

A bold experiment at Banco Azteca

By Lucy Conger

A groundbreaking software/platform combination has enabled Mexico's newest bank to provide a wide range of services to the country's middle and working classes for the first time.



From the day in late October 2002, when Banco Azteca opened 815 branches in 250 Mexican cities, it was clear this was no ordinary bank.

Azteca was, after all, the first new bank launched in Mexico in eight years. It was also the first Mexican bank to target the country's middle and working classes, some 70 million people who had been overlooked by the banking system. And with a goal of servicing 3 million new savings accounts and 2 million loan applications within its first year of operations, Banco Azteca has been nothing if not ambitious.

One of the bank's biggest initial challenges was to find a technology capable of supporting this extraordinary undertaking—and have it up and running, within budget, in four months. After considering a number of proposals, Banco Azteca turned to Accenture and its subsidiary Alnova Technologies Corporation, an independent software vendor that specializes in retail banking applications.

Alnova was "more flexible and agreed to meet the timetable," notes Juan Arévalo, Banco Azteca's systems manager, "and they had experience in Mexico." The company's proposal was based on combining one of its software products, Alnova Financial Solutions, with Microsoft's .NET platform. Accenture would act as project manager, coordinating all the hardware and software installations.

A double bet

It was a bold experiment, according to Iñigo Redondo, an Accenture financial services partner based in Mexico City. Azteca would be the first bank anywhere to use Alnova Financial Solutions on the .NET platform. "The bank made a double bet," says Redondo—that this first-ever software/platform combination would actually work, and that Alnova Financial Solutions would enable efficient operations at the bank.

Company profile: Banco Azteca

Headquarters: Mexico City
CEO: Carlos Septién Michel
Employees: 7,300
Type of business: Banking
Total revenue (quarter ended
12/31/02): \$7.8 million
Year founded: 2002

Banco Azteca is a wholly owned subsidiary of Grupo Elektra, Latin America's largest specialty retailer and Mexico's leading consumer finance company. This meant that the bank began operations with an existing customer base built up over nearly 50 years of retailing at the parent company's stores.

Banco Azteca's branches are located inside Grupo Elektra stores, where the parent has long offered installment-plan financing for merchandise purchases and boasts a database with the credit records of 3 million customers. Azteca also inherited Grupo Elektra's 830,000 savings account customers, who have limited or no access to credit at Mexico's conventional banks. The Elektra network of stores effectively provided Azteca with a ready-made branch system and greatly facilitated the bank's launch.

Market potential

Elektra has a half-century's experience dealing with small transactions, and Banco Azteca will adapt this tradition as a strategy for reaching middle- to lower-income customers with minimum family incomes of \$250 per month. Customers can open savings accounts at the bank with as little as 50 Mexican pesos (about \$5); a monthly average balance of 50 pesos is required to earn interest.

Elektra's installment financing typically extends over a year, so weekly payments on purchases of appliances like stoves and refrigerators can be as low as \$15. By accommodating the financial needs of lower-income families this way, Banco Azteca believes that its potential market is more than 15 million households, or about 70 percent of the Mexican population. The bank has grown far more rapidly than anyone expected.

Within only two months of launch, the volume of business had reached the projection for six months. Azteca has added 400,000 new savings account customers, while the Alnova software is being used to consolidate risk information on the loans of 2.1 million existing Elektra credit customers. As the one-year loans are paid off, Elektra will wind down its lending operations, and beginning in 2004, all new loan activity will migrate to Azteca.

It already is proving to be a highly successful arrangement. "The sophisticated technology and collection systems already in place at Grupo Elektra will provide us with invaluable data about our customers' buying habits and financial needs," notes Carlos Septién Michel, CEO of the new bank.

Alnova combined two financial operations systems—its own software and the software used in the front-end terminals at Elektra's retail stores—to set up the bank. Alnova Financial Solutions had to be integrated into the Elektra stores' system for recording installment loans and savings accounts. "We developed [our software adaptation] based on their terminals, adding what was lacking for setting up a bank," says Redondo.

The software vendor is implementing new system components for handling deposits and, in the initial phase, continues to use the loan system that Elektra stores already had in place.

Banco Azteca's Alnova software on the .NET platform now handles 1 million savings operations and 150 million retail sales and financing transactions every month. In addition to these operational functions, the software includes risk management tools for monitoring the health

of the loan portfolio; it also tracks the fiscal and accounting information required by Mexican banking authorities. As Accenture's Redondo puts it, best banking practices are implicitly built into the software.

In its first three months of operation, the number of Banco Azteca accounts increased by nearly 50 percent, to 1.2 million, while deposits grew by 150 percent, to 1.1 billion pesos. On some days, as many as 10,000 new savings accounts were opened. "Alnova software is what has allowed us to grow rapidly," says systems chief Arévalo.

Azteca currently has installed capacity to process up to 90 transactions per second; capacity can expand to 250 transactions per second, based on using 24 processors. This is theoretically sufficient for a medium-sized bank, notes Redondo, with about 8 million customers, 1,000 branches and 6 million accounts.

Alnova Financial Solutions not only met Banco Azteca's need in the frenetic run-up to launch; it also will enable the continued expansion of the bank. "It is flexible and secure and has high availability," says Arévalo.

A team of 50 staff members from Banco Azteca and 70 from Alnova and Accenture worked together to install the bank's operating system. Staff from both organizations worked together on each module of the system to ensure that when the installation was completed, Banco Azteca technicians could manage operations without requiring the assistance of Alnova personnel.

One of Banco Azteca's requirements was a cost-effective operating system, and use of the .NET platform was the key to achieving significant savings. The cost of launching

Azteca's core operating system for all 815 branches was \$10 million; the system's annual operating costs will be \$2 million. Alternative technology would have required an initial investment of about \$20 million plus annual operating costs of \$7 million, says Arévalo.

Banco Azteca is currently running its systems operations with fewer than 40 people. "Everything in the bank is automated," says Arévalo. An additional 50 technicians are working to develop the capacity in the software to process new products that will be launched in the next year. These include debit cards, automated teller machines, mortgage and used-car loans, trusts for institutions, and Internet and telephone banking. In this second phase of Alnova's work, a more robust terminal that will coexist with the front-end terminal of Elektra's stores will be developed for the bank.

The operating system meets rigorous standards for security. Banco Azteca demanded coverage 24 hours a day, 7 days a week, with no more than 4 hours per year of downtime. Because the bank's headquarters is in earthquake-prone Mexico City, Banco Azteca also required a backup location capable of handling banking transactions within 24 hours after a disabling disaster.

The alternative site will be located in the headquarters of TV Azteca, a sister company. Both Banco Azteca and TV Azteca headquarters are located at the far southwestern reaches of Mexico City. "With any problem in our installations, in one hour we can pass over to TV Azteca" and reestablish complete service, says Arévalo.

Alnova Financial Solutions originally was developed in Spain and

has since been implemented at nearly 100 sites in Europe, Latin America and Asia. The software vendor is the market leader in Latin America; in Mexico, the software was already in place at top-tier banks, including BBVA Bancomer, Santander Central Hispano and Grupo Financiero Banorte.

Alnova's work with Banco Azteca has important implications for the software vendor beyond this particular partnership. By delivering an innovative operating system for Azteca at a reasonable price, Alnova has demonstrated that it can operate in a new market niche: medium-sized banks and specialized financial institutions like mortgage companies. ■

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