bank to the employer.

It is important to point out that in Mexico the design of the basic product is quite generous, both in terms of scope and functionality. In several other countries, only certain banks are obliged to offer the service; in Mexico, all institutions engaged in receiving deposits must do so. On the other hand, in other countries, service functionality is restricted to a limited number of ATM transactions or checks issued. In the Mexican case, the number of withdrawals and inquiries at own ATMs is not limited and the product allows electronic transfers and standing orders.<sup>12</sup> This design makes basic products attractive not only to those who are not bankarized but also to those who already have a deposit account.

It is also interesting to point out that to avoid market distortions such as generating the need for cross-subsidies between non-related products and customers, both BAs have cost recovery mechanisms. The BAGP requires a minimum balance that should provide sufficient income to banks to cover account maintenance costs. In BPAs, employers pay a payroll distribution fee used to cover account maintenance costs. In addition to these transparent income mechanisms, fees for services not provided for free and account balances that will surely be positive for a while even in the case of BPAs, should help banks recover the cost of these accounts. It is valid to point out that in both basic products banks are expected to compete for customers by establishing sufficiently low minimum balance requirements and payroll distribution fees so as to attract customers.

#### **4. Target Population and Expected Impact**

Once BA characteristics have been decided, it is necessary to determine their (expected) impact on access. It is possible to identify three consumer groups that would benefit from the introduction of BAs: individuals whose income did not allow them to access a bank account because they could not afford it; those who despite having sufficient income to own an account did not have one due, among other reasons, to price or to the complexity of the account; and current account holders consuming non basic products who could change to a BA and save money.

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<sup>11</sup> This change was the result of modifications to BA rules effective October 2008.

<sup>12</sup> It was established that the basic product should not include checks because check processing is expensive. Besides, *Banco de México* does not seek to promote the use of checks.

To analyze the potential impact of the introduction of BAs, several elements are required. First, the cost of bank services for average customers before the introduction of BAs, as well as the cost of having a BA, must be estimated using the same composition of the consumption basket. It is to be expected that for the same consumption basket, BAs will represent savings compared to non-basic products.<sup>13</sup> A second element is analyzing the income distribution of users and non-users of financial services to be able to identify those individuals for whom reducing the cost of bank services would induce them to use these services. Finally, it is necessary to assume that the potential market includes those for whom the amount spent on a transaction bank account represents 2% or less of their annual income (Porteous 2005, Ketley, et al. 2005). That is, we assume that if the cost of the financial product is less than 2% of an individual's annual income, then this individual belongs in the universe of potential consumers.

Below we first present a mechanism to calculate the costs consumers (or types of "users") face for accessing a certain basket of financial services. Then we estimate the cost of this same basket, but in this case for consuming basic products (Section 4.1). Using this information, we measure the expansion of the potential market caused by the cost reduction from the introduction of BAGP and BPA basic products (Section 4.2 and 4.3). Finally, the actual results of the introduction of basic products in Mexico are presented (Section 4.4).

#### **4.1 Estimating the cost of consuming a basket of non-basic and basic bank products**

One of the obstacles to financial access is the cost of services. In this section, we estimate the costs users would incur in if they were to consume a certain basket of products. To enrich this exercise, we assume several consumption patterns whose difference lies only in the number of transactions carried out by each type of consumer. This estimate includes not only direct transaction costs (for example, ATM inquiries or withdrawals), but costs generated by minimum balance requirements in certain types of accounts.<sup>14</sup> For this exercise we estimate the cost of consuming non-basic products such as payroll accounts with and without checks and general access accounts (whose costs will be compared to BPA and BAGP costs, respectively), which already existed in the market before basic products were introduced.

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<sup>13</sup> The substitution effect of BAs might also encourage individuals with accounts in non-banking institutions (such as Savings and Loan Associations or Popular Financial Associations) to migrate to BAs. However, the lack of information on the cost of holding an account with non-banking entities prevents us from estimating the proportion of these beneficiaries.

<sup>14</sup> Thus, the minimum average balance for BAGP, payroll accounts with checks and pre-existing accounts similar to BAGP is \$475, \$880 and \$1070, respectively.

**Table7**  
**User Profile Definition**

<b>Means of Access</b>	<b>Number of transactions per year</b>	
	<b>Moderate user (type 1)</b>	<b>Intensive user (type 2)</b>
<b>Automatic Teller Machine (ATM)</b>		
Cash withdrawals	36	60
Balance inquiries	36	60
<b>Interbank Network (RED ATM)</b>		
Cash withdrawals	12	24
Balance inquiries	12	24
<b>Bank Teller</b>		
Debit card cash withdrawals	12	24

Transaction intensity was defined for both groups, as illustrated in Table 7. Even though the vectors for use do not come directly from a survey, we consider that assumptions for type 1 (moderate user) and type 2 users (intensive user) are logical since they include most frequently used services and incorporate reasonable use frequencies.

Having defined types of users, products and related services, we then proceed to calculate annual service costs. For each type of account, intensity of use is multiplied by the fee charged by each bank for a certain service. This procedure is then repeated for all services included in an account offered by the same bank, adding each result to obtain service costs for each institution. Then all bank service costs are added and costs obtained in the previous step are weighted by each bank's market participation (provided by branch structure). The sum of weighted costs represents the cost of the product in question, aggregated for the whole industry.

In addition, we add the opportunity cost to the aggregate cost of accounts requiring minimum monthly balances (such as the payroll account with checks). To estimate the opportunity cost, we use inflation as the interest rate (3.7% in 2007). In other words, the cost of an account requiring a minimum balance includes service costs as well as the opportunity cost of minimum balances required. This procedure is used both for non-basic (payroll accounts with and without checks) and basic products.

In Table 8 we can observe that for the same use pattern BPAs and BAGPs are cheaper than existing non-basic alternatives in the market. The more intensive a user, the wider the gap between BA and non basic account costs. For type 1 users (or moderate users), the cost of a non basic access account is 727 Mexican pesos per year. The cost of a BAGP is only 473 Mexican pesos per year for the same consumption basket.

In payroll accounts, for moderate users there is a difference of 74 pesos per year between the cost of a non-basic payroll account with checks and a BPA, and for intensive users, the difference is 108 pesos per year.

In other words, the BPA represents savings of over 15% compared to non basic payroll accounts with checks, while the BAGP represents savings of 35% compared to similar pre-existing accounts.

To assess the meaning of these cost reductions for bank account access, we have to calculate the number of additional individuals that could pay for a bank account based on their income and the price of basic products.

In Mexico, this analysis can be made using MxFLS socioeconomic and income data to set the access frontier for potential BAGP and BPA users. We can thereby assess the number of individuals that could potentially pay for a bank account for different types of users.

We follow Porteous (2005) and Ketley, et al. (2005), who deduce the percentage of the population that could have access to a bank account assuming individuals would be willing to pay no more than 2% of their income for financial services. Thus, individuals below this threshold would not demand access to the banking system.

**Table 8**  
**Annual Cost<sup>1/</sup> by Account Type and User Profile**  
(Mexican Pesos)

<b>Account Type</b>	<b>Cost moderate user (type 1)</b>	<b>Cost intensive user (type 2)</b>
<b>Payroll account</b>		
With checks	489	938
Without checks	432	847
Basic payroll account	415	830
<b>General access account</b>		
Pre-existing similar	727	1,336
General access	473	923

*Note:* 1/Figures as of December 2007.

*Source:* Banco de México.

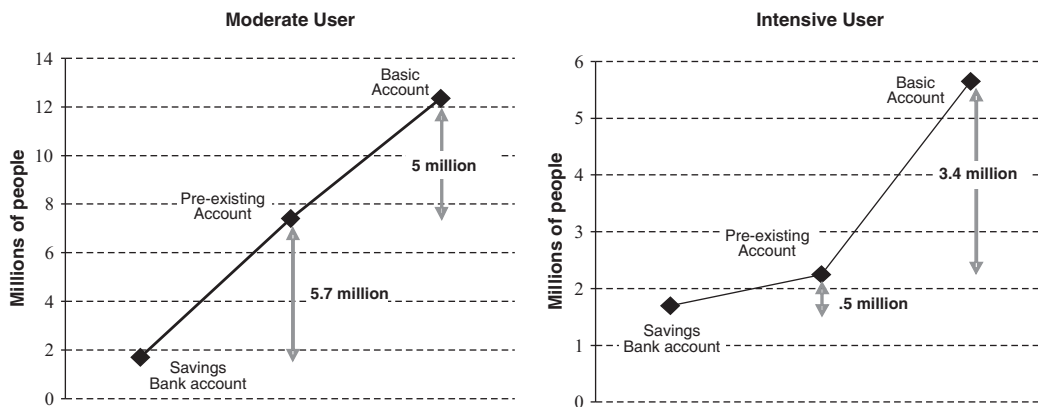


## 4.2 Access frontier for general access accounts

In this section we calculate the number of people that could have access to already existing accounts and we also calculate the additional number of people that would be in a position to become consumers with the introduction of BAGP, which are considerably cheaper. Using MxFLS data and limiting the sample to people over 15 years of age with positive incomes of less than MX\$100,128 (which is the legal limit for BAs), we calculated the number of people that could have access to already existing bank accounts even if many of them were not currently using one. We later estimated the additional number of people that would be in a position to own an account with the introduction of BAGP, which are considerably cheaper.

With respect to the number of people capable of paying for a bank account with 2% of their income, we have that, assuming moderate user patterns (type 1 user), 7.4 million people would be capable of paying for a non basic bank account (even though according to the survey, less than 2 million people own a savings bank account).<sup>15</sup> With the introduction of the BAGP, the number of people capable of paying for an account would rise to 12.4 million, that is, a potential increase of 5 million people (see Figure 1).

**Figure 1**  
**General Access Accounts**



Source: Own calculations using MxFLS-2 data. The 2002 expansion factor was considered so only those individuals that are also included in MxFLS-1 were included (approx. 90% of the data).

<sup>15</sup> Please note that in the survey it is not possible to identify individuals who have bank accounts; only individuals who when they save do so with a bank are identified.

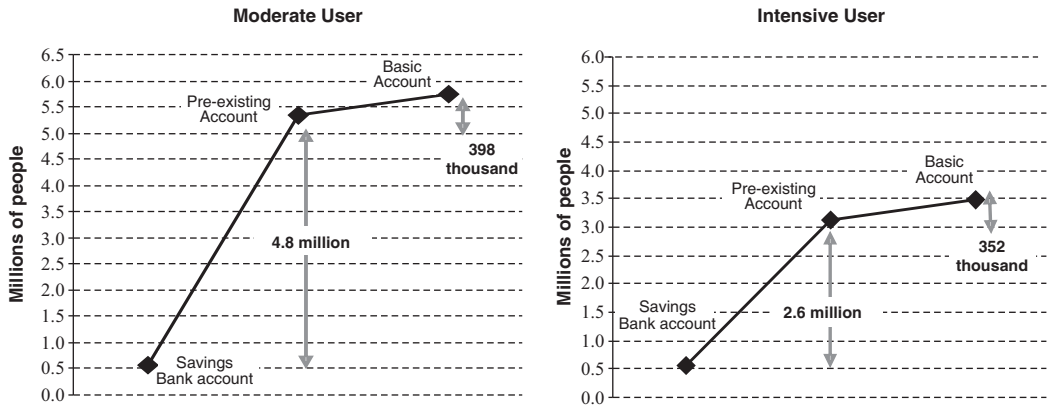
Assuming intensive use patterns (type 2 users), the introduction of BAGP makes it possible for 3.4 additional individuals to pay for a transaction bank account.

### 4.3 Access frontier for payroll accounts

To perform the payroll account analysis, in addition to age (15 years of age) and income (positive), an additional limit was set: for individuals to hold formal jobs. The reason for the above is that, with the exception of public sector workers, basic product rules state that employers must open BPAs. Only 6.5 million people in the sample meet these three conditions; among them, only 567,000 have a savings bank account.

From the sample we found that, assuming that they are intensive users or moderate users, 3.1 million and 5.3 million people, respectively, would currently be potential non-basic product users. With the introduction of BPAs, the number of people capable of accessing these services rises to 3.5 million assuming intensive use and 5.7 million assuming moderate use. These results mean that the number of intensive users that could have access to BPA increases by 352,000 and the number of moderate users increases by 398,000 (see Figure 2).

**Figure 2**  
**Payroll Accounts**

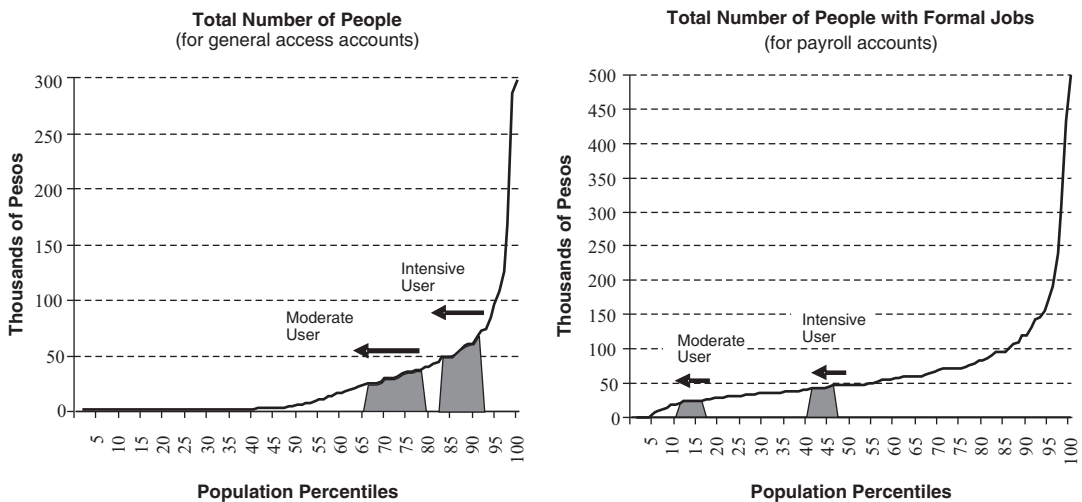


Source: Own calculations using MxFLS-2 data. The 2002 expansion factor was considered so only individuals that were also included in MxFLS-1 were considered (approx. 90% of the data).

It is noticeable that cost reductions result in a much smaller increase in the number of people with access to BPAs than in the number of people with access to BAGP; one of the reasons for this behavior is that by limiting our study to individuals with formal jobs, the number of people with positive incomes decreases from 38.4 million to only 6.5 million.

One way of looking at the income level of individuals who might benefit from lower account costs is shown in Figure 3. Here we can observe the income distribution and percentiles of the population that, assuming they were willing to own a bank account in exchange for 2% of their income, would benefit from the introduction of BAs and lower associated costs. In the left hand figure we can observe that accounts for moderate users which were only accessible to individuals in percentile 78, would now be accessible to individuals in percentile 66. In a similar fashion, we can observe that BAGP would mainly benefit medium to high income individuals; on the other hand, BPAs will benefit low income formal workers.

**Figure 3**  
**Potential Increase in Account Access Based on Income Distribution**



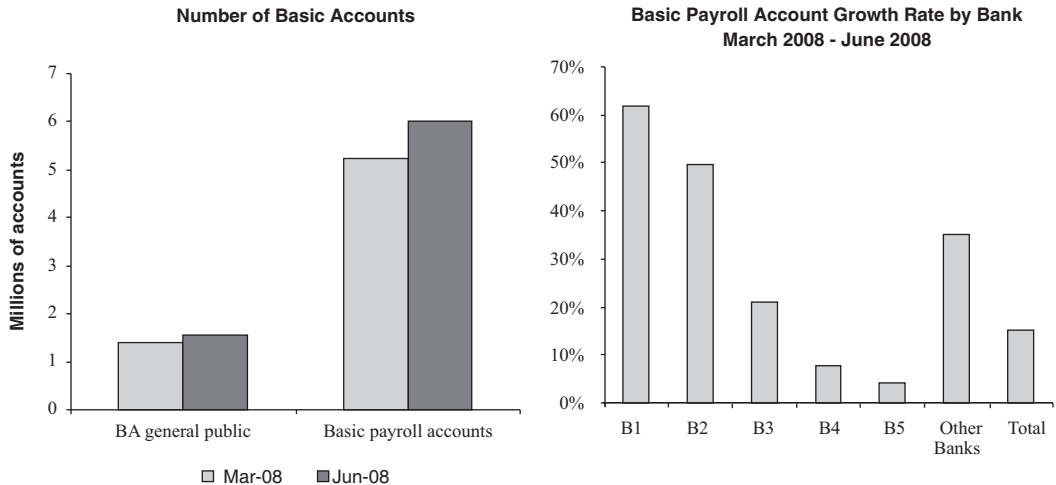
Source: Own calculations using MxFLS-2 data.

#### 4.4 Current basic account impact

When BA Operating Rules became effective, several banks decided to adjust pre-existing products to the characteristics of BAs required by the Rules. Thus, an agreement was reached with customers of the pre-existing product to migrate them to the basic product. As a result, three months after the introduction of BAs, the number of basic accounts had reached 6 million. Thus, during the months following the introduction of BAs, customers who already had access were the ones who mostly benefitted.

Considering that the account migrating process has already concluded and that information on BAs has been disseminated among the population, it is possible to assume that subsequent increases in the number of BAs come from customers opening an account for the first time.<sup>16</sup> The number of people in each of the two groups will depend both on how banks promote these accounts and on how individuals in each group quantify the potential benefits. In this sense, from March to June 2008, BPAs experienced quarterly growth of 15% while BAGP grew 9%. Additionally, the rapid increase in the number of accounts held in the three banks that constitute a significant percentage of these accounts has been remarkable (Figure 4).

**Figure 4**  
**Increase in the Number of Basic Accounts**



Source: Banco de México.

<sup>16</sup> Even though customers opening a basic account due to this migrating process do not represent an increase in population access, they do benefit from lower fees.

Figures as of June 2008 indicate that there are 6 million BPAs and 1.5 million BAGP in the market. Their current significance in the market becomes evident when compared to the number of existing accounts. Thus, BAGP and BPAs represent 3% of total demand accounts and 28% of total payroll accounts, respectively.

## **5. Final Considerations and Lessons from the Mexican Case**

In the following paragraphs we discuss objections to the introduction of basic products. We also present a number of lessons derived from the Mexican case and from international experience that might be useful to regulators considering the introduction of basic bank products.

One of the objections to the introduction of basic products is that they could limit financial development and innovation by requiring banks to offer homogeneous services. This, however, is arguable because the introduction of basic products does not prevent banks from offering any range of products they might consider in addition to basic products.

The need to offer products that the market has not determined should be provided is also questioned. In other words, if the need for these products existed, it should be the banks' and not the regulators' decision to satisfy this need. The problem is that in many countries banks have adopted competition strategies based on product differentiation. This has led to progressively more complex services targeted at high income groups, which are also the most profitable ones. The process described is particularly serious in countries where bank competition in retail product offerings is not intense. In Mexico, lack of access to transaction accounts is serious and it is evident that the market is not attempting to solve the problem as quickly as required. Thus, basic products satisfy a need that banks are not meeting by themselves.

Certain countries, like Australia, believe basic products can act as coordination mechanisms between competitors. This is an issue that has to be addressed by regulators. It is desirable, to the extent possible, that certain basic product variables be left to be freely decided by banks. For example, in the Mexican case, banks are free to decide both BAPG average minimum monthly balances and payroll distribution fees charged to employers. In addition, banks can add BA services if they want.

Regarding the institutional origins of the banks that offer basic products, international experience indicates that they can be public (as in Brazil) or private (as in South Africa); in addition, products can be the result of bank agreements (sometimes faced with regulatory threats, as in Canada) or decisions made by financial authorities. In any case, it is desirable that the institution or institutions offering the product have an extensive branch network to offer it. In Mexico, by making it mandatory for all institutions to offer the product, extensive basic product coverage has been guaranteed.

It is essential for regulators to assess the issue of access and identify its possible causes before introducing basic products. This will allow them to properly design the product.

In basic product offerings, opening requirements must be reduced to a minimum, to avoid compromising existing regulation. In the Mexican case, BA opening requirements are the same as for non-basic accounts. For certain low income individuals this could represent a barrier to opening an account. In relation to the above and assuming profit margins for banks are low in basic products, limiting BAs to only one per person seems appropriate.

It is important that banking institutions participate in the design of basic products because determining service characteristics would be difficult without the offerer's point of view. In the Mexican case, the Mexican Bank Association (*ABM*) actively participated in the design of basic products, as provided by law.

Two of the main characteristics of basic products are related and determined by the same problem these products are seeking to address. The first refers to which services are included and the number of free transactions; the second is the financing mechanism.

As previously indicated, basic products have two objectives. On one hand, they promote access because they are inexpensive and simple. On the other, they encourage competition among basic products offered by different banks as well as between basic and non-basic products because current non-basic customers may find basic products attractive. To the extent that the products are simpler (that is, include less services and offer few free transactions), they will also be cheaper and constitute a more useful instrument to promote access. In contrast, as basic products become more complex (include more services and the number of free transactions is not as limited), they encourage competition among banking institutions and between basic and non-basic products.

As indicated, a product's level of complexity is related to cost. In principle, it would be desirable for basic products to be self-sustainable and not require subsidies from taxpayers. In addition, to the extent products are self-sustainable, banks will have incentives to offer them. Thus, it has been recommended that deposit institutions should have cost recovery mechanisms that provide certainty to BA offerings.

The Mexican case is an example of both characteristics mentioned above. It was decided that a relatively complex product should be offered (with several associated services for which no charges may be made); this has made the product attractive to many people who were already bank users. In addition, a transparent cost recovery mechanism subject to market pressures was allowed; in BAGP, banks may establish minimum balance requirements. In BPAs, banks charge employers for distributing employee payments. Additionally, banks can receive additional income from services that are not provided for free.

It seems appropriate, to the extent possible, for basic services for which no fees may be charged to involve only the bank where the account is held (for example, own ATM transactions) since costs incurred by banks are higher when they have to connect with other bank networks to provide the service.

With respect to using standard products as an instrument for transparency to promote competition, in addition to making product characteristics uniform across banks, services for which banks may charge should be reduced to only one dimension. This facilitates the comparison of fees charged by different banks.

It is essential for basic products to be widely disseminated so they can become effective instruments against financial exclusion. The campaign should present the benefits of BAs to the target population and make consumers aware that they are capable of disciplining banks by changing institutions.

Finally, the basic product is not a panacea to solve the issue of access. To improve access, it is necessary that services reach many cities and small towns. The basic product is an effective instrument to fight against exclusion, but it has to be accompanied by other measures such as the introduction of correspondent banking<sup>17</sup> and financial education campaigns.

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<sup>17</sup> Banks were given the opportunity to increase their supply of some services by means of using the infrastructure of commercial firms (such as the Telegraph Company). This expansion will raise the number of bank premises from 10,364 to 21,443 and will likely benefit poor and underserved communities.

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