

In 2008–09, Mexico was wracked by the global financial crisis, suffering its largest one-year economic contraction since at least the 1930s. But the banking sector withstood the shock and made important strides in one area—bringing previously unbanked households into the financial system.¹

Access to banking services contributes to the expansion of wealth and provides households with increased security, greater convenience and reduced borrowing costs.

A concerted effort to lower the cost and increase the supply of financial services in Mexico has been effective in improving accessibility. The share of Mexican households with at least a simple bank account rose from less than 25 percent in 2007 to 48 percent in 2009, according to a survey by Mexico's Ministry of Finance.

Banking among young households is even more widespread. Fifty-nine percent of households headed by 19- to 44-year-olds had some type of bank account in 2009, up from 45 percent in 2007. This age group is not only expanding its use of banks, but also beginning to access multiple products (*Chart 1*).

Banking penetration almost doubled in the two-year period in spite of the difficult

economic situation and a general distrust of financial institutions. Much of this progress can be attributed to banks' efforts to offer their services outside traditional brick-and-mortar branches.

Many households were unbanked because they were beyond the geographic reach of banks. One of the most successful strategies enlisted traditional retailers—through either bank charters to retail stores or joint ventures between commercial banks and merchants.² Generally, services at these locations are limited to basic products such as consumer loans, small savings accounts and deposit accounts linked to debit cards.

Banking regulators also introduced a *banco de nicho*, or niche bank, charter. It differs from a commercial bank charter and is designed to reduce the regulatory burden for small institutions. Niche banks are generally allowed to offer only basic services and must specialize in a specific geographic region, sector of the economy or type of financial service.

Another promising development is banking via mobile phone. In July 2009 and February 2010, Mexico issued regulations expanding banks' ability to use correspondents—or third-party institutions—to open accounts,

gather deposits and perform transactions. Each month, customers can deposit up to 2,000 UDIs (inflation-indexed units of account equivalent to about 8,800 pesos, or \$716), into accounts linked to their mobile phones.

Customers can open accounts and perform basic account-management transactions—for example, electronic purchases, balance inquiries, money transfers, bill payments and deposits—through their cell phones. Customers also will be able to gain wider access to remittances (money sent home by migrants) without going to a physical branch.

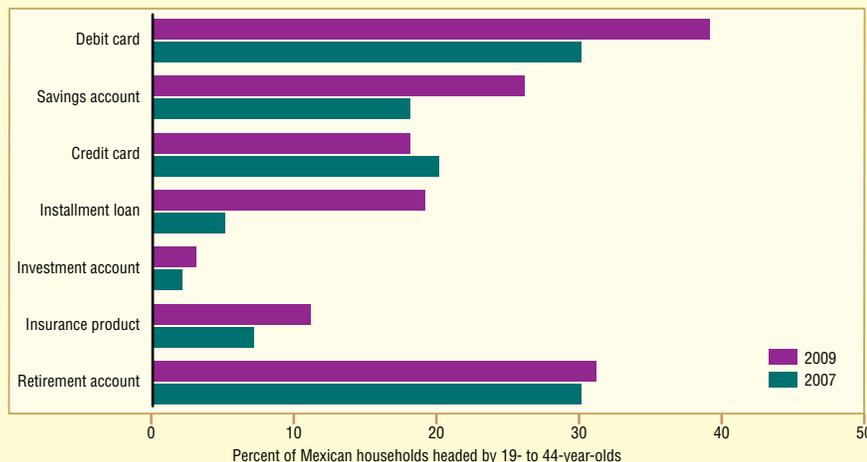
More than 80 percent of Mexican households have a mobile phone, according to an August report from management consultancy Arthur D. Little. Given high mobile phone versus financial penetration, the use of mobile banking services promises to greatly expand access to financial services.

While progress has been made in attracting the unbanked, many households still do not enjoy the full benefits of financial services. Small businesses are particularly hamstrung by a lack of access to formal credit; 60 percent rely solely on supplier-provided credit, a Banco de México survey found. By comparison, fewer than 7 percent of U.S. small businesses report problems finding credit. Forty percent of business failures in Mexico can be attributed to a lack of financing, according to a study by trade group Cámara Nacional de la Industria de la Transformación (Canacintra).

Boosting Mexico's economic development by helping small businesses fulfill their potential depends on improving access to finance and fully linking these engines of economic growth and opportunity to the formal economy.

—Edward C. Skelton

Chart 1
Young Households' Use of Financial Products Growing



SOURCE: Secretaría de Hacienda y Crédito Público.

Notes

¹ For more information about initial efforts to expand the use of financial services, see "Reaching Mexico's Unbanked," by Edward C. Skelton, Federal Reserve Bank of Dallas *Economic Letter*, vol. 3, no. 7, 2008, www.dallasfed.org/research/eclett/2008/el0807.pdf.

² In the U.S., retailers are not allowed to own commercial banks, and there is a strict separation of banking and commerce.