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Government Approves Permits for 18 Foreign Banks, Other Institutions

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On Oct. 17, the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) announced the list of foreign companies that have been granted permits to operate 18 banks, 16 brokerage houses, 12 insurance companies, and one leasing company. In the announcement, issued at the National Banking Convention in the resort of Cancun, Quintana Roo state, Finance Minister Pedro Aspe said the new banks and other institutions are scheduled to begin operations sometime in the first half of 1995, once all the appropriate paperwork is completed. He said the foreign institutions were expected to initially bring US$1.21 billion in new direct investment to Mexico next year. "This constitutes the final stage of the process of financial opening carried out by President Carlos Salinas de Gortari’s administration," Aspe said.

According to Aspe, the opening of the financial markets to foreign institutions is intended to increase competition in the banking sector, which in turn should reduce interest rates and other banking costs and help improve the quality of banking services. He said a lower cost of credit would ultimately stimulate economic growth. The opening of the financial system also complies with agreements reached under the North American Free Trade Agreement (NAFTA). Under NAFTA, foreign banks will be allowed to control up to 8% of the total capital managed by the Mexican banking system during 1995.

The US$1.21 billion in new investment by the banks would represent about 6.25% of the banking system’s total capital next year, said Aspe. The 8% limit is scheduled to increase to 15% by 1999, and then completely disappear after the year 2000. As a temporary safeguard, however, Mexico retains the right to limit the inflow of new foreign investments in the banking sector during the years 2000 to 2004 if the capital share of foreign institutions in the Mexican banking sector reaches 25%.

The 18 new banks would compete directly with 37 Mexican-owned banks and US-based Citibank, which has operated in Mexico since 1929. One of the Mexican-owned banks, Sofimex, received an operating permit the day after the list of foreign banks was announced. Despite the relatively large number of banks already operating in Mexico, the market is dominated by three large institutions: Banco Nacional de Mexico (Banamex), Banco de Comercio (Bancomer), and Banca Serfin. The three banks have reported improvements in their financial stability during the past year despite an overall increase in overdue debt, which remains a problem for Mexico’s commercial banking sector as a whole (SourceMex, Sept. 28, 1994).

"The new banks will find a highly concentrated banking system, as the three largest banks handle almost 64% of the active funds and 66% of all funds," said Jose de Jesus Fajardo in an opinion piece written in the Guadalajara-based newspaper Siglo 21. Indeed, a financial column in the daily newspaper Reforma suggested that many Mexican banking executives are not necessarily
pleased with the opening of the Mexican banking sector to foreign institutions. "I have no doubt that Secretary Aspe will be received in Cancun with some long faces from Mexican bankers who do not look forward to the increased competition from foreigners," said Reforma columnist F. Bartolome, a few days before the start of the National Banking Convention.

Meantime, Fajardo of Siglo 21 said the entry of foreign brokers into the Mexican securities market will help end a virtual monopoly by a small group of brokerage houses. Citing a report from the Strategic Studies Center at the Monterrey Technological Institute (Instituto Tecnologico de Monterrey, ITESEM), Fajardo said eight of the 25 brokerage houses in Mexico control about 60% of the market and a large percentage of the earnings. "In contrast to counterparts in the US and Canada, Mexican brokers obtain half of the earnings from the trade in securities," Fajardo noted.

New Savings Institutions, Brokers

The SHCP is expected to issue permits for other financial institutions, such as savings and loan companies, in the next several weeks. In addition, Aspe said the financial institutions that did not receive an operating permit this year will be given an opportunity to submit a new application when a new bidding process is opened sometime in 1995. The initial list of banks awarded permits did not include any Canadian banks, although several institutions from that country operate representative offices in Mexico City. When the bidding process was opened in July, 102 foreign institutions presented applications to the SHCP to operate in Mexico.

Some institutions requested and received permits to operate more than one type of company. For example, J.P. Morgan and Chemical Bank, in addition to receiving a permit to operate full-service banks, also obtained permission to start brokerage operations. The US institutions that received operating permits for banks include Republic Bank of New York; Bank of America; NationsBank; Chase Manhattan; Bank of Boston; Bank of America; American Express, First Chicago, J.P. Morgan, and Chemical Bank. Citibank which has offered full-service banking in Mexico since 1929 received approval to expand its banking operations, and to initiate brokerage and leasing companies.

Permits were also approved for US subsidiaries of Asian and European banks, including Bank of Tokyo, Fuji Bank, ABN Amro Bank, Banque Nationale de Paris, Societe Generale, Dresdner Bank, ING Group, and Banco Santander. Most of the permits to operate brokerage companies also were awarded to US companies, including such prominent firms as Goldman Sachs, Bankers Trust, Bear Stearns, Merrill Lynch, Lehman Brothers, Morgan Stanley, Baring Securities, J.P. Morgan, and Chemical Bank. Six European brokerage companies also received permits to operate in Mexico. They include Swiss companies Swiss Bank, Indosuez, and James Capel; Germany's DeutscheBank; Spain's Santander; and ING Group of the Netherlands. Twelve insurance companies received operating permits, including prominent US companies Pioneer Life Insurance and American Bankers Insurance.

A day after the list of new foreign banks was released, the SHCP announced an operating permit for Banco Sofimex, led by businessmen Max Michel Souberville, Manuel Gomez Morin, and Armando Rodriguez Torres. The bank will be headquartered in Mexico City, but will extend operations to the states of Mexico, Chihuahua, Nuevo Leon, and Veracruz. Sofimex will start operations with 160 million nuevo pesos (US$46.7 million) in capital. Among those institutions that did not receive
permits for the moment to operate as banks are International Bank of Commerce and Morgan Stanley, although the latter did receive permission to operate as a brokerage.

Also absent from the list was Continental Bank's brokerage subsidiary, and Liberty Mutual Insurance Co. Permits were also denied for leasing companies associated with large US business enterprises, including G.E. Capital, IBM Credit Corporation, AT&T Capital Corporation, and Ford Credit.

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