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The Mexican Senate is considering three pieces of legislation that would impose new restrictions on Mexican banks, including a limit on interest rates for credit cards and a cap on fees charged for cash withdrawals and other services. The initiatives are likely to pass because of strong approval from the three major parties in Congress and at least a partial endorsement from President Felipe Calderon's administration.

The Banco de Mexico (central bank), which would play a central role in any regulation, was more cautious about the initiative. The banking sector, in the meantime, is pulling out all the stops in an attempt to prevent the measure from becoming law. Under the law proposed in the Senate, the Banco de Mexico would set monthly limits for interest rates for credit cards and other kinds of loans. Some members of the opposition Partido Revolucionario Institucional (PRI) have proposed having the banking regulating agency (Comision Nacional Bancaria y de Valores, CNBV) set the limits rather than the central bank.

Proponents say their legislative initiatives would reduce costs for beleaguered banking customers and help expand access to financial services in Mexico, Latin America's second-largest economy. Domestic bank lending equals 11% of Mexico's US$877 billion economy, a third of the percentage in Brazil, the region's largest economy.

The initiatives have thus far only been considered in the Senate finance committee (Comision de Hacienda y Credito Publico), which, if it approves the measures, would then forward them to the full Senate. The upper house would then send the initiative to the Chamber of Deputies.

Proposal has wide support among three major parties

The chances of passage in the Senate appear good because the initiative has strong support from the governing Partido Accion Nacional (PAN) and the opposition Partido de la Revolucion Democratica (PRD) and PRI. "The banks have artificially distorted interest-rate charges," said PAN Sen. Ruben Camarillo, one of three chief sponsors of the bill.

Sen. Camarillo said the committee is investigating charges that the banks are involved in collusion, echoing a concern noted in a study by the Economic Commission for Latin America and the Caribbean (ECLAC). "We have well-founded suspicions that there is an agreement among the banks to fix prices, commissions, and interest rates," said the PAN senator. The ECLAC study, published in February, charged that banks have purposely channeled the majority of their lending activities to credit cards, to the detriment of other types of loans.

The Calderon administration has stopped short of directly endorsing the limits but has acknowledged that something must be done about the high banking fees. During testimony before

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the Senate finance committee, deputy finance secretary Guillermo Zamarripa noted that banking fees have come down in recent years, but "there is still room" for banks to reduce excessive charges to consumers.

Similar comments came from Miguel Angel Garza Castaneda, in charge of oversight of financial institutions at the CNBV. Garza said all financial institutions, but particularly banks, need to make an additional effort to reduce or eliminate some fees for services charged to the public.

The government's financial-services consumer-protection agency (Comision Nacional para la Proteccion y Defensa de los Usuarios de los Servicios Financieros, CONDUSEF) offered the strongest criticisms against the banking system. Luis Fabre Brunela, a CONDUSEF vice president, said consumers are facing overall higher fees to conduct financial activities, even though some banking costs have declined.

The higher costs, said Fabre, include many increases in fees for credit cards. Fabre did not, however, endorse placing a limit on fees. Instead, he recommended that banks be forced to provide complete and transparent information to users regarding their costs.

Central bank opposes idea

The proposal to impose a ceiling on banking fees has also met some resistance at the Banco de Mexico. "We have to find ways to reduce commissions but through means that do not involve a ceiling," said Guillermo Ortiz Martinez, the chief governor at the Banco de Mexico. Ortiz Martinez echoed CONDUSEF's stance on the need for more transparency during testimony before the Senate finance committee in mid-March.

Another problem, he said, is that banks have not done enough to allow the public greater access to banking services, which would boost competition and in the process reduce costs. Ortiz likened the effort to reduce banking costs with the fight against inflation, where monetary policies rather than ceilings on prices kept the consumer price index (Indice Nacional de Productos al Consumidor, INPC) under control. "In our experience, enacting price controls was not what brought inflation down," he said.

The central bank governor also warned that placing a ceiling on certain fees would lead banks to compensate by increasing costs in other areas. Banks would charge more for other services that are not regulated, said Ortiz. Some financial analysts supported Ortiz's stance. "Ortiz is right on the path that must be taken," said Alicia Salgado, a columnist for the Mexico City business newspaper El Financiero. "It's not a matter of asking banks to act against their own interests...but to impose certain guidelines that will boost their interests, such as greater transparency and competition."

This position did not resonate with many members of the Senate finance committee. PRI Sen. Jose Eduardo Calzada Rovirosa said self-regulation would be the equivalent of "asking wolves to stop eating sheep."

A deeper issue, said the Mexico City daily newspaper La Jornada in an editorial, is the existence of banking secrecy laws, which allow the banking sector to continue to limit the amount of key

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information available to the public. The laws have also given certain government institutions an excuse not to delve deeper into the operations of the banks.

"The lack of information about the banking commissions is not only a result of official ineptitude but also of the lack of willingness by certain government agencies to impose their authority over the financial institutions," said La Jornada in reference to the anti-monopoly agency, the Comision Federal de Competencia (CFC).

Five major banks controlled by foreign corporations

Critics said part of the problem is that US, British, Canadian, and Spanish multinational banks control the banking sector. These banks, which account for about 90% of Mexico's banking assets, treat Mexican consumers much differently from consumers in their own countries. "There are banks that charge 77% interest on credit cards here in Mexico and only 15% in their countries of origin," said Sen. Calzada.

Ortiz acknowledged that the entry of foreign institutions in Mexico has not improved access to financial services for most Mexicans. "There is a scenario of little competition and high concentration," Ortiz told the Senate finance committee. "This is the same situation when the banks were exclusively in the hands of Mexican owners."

CONDUSEF statistics confirm that costs are much higher for customers in Mexico than for counterparts in the home countries of the banks. For example, the average cost of an account at HSBC in Mexico is five times higher than in England. An account at BBVA-Bancomer is three times higher in Mexico than in Spain.

Similarly, costs at Banamex, an affiliate of Citibank, are nine times higher in Mexico than in the US. Two other major banks have ties to foreign institutions, Spain's Santander and Canada's Bank of Nova Scotia. A sixth large bank, Grupo Financiero Banorte, is owned entirely by Mexican investors but has also been criticized for its high fees.

"Mexican authorities are leaving consumers at the mercy of foreign consortia that have found our country a profitable market, free of official regulations and much more advantageous than their home countries," said La Jornada.

The tight control that a handful of large banks have over the market has also contributed to high interest rates in Mexico in recent years, which has shut out all but the wealthier borrowers from the market (see SourceMex, 2002-03-20 and 2003-03-12). Some critics say the high fees have significantly boosted the bottom line of the banking sector. According to one study, the profits of the banking sector increased by 256% between 2000 and 2005. In 2006, commercial banks recorded earnings of 66.7 billion pesos (US$6 billion), an increase of almost 34% from the previous year.

The two largest banks, BBVA Bancomer and Banamex-Citibank, accounted for almost 60% of the total earnings, said the CNBV. Banking-industry sources contend that the high fees are not the driving force behind the profitability of the industry. "The increase in bank earnings is not because

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of high commissions but because of the increase in the volume of transactions," Luis Robles Miaja, an officer with the Asociacion de Bancos de Mexico (ABM), said during testimony to the Senate finance committee.

Even the influx of independent banks, many affiliated with retailers like Grupo Elektra and Wal-Mart, has done little to bring interest rates down. For example, a branch bank of Banco Ahorro Famsa in Torreon, Coahuila state, charges annual interest rates of 90%, the highest in the country. Similarly, Banco Azteca, affiliated with Grupo Elektra, charges 60%. "The authorization of 12 banks in 2006 will make little or no difference in reducing the cost of credit to consumers," said the Mexico City daily newspaper Reforma. "The new institutions are also targeting clients who traditionally have not been in the banking system, which implies greater risks," the newspaper added.

Commercial banks went on record as opposing the entry of retailers and other companies into the financial-services sector (see SourceMex, 2006-09-13). As it turns out, the retail-based banks are powerless to affect the cost of borrowing, as interest rates in Mexico are tied closely to rates for credit cards, which by law are controlled by the major commercial banks, said Reforma. Under the Mexican Constitution, only commercial and development banks are allowed to issue credit cards. Banks have aggressively promoted the use of credit cards in Mexico, which has greatly increased that type of debt (see SourceMex, 2005-04-06).

The tight control of Mexican commercial banks on credit cards has also come under fire from respected international organizations like ECLAC, which cited the need for anti-trust authorities to intervene. "It is necessary that the CFC examine the credit-card market to determine its impact on consumers," said the agency.

Banks launch campaign to defend operations

The ABM has launched a campaign to dissuade the Senate from approving a limit on commissions and other fees. Bankers argue that fees are higher in Mexico than in developed countries because the Mexican financial system is still recovering from the effects of the peso devaluation in the mid-1990s, which devastated the financial system (see SourceMex, 1995-01-04, 1995-03-08 and 1995-04-12).

"We're trying to fight a perception that bank services are expensive and that we have no interest in changing the situation," said Marcos Martinez, president of the trade group and CEO of Santander Central Hispano SA's local unit. "Fees will continue to fall because of competition." To prove its point, the ABM commissioned a study from international consultant Deloitte Touche Tohmatsu to compare banking fees in Mexico with those in 22 other countries. The report concluded that the Mexican bank fees came in an "acceptable" range of competitiveness.

The report acknowledged, however, that the Mexican banking sector was not as financially viable because of low volume relative to the other countries in the study. A separate study by the international consultant Capgemini, also on behalf of the ABM, said fees on consumer products offered by the six largest banks were lower than those in 19 other countries in North America, Europe, and the Asia Pacific region.

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The ABM agreed that Mexican commercial banks need to continue to find ways to reduce costs for Mexican consumers but also noted that progress has been made in reducing fees and interest rates. For example, the organization noted that the average interest rate for credit cards declined from 34.41% in December 2004 to 31.6% in January 2007.

The ABM also contended that progress was being made in expanding the amount of credit available to consumers, which has more than tripled in the past six years. Bankers contend that a proposed ceiling on credit-card interest rates could hurt the efforts of the banks to create a wider access to its services. "By limiting expansion, we would especially hurt the lower-income segments of the population, for whom banks could be an excellent method of financing," Ignacio Deschamps, director of Grupo Financiero BBVA Bancomer, said in an interview with the Mexico City business newspaper El Financiero.

The central bank and the Secretaria de Hacienda y Credito Publico (SHCP) are pushing for a reduction in the interbank rates charged among banks to use their payment networks, with costs ultimately passed on to the consumer. "A fundamental solution to the problem is to reduce the cost of electronic transfers," Ortiz said in his Senate testimony. "If banks reduce the fees they charge each other...the users will be the ones who benefit." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 21, reported at 11.00 pesos per US$1.00] (Sources: Notimex, 02/27/07, 03/12/07; Reuters, 03/01/07, 03/14/07; Spanish news service EFE, 03/14/07; The Herald-Mexico City, 03/02/07, 03/16/07; Milenio Diario, 02/28/07, 03/05/07, 03/15/07, 03/16/07, 03/19/07; La Cronica de Hoy, 02/22/07, 02/28/07, 03/15/07, 03/16/07, 03/20/07; Reforma, 02/28/07, 03/01/07, 03/15/07, 03/20/07, 03/21/07; La Jornada, 02/28/07, 03/15/08, 03/16/08, 03/20/07, 03/21/07; El Economista, 03/01/07, 03/14-16/07, 03/20/07, 03/21/07; El Financiero, 03/13-15/07, 03/20/07, 03/21/07; El Universal, 03/14-16/07, 03/20/07; Excelsior, 03/19/07, 03/21/07)

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