

11-1-2017

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## Recommended Citation

Navarro, Carlos. "Anti-Trust Regulator to Review Proposed Banorte-Interacciones Merger." (2017).  
<https://digitalrepository.unm.edu/sourcemex/6392>

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## Anti-Trust Regulator to Review Proposed Banorte-Interacciones Merger

by Carlos Navarro

Category/Department: Mexico

Published: 2017-11-01

Two of Mexico's leading financial institutions, Grupo Financiero Banorte SAB and Grupo Financiero Interacciones S.A., have announced plans to join operations to create Mexico's second largest bank. The merged company would rank second to BBVA Bancomer, a subsidiary of Spain's Banco Bilbao Vizcaya Argentaria (BBVA), and above Citibanamex, a subsidiary of US-based Citigroup.

The two companies, which announced their merger plans on Oct. 25, had not informed Mexico's anti-trust commission (Comisión Federal de Competencia Económica, COFECE) of their intention as of Nov. 1. Banorte and Interacciones are not required to meet a specific deadline to report the merger plans to anti-trust authorities, but they do have to provide the information before they can proceed with the transaction.

"They know that if they move forward with certain aspects of the merger, they would need the authorization of the commission," said Alejandra Palacios, the 41-year-old economist who is the director of COFECE.

Under the agreement, Banorte agreed to pay about US\$1.4 billion, split 50-50 between stock and cash, for Interacciones.

"With this deal, Banorte positions itself as a leader in the financing of the enormous infrastructure necessities of our country, which represents a unique opportunity to propel competitiveness, attract investment, and improve quality of life for Mexican families," said Banorte CEO José Marcos Ramírez Miguel.

Grupo Financiero Banorte, which is headquartered in Monterrey, gained recognition following the privatization of Mexican banks in 1991 ([SourceMex, Jan. 16, 1991](#)), because it was the only one of the country's three largest institutions composed entirely of Mexican capital ([SourceMex, March 15, 2000](#), [May 23, 2001](#), [March 16, 2011](#)).

### *A Hank family affair*

Banorte and Interacciones, which are said to have begun merger talks in 2014, both have close ties to the politically powerful Hank family. Carlos Hank Rhon, an entrepreneur involved in banking, construction, and heavy industry, is the chairman of Interacciones. His son, Carlos Hank González, was once the CEO of Interacciones but joined the board of Banorte in 2014. Hank González's, maternal grandfather, meanwhile, was Banorte's chairman from 1992 to 2011.

The patriarch of the family is the late Carlos Hank González, whose name is the same as his grandson's. The elder Hank González, known as El Profesor (the professor), was a business leader as well as a leading politician in the governing Partido Revolucionario Institucional (PRI), having served as federal deputy, governor of México state, and regent (mayor) of Mexico City. He played a leading role in the so-called Grupo Atlacomulco, a PRI faction that has controlled the PRI for many years ([SourceMex, March 22, 2017](#)).

“The descendants of Carlos Hank González, the late leader of the Grupo Atlacomulco with which President Enrique Peña Nieto identifies, managed to accomplish what no other business group could attain during a single sexenio [presidential term], which is to become one of the largest players in public-works construction as well as consolidating their presence in the energy, hotel, and transportation sector,” said proceso.com, which publishes the weekly news magazine Proceso. “On top of that, they are in the process of becoming a financial giant.”

### *A tenacious investigator*

COFECE’s stance toward the merger is uncertain, but observers do not expect commission director Palacios to rubber-stamp the deal.

COFECE was created in 2014 to replace the Comisión Federal de Competencia (CFC), an agency that was viewed as largely ineffective in breaking up near monopolies in the energy, telecommunications, and other sectors.

Since 2014, Palacios has overseen 57 investigations into anticompetitive practices in the oil, retail, pharmaceutical, and transportation industries. As a result, COFECE has blocked and put restrictions on mergers, and imposed 2.4 billion pesos (US\$126 million) in fines.

Palacios has faced criticism for her work. She has been accused in the media of adopting a “slow, ridiculous, and weak” approach in her investigations. Conversely, some opponents have complained that she oversteps her mandate, and have criticized her and her staff for lacking sufficient knowledge to conduct financial investigations.

Still, her supporters point out that Palacios is relentless in her prosecution of financial violations. In May of this year, COFECE announced unprecedented fines against the administrators of four retirement funds that are part of the Administradoras de Fondos para el Retiro (AFORES) for anti-competitive practices. The four funds were Profuturo GNP, Sura, XXI Banorte, and Principal Afore. The fine against Banorte was initially 428 million pesos (US\$22.5 million), but was reduced to 300 million pesos (US\$15.8 million). The fund managers have appealed the fine before the Mexican courts.

“One must not forget that the anti-monopoly regulator has demonstrated that it is not afraid of companies like Banorte, which was fined 300 million pesos for engaging in uncompetitive practices,” the writers of the Desbalance financial column said in the daily newspaper El Universal. “Even though the fine has been brought before the courts, Palacios has vowed to use all of the commission’s resources to ensure that Banorte is sanctioned.”

“She views her work as patriotic, an effort that will help Mexico modernize and even reduce poverty,” added Bloomberg news service, pointing out that Palacios views critics as entrenched business interests that are impeding economic progress in Mexico.

The authors of Desbalance reported that many members of the financial sector are awaiting COFECE’s analysis of the Banorte-Interacciones merger.

### *Under the magnifying glass*

Given the lack of official notification, Palacios was non-committal about a Banorte-Interacciones merger. “Regarding this transaction, I know as much as you do,” Palacios told reporters at a financial forum in Mexico City.

She promised, however, that her agency would examine the deal very closely. "We will use a magnifying glass," Palacios said. "But we will also treat this case as we treat all of the 150 cases that we examine each year."

At the same time, Palacios acknowledged that the proposed merger would have certain repercussions for Mexico's financial markets. "This is not simply a merger of two banks, but a fusion of two institutions that participate in many markets that are part of our financial system," she said. "We will have to examine the participation in each of those financial markets."

Palacios emphasized that COFECE would consider not only the information submitted by Banorte and Interacciones to make the decision, but all other data relevant to the case, including the impact on financial markets.

Under law, the commission is required to reach a decision 60 days after it receives the merger documents. However, the deadline could be extended by another 40 days if the transaction carries complexities.

"We cannot say for sure how long the process will take," Palacios said.

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