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## **Banks Aggressively Promote Use of Credit Cards in Mexico**

*by LADB Staff*

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The major financial institutions are promoting the use of credit cards in Mexico, giving buyers more options to finance their purchases but also raising the level of consumer debt. In a report published in early March, the Comision Nacional Bancaria de Valores (CNBV) said consumer debt rose by 7.7% in the last quarter of 2004 and by a cumulative 26% for the entire year. The increase was attributed primarily to an increase in credit-card use last year.

Credit cards remain largely an untapped market, since Mexicans still use cash for 86% of their transactions. The trend is changing, however, because Mexico's largest banks are launching aggressive new promotions to compete for potential credit-card customers.

Some banks like BBVA-Bancomer are targeting the lower- or middle-income consumers who traditionally have not used credit cards for their purchases. "This is an interesting market that has not been tapped by the banks," said Rodrigo Manrique, director of BBVA-Bancomer's credit-card division. The banks are competing for the lower-income customers with the large retail operations like Wal-Mart and Tiendas Coppel, which offer store cards to clients who traditionally have not had access to credit or even a bank account.

The retailers have an advantage because they are not as stringent as the banks, which often require that applicants have at least a monthly minimum wage of 5,000 pesos (US\$446) to obtain a card. The pitfall for lower-income consumers is that retailer-issued cards frequently carry much higher interest rates than those offered by the banks. Higher-end retailers like Palacio de Hierro and Puerto de Liverpool are also competing with the banks in the credit-card market for the wealthier customers.

A report in the Mexico City daily newspaper La Jornada said some of the wealthier consumers are willing to acquire cards with higher annual interest rates including the Citibank Classic (39.6%), the Banamex Clasica Mastercard (39%), the American Express Bank (38%), the Scotia Clasica Mastercard (37.96%), the Santander Clasica Visa (37.15%), and the Bital Clasica Mastercard (34.9%).

### ***Credit card numbers expand rapidly in past two years***

The aggressive campaign to boost credit-card usage has paid dividends for the banking industry, with the number of new credit cards issued in Mexico rising by 23% in 2004 alone. A total of 11.6 million credit cards were in circulation by the end of the year, compared with 9.4 million at the close of 2003, according to industry reports. Some industry sources estimate that the credit-card market in Mexico has increased by 20% over the past four years. "All the banks are interested in entering into the business of credit cards because of profitability," said analyst Angelica Bala of Standard & Poor's financial rating company.

Some analysts note, however, that the number of credit cards in Mexico is still much lower than in Latin American countries like Brazil, Argentina, and Chile. The new credit-card users, along with consumers with existing accounts, have not hesitated to resort to plastic to finance new purchases in the past few years. Some bank officials credit the trend in part to easier terms offered by many retailers. "There are all sorts of promotions," said Eduardo Diaz, deputy director of the credit-card division at Banamex-Citibank. "But the offer of no interest payments for several months has proven to be a major factor encouraging the use of credit cards."

Some industry watchers suggest the aggressive promotions have changed the function of credit cards in Mexican society. "Despite the general perception in Mexico that credit cards are only or mainly used in emergencies, lower interest rates have led to a change in credit-card usage patterns," said Euromonitor International.

Analysts are already projecting an expansion in the number of credit cards in Mexico, with an increase of perhaps 20% annually through 2010. "In order to reach the levels of Argentina, the number of credit cards would have to double, implying an increase of 20% over each of the next five years," a New York investment banker told Reuters.

### *Consumers also face increased debt burden*

The increased use of credit cards has been accompanied by an increase in debt, creating a burden for middle-class and lower-income cardholders. According to some estimates, overdue debt to banks has increased by 26% this year, largely as the result of credit cards.

The problem is becoming such a concern that the government agency in charge of financial protection for consumers (Comision Nacional para la Proteccion y Defensa de los Usuarios de Servicios Financieros, CONDUSEF) took the unprecedented step of urging Mexican consumers to minimize their use of credit cards during the traditionally heavy vacation period of Holy Week.

Financial institutions have begun to take a hard line against delinquent credit-card holders, hiring legal firms to take charge of collections. "They use all sorts of methods to make collections: intimidations, threats, insults," said the Mexico City daily newspaper El Universal, which noted that the collectors even go to the homes of debtors to personally hand them foreclosure notices. CONDUSEF officials say the collection methods employed by the banks and the attorneys they have hired at times cross the line. "The fact that one has a debt does not give the creditor the right to resort to harassment," said Rafael Avante Juarez, CONDUSEF's director of legal affairs.

The Mexican banking sector is also facing criticism for other practices that harm the public interest, such as offering low interest rates on savings while charging the high rates on credit cards. On average, banks have been paying interest rates ranging between 2.99% and 6.08% to depositors while charging extremely high rates on their credit cards. Furthermore, banks have been accused of being stingy with their loans, especially to the commercial sector (see SourceMex, 2002-03-20 and 2003-03-12).

The level of bank loans to commercial companies has increased by only about 4% during the past year. In contrast, consumer lending primarily through the issuing of credit cards has nearly tripled in the past four years.

### *Banks criticized for charging high fees*

Borrowers have also protested the high fees that banks have been charging on financial services. A 15-month study published by CONDUSEF in September 2004 said fees for checking accounts and credit and debit withdrawals are "significantly higher" in Mexico than in other countries. "The leading banks are fixing the level of fees," CONDUSEF director Oscar Levin Coppel said in announcing the results of the study. "This is called collusion."

Levin said the major banks, all of which have foreign ownership, were charging much higher fees in Mexico than in the home country of the foreign partner. For example, he said a credit card issued by HSBC in Mexico carried a total card rate of 77%, compared with 16% for a similar card in Britain. The case was the same for Scotiabank, whose card also carried a rate of 77% in Mexico, compared with 18% in Canada.

The difference was even more dramatic for Banamex-Citibank, whose Mexican card had an annual rate of 85%, compared with 9% in the US. "The presence of foreign capital has not translated into a reduction in the cost of various services and products [in the Mexican banking sector]," said Levin.

Banks are obtaining 45% of their earnings from exorbitant fees, Levin told reporters. The CONDUSEF study found the highest fees were being charged by BBVA-Bancomer and Banamex-Citibank, the two institutions with the largest presence in the Mexican market. The Asociacion de Banqueros de Mexico (ABM) disputed the CONDUSEF report, calling its conclusions misleading. "[The ABM] strongly disagrees with the conclusions, the methodology, and the data used in the study by CONDUSEF," said Jorge Hierro, who chairs the association's communications and marketing committee.

Manuel Medina Mora, who recently completed his term as director of the ABM, acknowledged that income from commissions has risen at an annual rate of 12.5% since 1998, but he also noted that the number of transactions handled by the system had increased at an annual rate of 23.5%. "[This] demonstrates that, in the aggregate, the prices of banking services in our country have cheapened significantly," said Medina.

Medina defended the practice of banks charging high fees as part of a global trend. He said Mexican banks obtain about 31% of their income from fees, compared with 36% for counterparts in Brazil and 44% in the US. Still, the criticism about the high fees has begun to resonate with the banks.

At the industry's annual convention in Acapulco in March of this year, the ABM pledged to implement several fee reductions in the next few years as a way to cut costs for consumers. Among the reductions will be a cut of 15% to 20% in interbank charges, including the fees associated with withdrawals from ATM machines and the transference of checks and money deposits. The first of these reductions will take place in June. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 6, reported at 11.20 pesos per US\$1.00] (Sources: Unomasuno,

Dow Jones news service, 09/07/04; The Financial Times-London, 09/08/04; El Financiero, 02/03/05; The Herald-Mexico City, 09/07/04; 03/04/05; El Universal, 01/11/05, 02/28/05, 03/04/05; La Crisis, 03/08/05; Notimex, 03/20/05; La Jornada, 02/03/05, 03/26/05; Tiempo, 03/28/05; El Economista, 04/02/05; La Cronica de Hoy, 09/07/04, 01/27/05, 02/11/05, 03/04/05, 03/07/05, 03/22/05, 04/03/05; Reuters, Euromonitor International, 04/04/05)

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