Will Mexico's New Banking Sector Rules Have Their Intended Effect?

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Q Mexico's central bank (Banxico) on July 26 imposed several new limits on bank fees and commissions. Among the new regulations are prohibitions against banks charging account holders fees on deposits and loan payments. Also, banks will be required to display the total cost of ATM transactions and allow customers to cancel them if they do not want to incur the charges. How will the new regulations affect Mexican banks? Will the new rules be good for customers? Will banks try to recover any lost revenues in other ways?

A Carlos Gonzalez, partner and Ricardo Ortiz, associate attorney at Diaz, Reus & Targ in Miami: "The new regulations will certainly impact banks' bottom line, but they will also spur these institutions to increase their offerings to the public. Specifically, the new regulations limit a bank's ability to charge fees to account holders based on amounts on deposit and loan payments. In a bid to increase transparency, banks will also be required to clearly disclose the total costs for specific transactions. These measures should translate into immediate benefits for the consumer in the form of actual savings. But the question is how long these savings will last. Fees and commissions represent an important part of a bank's total income. And while Mexico's banks may be forced to reduce their fees with respect to one set of services, consumers may be hit with new fees related to other products. For example, to offset the decline in commission income, banks may raise the interest rates charged for loans. This increase, coupled with a larger volume of loan activity, will certainly add to the banks' bottom line. But, it may also cut into consumer savings. The long-term impact of these regulations remains to be seen. Mexico's financial institutions are robust and have weathered the economic crisis. However, their success may yet be tempered by the government's desire to further clamp down on the high fees they charge for various services."

ATapen Sinha, professor of risk management at the Instituto Tecnológico

Autónomo de México and professor at the University of Nottingham

Business School: "At present,Mexican banks charge for every turn. A certified check attracts a stiff fee, as does the replacement of a debit card that you never received. If a person consults his or her bank account too often, that may attract a fee as well. Unlike in the United States, where banks make money by lending, many leading banks in Mexico make money by charging fees. On the average, a third of the profits of the entire banking system come from fees. For some large banks, fees account for more than half of their profits. Banamex, a subsidiary of Citibank, thus held the dubious distinction of being the only profitable subsidiaryin 2009. Some of these rules will save some money for some customers. But it is not clear how much they will save. The banks have so far been relatively silent on this issue. This raises the suspicion that they are not expecting a steep decline in profits due to the new rules. Most large banks already display a screen about the charges when customers withdraw money from their accounts. Therefore, this policy will not make much of a difference. The charges have kept many people from holding bank accounts. In Mexico, less than aquarter of all adults have bank accounts. Unless competition from nonbank financial institutions makes serious inroads into the customer base of the traditional large banks, these problems will fester. I discussed some of these issues in depth in a Federal Reserve Bank of Atlanta podcast."

ADavid Olivares, vice president and senior credit officer and Felipe Carvallo, analyst at Moody's

de Mexico: "Mexico's new restrictions on bank fees will limit revenue generation at a time of already depressed earnings and business activity given very modest business demand for the past 18 months, as well as still-high credit costs. Fee contribution to revenues is relevant at an average of 20 percent, but it has already been declining in response to mounting regulatory and competitive pressures. Restrictions willbe more critical for small banks that are still in the start-up phase, because they rely on fee-rich products to reduce operating losses as they build scale to break even. In our view, the measure is part of a broad push by regulators to roll back the large number of fees put in place following the 1995 crisis that were aimed at compensating for a sharp downturn in lending. As the system evolved into a well-functioning set of large profitable banks, there has been an increasing public outcry about such fees in Mexico. This dispute has been embraced by Banxico. Banks and nonbank finance companies will no longer be able to charge their own clients fees for withdrawing cash or for checking their account balances, among other things.

Banks will also be limited in the fees they can charge for late loan payments and account overdrafts. Also, the new rules will increase transparency in service

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fees for customers. These measures could nonetheless be positive, because they will encourage banks to expand credit intermediation."

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