

Buy a Toaster, Open a Bank Account

Banco Azteca caters to the little guy--in appliance stores

Pedro Rubio was in a bind. The 56-year-old carpenter needed to come up with thousands of pesos in notary fees to get legal title to his modest cinderblock house. Otherwise, he feared that squatters would stake claim to it when he was away working at construction sites. But Rubio, who earns the equivalent of \$600 a month, had no proof of income and no bank account.

So on a recent morning, he walked through his gritty Mexico City neighborhood to an Elektra appliance store. At the back, behind an aisle of microwave ovens, he sat down with a loan officer from a new bank, Banco Azteca. Unfazed by Rubio's worn jeans and unshaven face, the officer drew up an inventory of his possessions: TV, refrigerator, washing machine--all bought on credit at Elektra in the past three years. Accepting these as collateral, the bank approved Rubio's application within 24 hours. The nine-month, \$200 loan carries a 48% annual interest rate, usurious by U.S. standards but not in Mexico, where the banking sector is still recovering from the effects of the 1994 peso crash. "It's a little expensive," says Rubio. Still, he says he can swing the weekly \$8 payments. In any event, he adds, "I don't really have any other option."

The first new Mexican bank in nearly a decade, Banco Azteca has set its sights on a large but underserved segment of the market: the 16 million households who earn \$250 to \$1,300 a month. They toil as taxi drivers, factory hands, and teachers and aren't welcome at most banks, which consider small accounts a nuisance. Even though these workers boast a combined income of \$120 billion, only 8% have savings accounts. "This is something a lot of emerging-market countries need: a new source of domestic borrowing for credit-based growth," says Philip J. Guarco, banking analyst for Moody's Investor Services in New York.

The bank, which began operations on Oct. 30, is the brainchild of Ricardo Salinas Pliego, head of a \$2.2 billion retail-media-telecommunications empire that includes Grupo Elektra ([EKT](#)), Mexico's largest appliance retailer. The venture seeks to exploit Elektra's extensive store network along with its 50-year track record in consumer finance. Some 70% of Elektra's merchandise is sold on credit, so it makes sense to convert its credit departments in each store into bank branches. Moreover, the company sees little risk in the venture, since it boasts a sterling 97% repayment rate. "We know this segment of Mexican society better than anyone else," says Banco Azteca President Carlos Septién. He forecasts a return on investment of 15% to 20% in its first three years.

Some analysts are skeptical. "The business model is smart, but we believe their projections of growth and profitability are too aggressive," says Joaquín López-Dóriga, an analyst at Deutsche Bank Securities in New York. Meanwhile, the holders of \$275 million in Elektra bonds are worried about how the new bank will affect them. They're concerned that they'll be second in line to Banco Azteca depositors if Grupo Elektra hits a rough spot. Partly because of such concerns, Elektra's stock has dropped 16% since the end of October.

Banco Azteca execs are convinced investors will come around. Although the bank may cater to Mexico's lower-middle class, its parent has spared no expense. The group has spent \$20 million a year over three years on information technology, including high-

tech "fingerprint readers" that eliminate the need for customers to present IDs or passbooks. The bank also commands a 3,000-strong army of motorcycle-riding loan agents. They tote Compaq iPAQ handheld computers loaded with Elektra's rich database, which includes customers' credit histories and even names of neighbors who might help track down delinquent debtors.

Septián, a veteran commercial banker, and his 7,200-person staff have taken pains to create a welcoming atmosphere. Branches are decorated in the green, red, and white of the Mexican flag and posters with the Azteca motto, "A bank that's friendly and treats you well." Rubio, the carpenter, agreed: "They do treat me well at this bank," he says. For Banco Azteca, it could be the start of a long, and lucrative, relationship.

By Geri Smith in Mexico City