

e- Finance in México

The purpose of this paper is to describe the current state of e- finance in México, its origins, its challenges, and the opportunities for the development of e- business that lie ahead.

e- Finance definition

e- Finance is commonly defined as all the electronic activities and transactions associated with financial services. Electronic activities are carried out via Internet, or through its predecessors, dial- up e- banking, telephone banking and ATMs. e- Finance activities and transactions include among other things, cash management, payments, financing, foreign exchange operations, investments, e- brokerage and information delivery.

Background

e- Finance started in Mexico in 1972 with Banco Nacional de México's (Banamex) introduction of the first ATM. By 1984, the first DOS based e- banking solution was introduced, also by Banamex. E- Finance was originally perceived as a secure and convenient way for the larger corporations to complement their banking activity and improve their management of the funds of the company. In 1991, TEF (electronic funds transfer) was introduced to fulfill the market's need for a multiple payments tool. In 1996, banks started offering earlier versions of windows based e- banking solutions that are still widely used. As a residual of the 1995 Mexican crisis, security deteriorated in some major cities and made e- banking tools more attractive for the companies.

In 1995, the leading banks establish their embryonic Internet portals, and by 1996, Banamex started offering balance inquiries through its Portal. In February 1998, Banamex launched its flagship Internet banking product BancaNet, offering a wide range of financial transactions. Other leading banking institutions later followed this move.

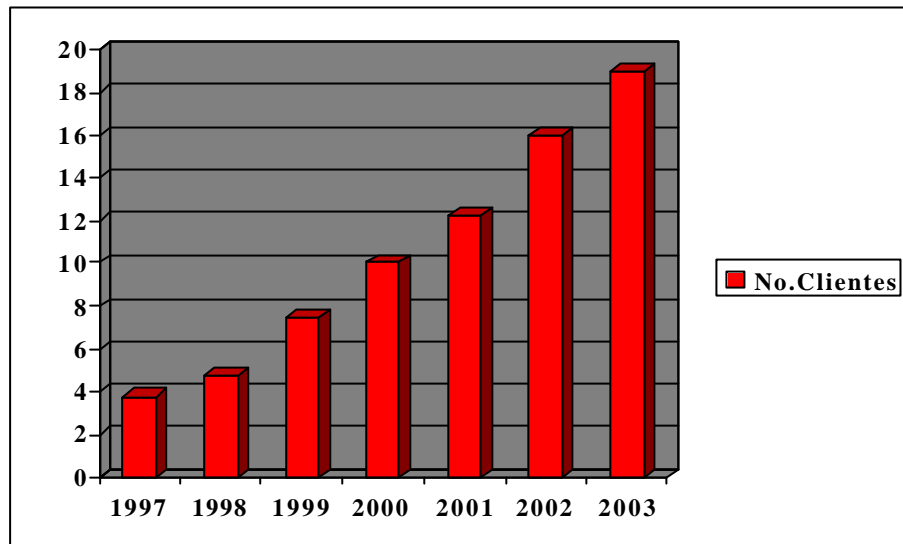
Internet Adoption in Latin America and México

According to recent reports published by specialists on the subject, the number of active adult Internet users in the region reached a total of 8 million in 2000, more than double the previous year. This number is expected to grow to 19 million by 2003. Another report, issued by New York-based e- Marketer, also reveals that active Latin American Internet users in the region will equal 5% of the 372 million users worldwide by 2003. The report also reveals that although these numbers indicate that the Latin American user base may be big enough to create a lucrative market, it will not challenge the North American or European regions for a very long time. The main reason for this is the so-called Digital

Divide, which refers to the lack of adequate communications and technological infrastructure in Latin America that prevents widespread adoption of new technologies, such as Internet.

Internet Users in Latin America

Figures are in millions



Source: La Republica / IDC.

In México, adoption of Internet is rising. According to Select/ IDC, an Internet consulting firm, the number of computers in 2001 reached 7.85 million and the number of Internet users was 4.2 million in the same year. México's population base reflects that out of approximately 100 million Mexicans, about half is below the age of 25. This indicates that adoption of Internet will surely increase as the communications and technology infrastructure improves and as the Internet tools and infrastructure becomes available.

Number of Pc's in México

	1999	2000	2001	2002	2003	2004
Hogar	1,369,824	1,962,186	2,604,139	3,194,593	3,871,187	4,686,295
Gobierno	454,708	549,093	663,036	817,974	976,110	1,111,677
Educación	252,616	305,052	368,353	454,430	542,284	616,110
Negocios	3,019,221	3,560,600	4,223,508	5,297,241	6,402,568	6,979,613
Total	5,096,369	6,376,930	7,859,036	9,784,239	11,792,149	13,393,694

Source: Select IDC México, May 2000

Internet Users in México

	1999	2000	2001	2002	2003	2004
Hogar	478,182.46	846,077.09	1,451,501.51	2,278,178.55	3,341,317.71	4,342,281.11
Gobierno	167,157.91	238,699.47	370,496.42	499,592.55	608,437.97	690,968.78
Educación	166,398.92	240,178.24	290,120.94	427,864.48	496,039.16	627,228.86
Negocios	1,010,458.72	1,613,032.48	2,088,094.27	2,616,295.08	3,196,082.35	3,817,667.60
Total	1,822,198	2,937,987	4,200,213	5,821,931	7,641,877	9,478,146

Source: Select IDC México, May 2000

e-Finance and SMEs

The role of SMEs (Small and Medium Enterprises) is very important in developing countries like México. SMEs play an important role in economic growth, social cohesion, employment and development. They produce and consume large amounts of goods and services and control a fairly large number of employees. Despite the fact that globalization and technological change bring them new opportunities to enter foreign markets and reduce business costs, SMEs face new competitive challenges and risks as well as transaction costs.

SMEs in México lag behind in the use of e- finance and e-commerce because of their small size and lack of human and financial resources. Typically, an SME has access to Internet infrastructure, but the attention paid to them by the e-business players is only beginning to happen. However, e- finance is already available to most SMEs in the form of Internet banking (a recent survey conducted by Reforma, a leading newspaper, revealed that México's two leading banks have over 100,000 users) and to some of them, even in the form of financing. Some banks already offer Internet based peso and dollar factoring and financing, and some banks are evaluating financing based on the issuance of a purchase orders in order to facilitate SMEs with working capital money.

e-Commerce and SMEs

In the e- commerce arena, a recent worldwide report by e-Commerce Times quoting research conducted by research firm IDC suggests that while a number of SMEs have home pages on the Internet they do little to no online selling. Of the 5 million small businesses that were online by the end of last year only some 725,000 were selling on the web even though a far greater number had planned to do so. This is also true in México. There are some initiatives like virtual marketplaces with the capability to settle transactions in a secure way that have a fundamental value proposition to the SMEs – not least because they help reduce settlement risk.

Following is a list put together by Sankar Krishnan from Citibank, which describes the challenges faced by SMEs and how e- commerce can help them overcome these challenges.

Challenges for SMEs	Advantages of e-commerce solutions
Fragmented markets and limited opportunities for economies of scale	<ul style="list-style-type: none"> ?? Aggregation of buyers and suppliers ?? Intermediation with services providers
High trade barriers	<ul style="list-style-type: none"> ?? Delivery capabilities across the target regions and beyond, and supported by logistic and supply chain management expertise
Lack of supply chain management	<ul style="list-style-type: none"> ?? Help SMEs streamline operations & business relationships (e-logistics & e-Procurement)
Limited trading opportunities	<ul style="list-style-type: none"> ?? Provide access to new trading opportunities ?? Buyers accreditation with previously inaccessible global suppliers ?? New market channels to suppliers
Inadequate product development	<ul style="list-style-type: none"> ?? Help SMEs develop more customer-centric products based on in-depth research and customer specific feedback (online and offline) through CRMS
High transactions cost & complex fulfillment procedures	<ul style="list-style-type: none"> ?? One point of contact with service providers, reducing administrative costs associated with follow up
Inadequate access to technological know-how	<ul style="list-style-type: none"> ?? Stimulate technology transfer through use of strategic alliances with key players in the technology sector ?? Provide bundled value added online services such as internet “enablement”, web hosting, etc
Inadequate access to financing	<ul style="list-style-type: none"> ?? Help SMEs finance their businesses through: Financial Institution Strategic Partners (Subject to usual Internet Policies and Procedures) ?? Online payment facilities ?? Credit facilities provided by FI alliance partner
Inadequate access to information	<ul style="list-style-type: none"> ?? Provide access to quality information through the portal that would not otherwise be available ?? Syndicate, aggregate, and disseminate rich content customized to meet the SMEs requirements - country and industry specific “newsfeeds”, local regulations, etc.

e-Finance Regulatory aspects

At present, Mexican law is being revised to include e- finance and e- commerce provisions. Previous revisions of Mexican Law included, among others, changes in the Federal Civil Code to allow the willingness of the parties to be manifested by electronic means, changes in the Civil Procedures Federal Law electronic messages as evidences, and changes in the Commerce Code to allow businesses to keep electronic files.

All of the aforementioned revisions, are based upon the international experience and works of the United Nations Commission on International Trade Law (UNCITRAL), and manifest the Mexican authorities interest in providing the Mexican legal framework with the basics principles and understanding of electronic commerce.

e- Finance Opportunities

In México, e-finance brings a lot of opportunities for the financial sector as well as for corporations and individuals. Financial Institutions are now increasingly using the Internet delivery channel to allow their customers to conduct almost all of the transactions that they offer at their branches. This brick and click strategy has proven to be very successful if appropriately managed. As an example, Banamex today has over 1.25 million registered users of its Internet banking tool BancaNet, and out of those, over 50,000 are Corporations (mostly SMEs). For financial institutions, e-finance has become a requirement to better serve their customer. This initiative could bring many cost savings for all the parties involved.

For Corporations, the use of Internet banking, e-brokerage and other e-finance tools is becoming more and more important, due to the access to information regarding their financial resources and the convenience and increased security that the different tools provide. These characteristics allow the companies to increase their productivity and efficiency.

Financial institutions and b2b companies have to work together in order to incorporate payments into b2b solutions. If this issue is not resolved, the e-commerce cycle is not complete.

e- Finance and e- commerce solutions should be easy to work with if the “e” fear is to be overcome. If the tools offered to the market are complicated and not targeted to the relevant specific market, adoption will fail.

Conclusions on e-finance in México

- ?? Internet will be the main business communications channel
- ?? e- Finance is here and getting stronger
- ?? Top Tier Corporations have been involved in and are using e- finance
- ?? The challenge is to keep incorporating more SME-s
- ?? Banks and b2b companies are already offering solutions for every market segment
- ?? B2b without e- Payments does not work Solutions have to be easy to operate & manage so the "e" fear is overcome
- ?? Governments are interested in facilitating the "e" processes
- ?? Regulations on "e" matters have to evolve and be perfected
- ?? A more sound Legal Framework is required