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Congress Considering Legislation To Protect Consumers From Unfair Banking Practices

by LADB Staff

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The Mexican Congress is working on a bill to protect consumers from unfair practices by banks and financial institutions. The Chamber of Deputies and the Senate both approved legislation in December to implement measures to regulate the issuance of credit cards and provide other protections to consumers, but a failure to reconcile some minor differences between the two versions of the legislation prevented final approval before the session ended ahead of the Christmas break.

This means that any new regulations for Mexican banks will have to wait until the start of the next session in February. At that time, there are likely to be some amendments, such as a ceiling on interest rates on credit cards. The two versions impose strict restrictions on certain banking practices, including prohibiting financial institutions from sending clients preapproved credit cards.

Banks would also be prohibited from automatically extending credit limits without determining a consumer's creditworthiness and from charging commissions to consumers who do not use their credit cards.

Additionally, financial institutions could not offer credit cards to minors. "The reform will prevent irregular or abusive practices by financial-services providers," said Deputy Jorge Estefan Chidiac, who chairs the finance committee (Comision de Hacienda) in the lower house. Estefan is a member of the opposition Partido Revolucionario Institucional (PRI).

Senate imposes 15 restrictions

The text of the Senate legislation, which proposes 15 different restrictions to the banking industry, said the measure is especially needed during a time of global financial instability. "In this time of world financial crisis, it is particularly important to create rules to protect financial customers from predatory practices," the bill said.

Many legislators say the restrictions on the banks, the majority of which are owned by foreign companies, are overdue. Sen. Ruben Camarillo of the center-right Partido Accion Nacional (PAN) went as far as to accuse banks of usury for charging much higher rates in Mexico than they do in their home countries.

The legislator cited the example of HSBC, which charges as much as 77% interest on credit cards in Mexico, compared with 16% in Britain. He pointed to other examples, including Scotiabank, which has a rate as high as 70% in Mexico versus 18% in Canada; BBVA Bancomer, whose interest rates are as high as 80%, compared with 25% in Spain; and Citigroup-Banamex, whose rates are 80% in Mexico, compared with 12% in the US.

The effort to curb credit-card interest rates has wide support among all parties in Congress. "This is why comprehensive legislation is needed," said PRI Sen. Francisco Labastida. "We cannot just say to the wolves to stop eating the sheep and expect them to comply." There were similar statements from the Chamber of Deputies. Deputy Antonio Ortega, a member of the center-left Partido de la Revolucion Democratica (PRD), said he would push for the Congress to add a clause in the legislation to empower the Banco de Mexico (central bank) to set a ceiling on interest rates.

"If the credit institutions in Mexico insist on maintaining a disproportionate charge on consumers for services in comparison with those in their home countries, the Congress will have no recourse but to intervene," said Ortega, who chairs the ways and means committee (Comision de Vigilancia) in the lower house.

Creating a level playing field with NAFTA partners

Ortega said his proposal also seeks to create a level playing field in the area of finance with the US and Canada, Mexico's partners in the North American Free Trade Agreement (NAFTA). His proposal would direct the central bank to conduct monthly comparisons on credit-card charges in Mexico versus those in the US and Canada. PRI Sen. Jose Eduardo Calzada Rovirosa, in an interview with the Mexico City daily newspaper El Universal, said the finance committee (Comision de Hacienda) in the upper house is considering a formula by which the ceiling on credit-card interest would be set at 30%.

PRD Sen. Ricardo Monreal said a movement is afoot among Mexican credit-card holders to create an organization to represent their interests similar to El Barzon, a movement that emerged in the mid-1990s to demand restructuring overdue agricultural loans (see SourceMex, 1994-04-20 and 1995-03-29). The nascent credit-card debtors organization has hinted that its first proposal would be to declare a nationwide moratorium on payments. The proposal drew immediate criticism from the Asociacion de Banqueros de Mexico (ABM), which suggested that confrontation is not the way to solve the problem of high interest rates.

"We are working daily to accommodate customers who have problems with overdue debt," said ABM president Enrique Castillo Suarez. The ABM does not agree, however, that it should reduce interest rates because of the strong possibility of consumer defaults. "We have a responsibility to consider the needs of both to the credit consumers and the depositors," said Castillo. "Our responsibility to the depositors is to set interest rates that are consistent with the financial risks."

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