

# In Mexico, Banco Wal-Mart

It may soon get a bank license there, and that could have a huge impact on financial services



BY GERI SMITH

**F**OR YEARS, WAL-MART HAS tried to get into banking in the U.S. But so far it has come up empty-handed as everyone from rival banks to unions rose up in opposition. South of the border, though, the world's biggest retailer may soon receive a banking license, paving the way for Wal-Mart Stores Inc. to offer checking and savings accounts, loans, credit cards, and more across its net-

work of 863 outlets in 130 Mexican cities.

Why is Mexico willing to give the green light while the U.S. drags its feet? From Central Bank Governor Guillermo Ortiz on down, Mexican officials want to boost competition in financial services and cut the sky-high fees and interest rates charged by Mexico's big banks. They also want to spread banking services to the 80% of Mexicans who have never had a bank account. Allowing Wal-Mart

and several smaller retailers to compete in banking "will make a difference in economic well-being and growth," Ortiz says. Mexican banking is ripe for change. Over the past year, consumer credit has jumped by 43%, and mortgage lending is up 80%, thanks largely to a decade of economic stability. Big banks, though, continue to charge interest rates well above those in the U.S. Mortgages run about eight percentage points higher than Mexican Treasury bills, while the spread in the U.S. runs one to two points over the U.S. Treasury 10-year note. Interest on credit-card balances is typically 35% in Mexico, far more than in the U.S. "The market is growing so fast that [banks] haven't had to compete on price," Ortiz says. "What they're really doing is prolonging their extraordinary profits."

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It's unclear how quickly Wal-Mart's entry might eat into those profits. The retailer says it is preparing to offer savings accounts and consumer loans at in-store branches first, with mortgages and car loans likely to follow. Locals are hoping for rapid change. "It's good that Wal-Mart is going into banking," says Estela Villalobos, a Mexico City homemaker who shops at a Wal-Mart Supercenter in her middle-class neighborhood.

## UNDER THE MATTRESS

**EVEN IF WAL-MART** doesn't immediately shake up the competition, it could provide new choices for the 12 million Mexicans who work off the books in trades such as plumbing, construction, and housekeeping. Because the big banks require hefty minimum balances, these laborers can't get credit, and they tend to keep their money under the mattress. To date, only Banco Azteca, created four years ago by an appliance chain, has targeted that market. Banco Azteca now boasts \$3 billion in assets, 7 million credit customers, and 8 million savings accounts, which require only a \$5 minimum balance.

Big banks are worried. "It's clear

## What's Going On Across the Rio Grande

- Consumer credit is growing at a 43% annual clip
- Mortgage lending is up 80% this year
- Just 20% of Mexicans have a bank account
- Government hopes competition will push down fees

Data: Banco de México

that they're going to give the license to Wal-Mart, but we want them to operate under the same rules we have to," says Jorge Hierro, executive director of institutional relations at Citigroup-owned Banamex. Banks fear that Wal-Mart may try to collect deposits and loan payments at cash registers, which would give the retailer tens of thousands of "teller windows" with little security expense. Traditional banks must provide bulletproof glass and video surveillance at teller windows.

The potential for widespread consumer opposition to any Wal-Mart banking license seems remote. On Nov. 14 the National Front Against Wal-Mart, a Mexican organization, and a San Fran-

cisco-based human-rights group called Global Exchange plan to gather outside Wal-Mart de Mexico's shareholder meeting in Mexico City. "The Mexican authorities should say no to the banking license," says Ruben Garcia of Global Exchange, which faults Wal-Mart for allowing teenagers to bag groceries just for tips. Chances are, the protesters

will be ignored by the shoppers thronging the adjacent Wal-Mart Supercenter. The company earned \$891 million on \$15.5 billion in sales last year and is Mexico's largest private employer, with 141,000 employees. The government, meanwhile, credits the "Wal-Mart effect" for part of its success in slashing inflation from nearly 19% to 4% since the American company entered the country 15 years ago, so the retail giant hasn't been as dogged by controversy as it has in the U.S. "Many Mexicans are glad to see Wal-Mart coming in to break up our banking oligopoly," says Marco Antonio Ceron, president of the Mexican Institute of Financial Executives. "We need the competition." ■