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Mexico Announces New Rules Prohibiting Banks From Charging Commissions For Certain Services

by LADB Staff

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After coddling the country's commercial banking sector for years, the Banco de Mexico (central bank) has announced steps that will make the financial institutions more responsive to the needs of consumers. On July 21, the central bank, also known as Banxico, ordered the banks, most of which are owned by foreign institutions, to stop charging commissions on nine separate services. The changes become effective Aug. 21.

The measure stopped short of placing a cap on interest rates, which have long been the subject of complaints against the banking sector. Curiously, the banking sector accepted the central bank's decision with little or no protest, even acknowledging that the move could lead to greater competition. The Mexican government, including the central bank, had been under pressure for many years to take action against the excessive and many times unfair fees charged by commercial banks. One of the most common complaints was that foreign-owned banks had been charging higher fees in Mexico than to consumers in their home countries.

In 2007, the Senate considered several initiatives to give Banxico greater authority regarding interest rates and commissions (SourceMex, March 21, 2007). The Senate eventually approved the authority in the first half of 2009. The Chamber of Deputies was not able to hold a vote before completing work for the 2006-2009 legislative session, although the issue was part of the legislative agenda this year (SourceMex, January 07, 2009). But legislative approval from the lower house is not required, allowing Banco de Mexico to begin implementing the new rules. Still, there is no doubt that the lower house would have approved the measure.

Deputy Cesar Duarte Jaquez, who served as the latest president of the Chamber of Deputies in the 2006-2009 sessions, strongly endorsed the new rules, saying that the financial-services industry needs to show more flexibility to help Mexico emerge from the current economic crisis. "We have to call upon the bankers and all economic sectors to make a greater effort because our economy is suffering," said Duarte, a member of the Partido Revolucionario Institucional (PRI). "We can't have a situation where some productive sectors are acting as if there was no economic crisis."

New rules should benefit consumers

Effective Aug. 21, Mexican banks will no longer be able to charge consumers for bouncing checks, for exceeding credit- or debit-card limits, for closing checking accounts or credit cards, or for suspending Internet service. The new regulations also create uniform charges for transfers of funds rather than allowing the banks to set their own fees. Analysts said the new regulations will affect the profit margins of Mexican banks, since fees and commissions accounted for about 27% of operating profits in 2008. "This is an important blow to one of the biggest sources of revenue for Mexican banks," said analyst Gabriel Casillas at the Mexico City office of ABS AG. "This should give them

an incentive to increase credit and obtain revenue from there." An important provision in the legislation prohibits banks from charging fees when customers close an account.

Eduardo Perez Motta, president of the government's anti-trust agency (Comision Federal de Competencia, CFC), said this restriction was preventing many users from shopping around for lower-cost services. "When you tell your bank you want to leave, they make your life difficult," said Perez Motta. But some analysts are skeptical that the new regulations will do much to boost competition and improve transparency. "The central bank is doing this because there has been a big political push against banks charging so much for fees and commissions," Angelica Bala, a credit and banking specialist at Standard and Poor's in Mexico City, told Bloomberg news service. "But putting a cap on fees and commissions is not a good thing. It has to be driven by competition." Officials at the central bank said they would be keeping a close eye on banks to ensure that they do not impose any other hidden fees. "We want to ensure that there is transparency on any commission that is charged," said Ricardo Medina Alvarez, director of Banxico's payments division.

The Comision Nacional para la Defensa de los Usuarios de las Instituciones Financieras (CONDUSEF), the agency in charge of protecting depositors' rights, also said it would be monitoring the banks to ensure compliance. "This is a good start," said Marco Carrera, CONDUSEF's director of market studies, regarding Banxico's decision to eliminate the fees. Carrera also noted that there could be more government intervention if banks try to compensate by adding other fees. "If we notice an improvement, we will not see any more changes," said Carrera. "But if we start seeing new fees, then there will have to be more adjustments." The bankers' association (Asociacion de Bancos de Mexico, ABM) offered no resistance to the new regulations and even endorsed the move. "The measures that were announced represent another advance in the regulation of the financial system to strengthen competition and improve transparency in transactions between users and their banks," the association said in a prepared statement. Furthermore, the AMB said it is fully prepared to implement the new regulations on Aug. 21.

No limits imposed on interest rates

The central bank's new regulatory framework does not impose any limits on interest rates that banks can charge for credit cards and other services. High interest rates and Mexico's economic crisis have contributed to a surge in overdue credit-card debt. The banks have promoted the high usage of credit cards in Mexico (SourceMex, April 06, 2005). A recent report published by the Banco de Mexico said overdue credit-card debt in Mexico now represents about 12.7% of GDP.

In Mexico, a debt becomes delinquent after three months of nonpayment. Bandicoot said delinquent debts rose to about 9.6% of the total portfolio in May, compared with 8.5% for the first quarter of the year. Officials at the central bank and in the private sector anticipate the debt will continue to increase in coming months because of the economic crisis in Mexico and the continued high rate of unemployment. Most private analysts expect Mexico's GDP to contract by more than 7% in 2009 (SourceMex, July 15, 2009).

In its most recent forecast, released July 29, Banxico projected a contraction of 7.5% this year. "The overdue consumer debt continues to increase, and our current economic situation, along with job

losses, could have a greater impact on the situation," said Pascual O'Dogherty Madrazo, who heads an analysis department at Banxico. With the economy in the doldrums, Mexican consumers are expected to go more deeply into debt in August and September ahead of the new school year. "We project that September is going to be very bad regarding increased indebtedness because of the start of the new school year," said Julio Carranza, director of Bancoppel, one of Mexico's smaller commercial banks. "Many consumers will have to use credit to pay for tuition, school supplies, and uniforms." As a partial response to the increase in overdue debt, commercial banks have reduced the number of new credit cards they have issued this year. O'Dogherty said banks issued about 1 million fewer cards in the first part of 2009 than they did a year ago.

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