

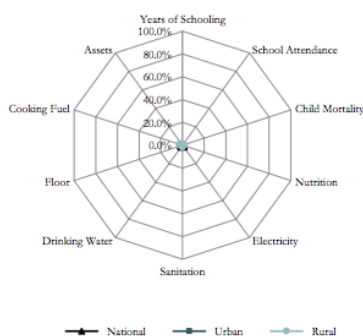
Digital Savings by Akiba in Mexico

1. DEVELOPMENT RELEVANCE

Economic and poverty context

Mexico is the world's 11th largest economy by purchasing power parity, the second largest in Latin America, and has continued to see GDP growth. In 2019, growth has slowed (0,2% in Q3 2019) and there have been fears of a looming recession.¹ Inequality remains a problem, partly due to relatively low wages, slow gains in productivity, and the relative importance of the informal economy.² While the political situation in Mexico remains relatively stable, levels of violence and insecurity are on the rise and present a challenge to the economic programmes of President López Obrador, just as for the previous administration of President Peña Nieto.³

Multidimensional poverty index chart¹, (Mexico, 2019)



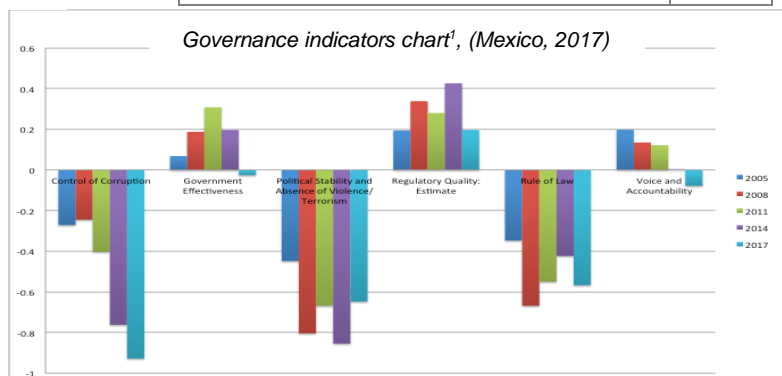
Financial sector context

Mexico's financial sector is characterized by multiple factors including a banking sector that has historically excluded lower-income households, high transaction and interest costs in the microfinance and informal sectors, and a growing and increasingly technologically-savvy population. Mexico's financial technology (fintech) market is arguably the largest in Latin America. Depending on the source, between 158 (according to Finnovista, a fintech start-up accelerator)⁴ and 238 (according to Statista)⁵ fintechs are operating in the country. Finnovista foresees these companies gaining 30 percent of Mexico's banking market during the next ten years. The plethora of start-ups in this space has prompted the government to regulate the sector, primarily out of concern about money laundering, data privacy and the protection of savings from the public. In March 2018, Mexico's Congress approved a Fintech Law that sets out a general regulatory framework, based on consumer protection principles to promote financial inclusion, innovation, and competition. The regulation also opens the door to Open Banking, allowing banks to provide access to customer data, with customer approval, by third parties to execute transactions on customers' behalf.

Table 1ⁱ: Population and economic indicators

Population in million (please indicate year)	
GDP growth (2017)	2.04%
Inflation (2017)	6.04%
Trade balance (% of GDP) (2017)	-1.81%
Foreign direct investment (net) (% of GDP) (2017)	2.79%
Net ODA received (% of GNI) (2017)	0.07%
Remittances received (% of GDP) (2017)	2.8%
Economic Freedom Index ⁱⁱ (Rank among 186 countries) (2019)	66
Poverty indicators	
GDP per capita (USD) (2018)	9698
Gini Index (0= equality 100= inequality) (2016)	43.4
International poverty rate (2016; at 1.90 USD/day)	2.5%
National poverty rate (2016)	43.6%
National rural poverty headcount rate (2014)	62.4%

Governance indicators chart¹, (Mexico, 2017)



¹ <https://www.reuters.com/article/us-mexico-economy-gdp-poll/mexicos-economy-seen-growing-0-2-in-third-quarter-idUSKBN1X81R3>

² <https://www.bloomberg.com/graphics/2019-new-economy-drivers-and-disrupters/mexico.html>

³ <https://www.wsj.com/articles/mexicos-murder-rate-hit-record-high-in-2018-11564079972>

⁴ <https://www.finnovista.com/actualizacion-finnovista-fintech-radar-mexico-agosto-2018/>

⁵ <https://www.statista.com/outlook/295/116/fintech/mexico>

Partner financial institution/s

Akiba has been incorporated as a SAPI (*Sociedad Anónima Promotora de Inversión*) in Mexico, and 99.9% owned by E-Savings.club SA in Switzerland. Its primary product offering is the Akiba application. Akiba is a relatively recent venture in Mexico that leveraged the E-Savings.club team's experience and expertise building digital savings solutions in other developing countries (Benin, Haiti). While AKIBA is characterized by Finnovista as a financial education tool, it can also be categorized under personal finance, or savings in broad terms. This ambiguous categorization reflects the innovative nature of AKIBA's model, which does not necessarily "fit" easily into pre-established categories. Though technically a financial technology company, AKIBA does not fall under the government's Fintech Law, as it focuses on offering the technology not on touching or holding the funds of employees.

Photo of the branch network map

Akiba being a digital provider does not have branches. Clients can access the service remotely from anywhere and at any time provided they have access to internet on their device or at an internet café. The only physical presence is the main office based in Mexico City.

2. INTERVENTION APPROACH

Capacity building needs

In terms of preparatory steps, as part of a human-centered product design the CEO of E-Savings.club conducted about 10 focus groups in Mexico City and in Guerrero State to better understand the market context and client needs. This research has provided insights into how to design the *SuSu* application to fit in with the local Mexican financial culture. Based on the feedback of potential clients we identified our target market, the initial business model and we have developed initial financial projections and a plan to launch and scale up. Also, in this initial phase, fully funded by E-Savings.club, we built a Minimum viable product of the application

Main activity areas (goals, targets, resources & time frame) and outputs (max. 15 lines)

1. *Regulatory Compliance and Legal design of Product for Client Protection.*

A Mexican subsidiary was created in 2016. Its contracts, Terms and Conditions and Privacy Policy were built with the legal consultant.

2. *Define and implement AML/CFT procedures*

The ROSCA solution was meant to be for the open market so AML/CFT was an important process for launch. A manual for SuSu Mexico's operations was created and implemented specially for us by an AML Consultant registered as compliance officer by the National Banking Commission.

3. *Development and Launching of SuSu Mexico Solution + Growth*

IT developments were made to move from an MVP to a tested and operational solution. 48 versions and sub-versions of the SuSu app were built and tested with real users. However, despite rapid prototyping and iteration, there was very little uptake by clients after a 6-month period. By October/November 2016, we decided to pivot and went back to the drawing board and to performing focus groups with lower-middle income millennials. The result was a wallet that clients could use to save for specific goals. This new solution was called Akiba and was also iterated several times based on client feedback loops. With a well-organized communication and financial education campaign, significant uptake happened with more than 30,000 downloads. However, conversion rates and activity rates were too low to be sustainable.

Eventually, almost by coincidence, a small company asked us if we could offer them the Savings Fund for their employee given that we already had the wallets. We had to significantly change what we had to adapt it to the needs of the Caja de Ahorro requirements and this is Akiba Caja de Ahorro, which is the current version of Akiba which has shown to respond to the needs of employers and their low-income employees and is on track to be profitable in 6 months. These significant changes meant that for each of the new solutions developed there had to be an investment in IT and in Marketing which was not contemplated in the SCBF project. Those were funded out of pocket by E-Savings.club founder who had to sustain the project for two more years than the initially planned.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Information provided below is extracted from an independent evaluation performed by EA Consultants in Summer 2018 on behalf of SDC.

The value proposition of the end user experience:

AKIBA provides both access to financial services and increases usage of financial services for low and middle-income Mexicans by keeping things simple. Our interviews with employees using the AKIBA product found that some did not have access to financial services prior to this product. In the case of AKIBA's savings products, some employees had not had employer savings products before. While all employees have transactional bank accounts in which they receive their paychecks, these are not seen as effective ways to

Isabel Martinez works as a receptionist at Pretmex. Her monthly salary is 360CHF and falls in the low-income segment of the population. She has been part of the Pretmex Caja de Ahorro (Savings Fund) for 2.5 years now. Everytime she has an extra-income on her payroll she adds more funds to her Savings Fund. She is very happy with Akiba's Savings Fund and wants to continue with it. She has been a great promoter of it within the company she works in.

save rather, money is usually cashed out or spent before the next pay cycle. In our small sample of interviews, we obtained some insights around savings behaviors.

Those employees we spoke to who did save use alternatives including informal "tandas" or ROSCAS, or, as one woman noted "under her mattress." Others saved in formal accounts, although these appeared to be people who

were better off (older males with more stable jobs).



Agama is an adhesive company whose HR department began working with AKIBA in May 2018, setting up a "Caja de Ahorro" or company savings plan for all of their employees in the distribution and sales departments. Hector, at age 25, began working in Agama 7 months ago. He had no previous experience with formal savings accounts, despite being interested. Instead, in order to save, he put 500 pesos a month in an informal "Tanda" or ROSCA. Now that he can save in his account, he is going to replace his savings in the Tanda for savings in his company's Caja, which is both safer and offers a higher return. His goal is to use his savings to go to University. He is proactive about this goal and has already met with the University to get information about the difference between careers in public and private administration.

In the case of Cajas de Ahorro, once an employer signs up, all employees are obliged to make a minimum deposit each pay period. This ensures that there are sufficient funds in the Caja to invest and thus offer an attractive return to savers. Investment funds offer attractive tax incentives for employer matches that can motivate employee usage.⁶

AKIBA's simplicity and transparency engenders trust in the product and increases interest for it. The app is convenient, simple and trustworthy, facilitating usage and transparency of financial services. In the case of savings through Cajas de Ahorro, employees download the app and can see their account balances as well as monthly contributions and annual savings targets. In the case of investment funds employees can also track their account status as well as withdrawals.

AKIBA's products make a case for employee retention. Employees noted that they were

pleased with their employers for offering AKIBA's products. This bodes well for a longer-term business case for employers and AKIBA's ability to sell their platform to employers. *"I have always been committed to my company, but the company has never been concerned for us...now I feel trusted and supported... I thought it was fantastic when they told us about the Caja de Ahorro."*

⁶ In the United States, policy-makers have been promoting such "sidecar savings" products as complements to 401k retirement funds that can incentivize savings.

Partner financial institution/s level

The Swiss Capacity Building Facility provided Akiba, a Swiss-based fintech operating in Mexico that was founded in 2015 in Switzerland and incorporated its Mexican subsidiary in 2016, with a technical assistance grant for Product upscaling discussed here and a complementary one to promote financial education. SCBF aims to drive innovation, by offering start-up capital to organizations that can drive large-scale financial inclusion through innovation using a blended finance approach. This approach has allowed AKIBA to experiment with its model, testing various products and approaches over time, and refining its offer to meet a market need. It has also allowed AKIBA to target its products to businesses in Mexico who are often unfamiliar with employee savings schemes. While this approach has provided AKIBA with some “breathing room” to target more excluded businesses, SDC funding has not been made contingent on this goal, allowing AKIBA to concentrate its efforts on building a sustainable model first and foremost. We believe that these two goals are not mutually exclusive, and that AKIBA can target a specific customer segment that is more financially excluded than others with the support of investors like SDC.

AKIBA’s origins lay in a belief that low-income consumers could benefit from the digitization of informal collective savings schemes. This initial concept has evolved since the company was founded three years ago, beginning with a B2C “tanda” product to facilitate group ROSCAs that are typically done informally and with little security, then shifting to another B2C individual savings products as a mobile wallet, and finally, by offering a B2B platform to employers that wish to offer attractive and transparent savings schemes to their employees. While technically a financial technology “fintech” company, it does not fall under the Mexican Fintech Law, as it does not touch nor hold the deposits of the employees. AKIBA provides a platform for managing financial services typically offered by employers to their employees.

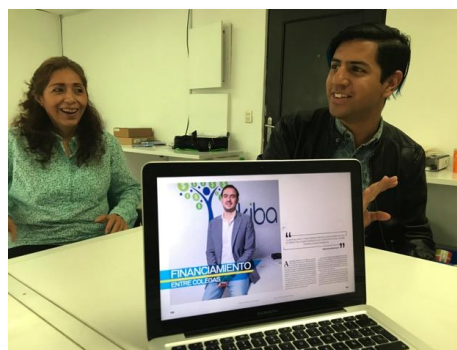
Akiba has 5491 registered users of which 1171 are active (are saving at least twice a month in their caja de ahorro with Akiba). 44% of active users are women.

One very positive recent outcome has been the signature of the contract with Grupo Bimbo, the largest bakery company in the world with over 138,000 employees worldwide and 73,000 in Mexico. The vast majority of those 73,000 employees are “working poor” and make between 250CHF and 400CHF a month which corresponds to the very low-income segment, also called Socio-economic level D- (second poorest income quintile in Mexico). Currently only one small company (671 employees) of the group has implemented Akiba but the contract determines a phased roll-out to all of the 70,000+ group employees will be completed by January 2020. Monetary sanctions have been considered in the contract if the roll-out is not completed in time, so this is a binding commitment. **Given the above, we will far exceed the 18,000 users planned for 3 years after project completion, and the company will be profitable starting in Q1 2020. Thus the sustainability of the project is guaranteed over the long-term**

Financial sector level

The intervention had significant effects beyond the partner financial institution. Indeed, with the entrance of Akiba into the market, more and more financial institutions are interested in offering Cajas de Ahorro and Fondos de Ahorro by leveraging technology, in particular Mobile Apps to provide more transparency and less frictions to low-income employees. Concretely, Akiba is now in a partnership with SURA group, one of the largest Asset Managers in the country which manages the savings of more than 7 million employees in Mexico and has presence all across South America as well. A contract for scale up to SURA’s 250,000 employees under management is currently being finalized and will be signed in September 2019. Also, Akiba was selected and went through a pilot phase with BBVA Bancomer, the largest bank in the country with 19 million customers, to offer the Akiba App to all of its Caja de Ahorro and Fondo de Ahorro customers. Unfortunately, despite the CEO’s approval, BBVA had to suspend the pilot due to a Systems Architecture issue (The legacy system which they use for Cajas and Fondos is 20+ years’ old and cannot connect with outside systems like Akiba, therefore they need to overhaul the system and this will take 12 to 24 months). In addition to this, Akiba is in negotiation with INVEX, ACTINVER among other financial institutions,

Akiba local collaborators in the Akiba office.



which manage over 100,000+ employees in their Cajas and Fondos de Ahorro and are looking to improve the end-user experience so that more lower and middle-income employees join their Cajas and Fondos.

4. LESSONS LEARNT

Below are some conclusions of the independent evaluation performed on this project.

“AKIBA offers a value proposition for not only end-users (employees) but also their employers. As such, the independent evaluation analysis done in 2018 suggests that there is strong potential for scale. For the employer, AKIBA’s platform addresses an important pain point. It reduces the administrative burden of offering savings plans (Cajas de Ahorro), investment funds and loans to employees. For those employers who do not already offer these benefits because of limited resources and small HR departments, particularly smaller and medium-sized businesses, it can motivate them to provide these benefits. During our visit to employers, we spoke to one business that had begun to use the Cajas de Ahorros savings program as a result of AKIBA. Larger employers typically already offer these benefits, however, and one of AKIBA’s challenges has been onboarding these larger employers, as they will eventually be the key to achieving scale and financial sustainability as is now proven in the case of Grupo Bimbo. Larger employers typically already have established systems in place, meaning that switching, even to a more convenient service, such as AKIBA’s requires time. As a result, they have been more difficult to onboard and require much longer lead time, as well as more frequent and regular sales contact.

The scalability of AKIBA’s model will also rely on the company’s ability to further standardize its product offering, while focusing on appealing to employers of larger companies with many employees. Currently, AKIBA serves each of its employers with a slightly different combination of products and features based on its broader platform. Our financial analysis suggests that larger employers will be the key to scalability. Services to smaller employers should focus on standardization and simplicity to reduce the cost of acquiring and servicing smaller employers. Large employers’ existing systems may require some adaptation to include features that are not currently in AKIBA’s platform. These changes can be positive, as they improve the overall value proposition to all users.”

The key lesson and recommendation for future is that SCBF’s support is key for Inclusive Fintech Startups like Akiba to test different approaches on the ground until they finally reach the right product-to-market fit. In that regard, SCBF needs to be flexible in terms of the numerical milestones of these Innovative Fintech projects since the most important part is that these Startups can leverage the SCBF funds to build a business that can have a significant impact on a very large scale down the road. But it should be noted that building a successful inclusive Fintech at scale in emerging countries takes time and significant resources.

ⁱ The World Bank Group (2019). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (01-09-2019)

ⁱⁱ Heritage Foundation, (2019) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (01-09-2019)