

9-13-2006

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### Recommended Citation

LADB Staff. "Bankers Group Concerned About Entry of Retailers into Banking." (2006). <https://digitalrepository.unm.edu/sourcemex/5025>

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## **Bankers Group Concerned About Entry of Retailers into Banking**

*by LADB Staff*

*Category/Department: Mexico*

*Published: 2006-09-13*

Mexico's powerful banking association (Asociacion de Banqueros de Mexico, ABM) has raised strong concerns about the proposed entry of major retailers into limited-service banking, particularly industry leader Wal-Mart de Mexico (Walmex). The Secretaria de Hacienda y Credito Publico (SHCP) is reviewing an application for Walmex but has already granted a permit to Grupo Famsa to operate a bank and is expected to do the same for Coppel in the near future.

Monterrey-based Famsa, which plans to begin operations of Banco Ahorro Famsa in 2007, said the institution will cater primarily to low- and middle-income customers. The government's decision to allow retailers to enter into the banking business is part of an effort to expand the financial-services options available in Mexico, particularly for lower-income consumers.

In addition to the Famsa permit, the SHCP has approved the creation of Banco Autofin Mexico, an affiliate of automobile and home-loan company Grupo Autofin, and Banco Compartamos, a venture of Compartamos, Mexico's largest microcredit institution, which provides small business loans to low-income clients.

Another retailer, Comercial Mexicana, recently announced plans to offer consumer and credit-card loans, in partnership with French banking group BNP Paribas SA. The retail companies operate stores in almost every state in Mexico and offer wire transfers, insurance, and other financial services, so expansion into limited-service banking is a natural step.

Walmex's parent company, Wal-Mart Inc., entered into a partnership with Moneygram to send remittances to Mexico and other countries in Latin American from any of its 3,300 US stores at a very low cost. Expatriates will be able to send as much as US\$1,000 and be charged a fixed commission of US\$9.46, a savings of about 35% relative to the average cost of commissions charged by other institutions in the US (see SourceMex, 2006-03-08).

Walmex, Famsa, and Coppel would be following a very successful model created by Grupo Elektra, which launched Banco Azteca in 2002 (see SourceMex, 2002-08-07). Ricardo Salinas Pliego, who also holds a majority share in the TV Azteca television network, owns Elektra.

### ***Wal-Mart especially worrisome***

The ABM made little or no noise about the proposals by Grupo Famsa and Coppel to launch banks and was generally silent when Banco Azteca went into operation. The banking association, however, has mentioned Walmex prominently in its opposition to the emergence of retail banking.

"What has happened until now is that many new banks have their own niche and have not offered real competition for the large institutions, which control 80% of the country's financial system," columnist Maricarmen Cortes wrote in the Mexico City daily business newspaper *El Economista*. "Wal-Mart is the first potential true competition, not only because it promises to be very aggressive with products that would be attractive to the public but because it would offer special programs for its network of 12,000 suppliers."

A major concern for the ABM is that it will lose a good deal of business if Walmex, through its chain of 800 stores and restaurants in Mexico, is able to offer services such as deposits and withdrawals at the checkout counter at little or no additional cost to the company. This would put full-service banks at a disadvantage because they have to invest large sums of money on equipment and personnel to comply with strict security measures required by the government. The ABM made exactly those points in comments to the SHCP and the Comision Nacional Bancaria y de Valores (CNBV) about the potential entry of Walmex and other retailers into the banking sector.

The ABM does not want a payment station at a retail store, whether a Bodega Aurrera or a Wal-Mart Supercenter, to be made into a banking affiliate without meeting with all the necessary requirements for the safety of the client and the banking system, including deposit insurance. "Walmex is going to have to comply with all regulations designed to prevent money laundering, whether it involves small or large sums," said Jose Yuste, a commentator for Radio Formula.

Additionally, said Yuste, Walmex would have to redesign the areas of the store where banking transactions take place to make them more secure. This would mean installing double-pane glass at banking stations, creating a system of real-time communication with police, and training personnel to deal with robberies and other emergencies. All this assumes that Walmex would primarily set up banking operations at its retail outlets rather than create a separate unit, such as Elektra did with Banco Azteca.

Walmex officials declined to disclose full details of the company's application to offer banking services, pending a review of its application by federal regulators. Company officials only acknowledged that a new operation would follow the same global philosophies as the Wal-Mart chain of stores. "We believe that this efficiency that we learned in developing the retail sector we'll be able to transfer to the banking business," Raul Arguelles, vice president of corporate affairs, said in an interview with the *Los Angeles Times*.

Still, the widely held view is that Walmex will create an operation similar to Banco Azteca and Banco Ahorro Famsa, although the retailer may also opt to offer some banking-related services at the checkout counter. In a recent report, Grupo Banamex projected a new Walmex-affiliated bank would reach roughly the same size as Banco Azteca with about 6 million accounts, each holding an average of 6,000 pesos (US\$546). "It is anticipated that the bank will focus its credit operations on four areas: credit cards, long-term loans for purchase of durable goods, financing for corporate clients of its warehouse-goods store Sam's Club, and other financing schemes for current suppliers," said the Mexico City daily newspaper *El Universal*, quoting the Grupo Banamex report.

### *Trend would benefit lower-income consumers*

The entry of Walmex and other retailers into the banking sector could have a major impact on the industry, as traditional banks would have to reduce the costs charged to consumers to open accounts and to use credit cards. "I think this is positive for the economy and banking industry, it will cut commissions and increase penetration of [banking services]," said Rafael Shin, an analyst with Credit Suisse in Mexico City.

The Mexican banking sector, largely in the hands of foreign financial institutions, has been criticized for limiting the amount of credit available to lower- and middle-income Mexicans through expensive service fees and high interest rates. Of the six major banking groups in Mexico, five are affiliated with foreign institutions, BBVA and Santander of Spain, US-based Citigroup, Britain's HSBC, and Canada's Scotiabank. The only large bank fully in Mexican hands is Monterrey-based Banorte.

Critics say the presence of six major banks creates the semblance of competition, when in reality the institutions have created a financial oligopoly that keeps the price of banking services very high. "Even though the banks disagree, federal authorities contend that competition is insufficient and this is reflected in high costs and commissions charged to clients," columnist Marco A. Mares said in the Mexico City daily newspaper La Cronica de Hoy. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sep. 13, reported at 10.98 pesos per US\$1.00] (Sources: Reforma, 05/11/06; Associated Press, Notimex, 08/02/06; The Wall Street Journal, 08/04/06; Spanish news service EFE, 08/08/06; El Universal, 08/23/06; La Cronica de Hoy, 05/10/06, 08/25/06; Los Angeles Times, 08/27/06; La Jornada, 08/23/06, 08/30/06; Milenio Diario, 08/03/06, 08/31/06, 09/01/06; Radio Formula, 09/01/06; Reuters, 08/02/06, 08/30/06, 09/02/06, 09/07/06; El Economista, 09/01/06, 09/12/06)

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