Telecomm-Telégrafos: Connecting the Disconnected Rural Population

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José Maria San Juan and Alessandra Valenti
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Experts in the banking sector in Mexico estimate that at least 30 million people are currently outside of the country’s formal banking system. Although, commercial banks aim to provide service to 100% of the population through either direct contact or the banking correspondent model, there is a 30 million person shortfall due to lack of connectivity and long distances from the closest bank access point. 30,000 municipalities with less than 5,000 people are outside of the reach of formal financial services. Inhabitants in these untapped communities also lack access to cell phone service, as telecom providers do not have a significant incentive to invest in low-density population zones. The remote locations of such villages make many forms of financial inclusion challenging for multinational corporations.

However, vast sums of money are being provided as cash transfers to these communities through the government program, Oportunidades. Bimonthly, the program provides a total of 7,587 million pesos (approx. $617 million USD) to rural communities with less than 5,000 inhabitants.

Telecomm-Telégrafos, a decentralized agency of the federal government, is one of the primary distributors of the Oportunidades program’s cash transfers, dispersing 30% of Mexico’s total cash transfers to rural populations. The agency saw a significant opportunity in combining this business function with closing the accessibility gap in underserved communities through the use of mobile banking.

**About Telecomm Telegrafos**

Telecomm-Telégrafos is a federal government agency charged with providing basic financial services to rural and urban zones. The agency offers telegraph, bill payments, and domestic and international remittance services.

In operation for 150 years, Telecomm-Telégrafos:

- Serves 21 million clients in rural communities
- Operates 1,615 offices located in 1,107 municipalities, with the ability to reach 81% of the Mexican population
- Facilitates the communication of 12,867 rural communities
- Owns the largest banking correspondent network, partnering with 7 commercial banks
The Pilot

In January 2012, Telecom/Telegrafos launched a pilot project, Mifon, aimed at bringing mobile banking to the small community of Santiago Nuyoo in Oaxaca, Mexico.

In February 2011, Telecomm-Telegrafos opened their first office in the town of Santiago Nuyoo in Oaxaca, Mexico to serve as the hub for the mobile banking pilot as well as a servicing center for its banking correspondents. Santiago Nuyoo was selected as the first pilot site based on the local government’s enthusiasm and commitment to providing the initial infrastructure investment needed for the pilot. Telecomm spent the remainder of 2011 developing the rural satellite infrastructure in the community, with a large portion of the funds coming from Chinese investors.

Mifon was officially launched January 2012, in partnership with Banorte, the third largest bank in Mexico, MasterCard and Rev Worldwide, a payments operator, to provide coverage to 945 residents of Santiago Nuyoo and surrounding areas.

The pilot provided cell phones and debit cards free of charge to 80% of the adult population (316 adults), enabling them to make local calls, send and receive local text messages, perform balance inquiries and make peer-to-peer (P2P) payment transfers within Santiago Nuyoo. Calls and messages can only be completed within Santiago Nuyoo, however, a Banorte MasterCard debit card is provided for use outside of the community. It is not possible to use the debit card within Santiago Nuyoo as there are no ATMs or point of sale terminals currently available. Users can deposit and withdraw money at any Banorte and Telecomm Telegrafos bank branches.

In conjunction with the Mifon pilot launch, Banamex, Citibank’s Mexican branch, provided a complementary financial education program in the town.

Box 1. Santiago Nuvoo, Tlaxiaco, Oaxaca

The town of Santiago Nuyoo holds a population of 2,100 inhabitants located in the Mixteca mountains, 240 kilometers from Oaxaca.

The closest town of Tlaxiaco with cell phone coverage and bank branches is located two hours away by truck.

Can mobile banking be affordable for rural villagers?

For the first six months of the pilot, calls and text messages were free. Nominal charges began to incur for these services during the second half of the pilot.

Upfront costs to acquire the bank account were minimal ($50 pesos - approx. $4 USD) without a minimum balance requirement.

The fee schedule currently employed is at exhibit 1.

[EXHIBIT 1 ABOUT HERE].

Reducing the cost of cash.

According to Hernan Garza, commercial director of Telecomm, the amount of cash required operate the Telecomm office has dropped 36% in the first four months from the monthly amount of cash needed initially. This significant reduction in cash reduces cash operations costs for Telecomm-Telegrafos.

Results achieved to date have been impressive.

[EXHIBITS 2-3 ABOUT HERE.]
Since Mifon’s launch, 80% of the adults in Santiago Nuyoo have opened up a total of 316 mobile accounts
13% of users are merchants (47% of super users)
63% of super users are female
49% are non-users
Activity rate is measured at 26%, on average, for the past four months and is steadily increasing
5.7% of users have conducted more than 20 transactions over 7 months
33% of users are active (have used an account in past 30 days)
16% of users performed 1 or more P2P transactions
The average transaction rate is 2.1 per month, with deposits in bank accounts being the most common transaction
Uptake rates depend significantly on age, income bracket, entrepreneurial activity, residence

Can mobile banking improve people’s lives?

A study conducted by CGAP found that pilot users living outside of Santiago Nuyoo save approximately $32 – 192 pesos on transportation costs to financial service access points 1 – 2 times per month.
Entrepreneurs can now do business via their mobile phone instead of spending valuable time making or collecting payments and depositing or withdrawing cash.
As one user stated, “Paying for goods or services with the mobile saves me money or can improve my business.”

Expanding the model

Telecomm-Telegrafos estimates a total market size of 9.3 million users over the age of 15. With the current fee structure and usage patterns, the mobile banking model is self-sustainable for communities with over 1,000 people. Based on data from the Mifon pilot, Telecomm-Telegrafos estimates that it will require between $2,000 and $2,500 million pesos ($162 million USD – $202 million USD) to provide coverage to 4,500 – 6,000 communities.
Plans for the second phase of the pilot will include 250 communities, the maximum number that can leverage the existing telecomm infrastructure built, as well as a social inclusion mobile providing education and agriculture data to users’ cell phones.
Pictures
Exhibits

Exhibit 1. Fee schedule

<table>
<thead>
<tr>
<th>Type of Transaction</th>
<th>Fee MXN Pesos</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits in bank account</td>
<td>$0</td>
</tr>
<tr>
<td>Cash withdrawal (in branch)</td>
<td>$12.10</td>
</tr>
<tr>
<td>P2P Transfers</td>
<td>$3.71</td>
</tr>
<tr>
<td>SMS Balance Inquiries</td>
<td>$2.00</td>
</tr>
</tbody>
</table>

Exhibit 2. User Activity Rate

Exhibit 3. Transactions from the Pilot