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Money on the Move

Banco Azteca aims to resuscitate Mexico's crippled banking sector by loaning money to the masses

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Manuel Monroy is a motorcycle loan officer. Not police officer. Loan officer. Every day he rides the streets of Mexico City, ringing doorbells and dodging barking dogs to visit customers. He is one of 3,000 motorcycle agents of the new Banco Azteca, a revolutionary effort to revive the moribund Mexican banking system by extending its services to the poor and middle class for the first time. Stopping at a house on the impoverished fringe of the outskirts of Mexico City, Monroy fails to get a payment from an overdue customer who recently bought a stereo. "She's just waiting for her paycheck so she can pay, and then she'll borrow some more," says Monroy.

One of Latin America's biggest economies, Mexico also has one of the most crippled banking systems in a hemisphere filled with financial ruins. The peso crisis of 1994 drove Mexican banks into a retreat from which they never fully recovered. Even as Mexico's economy became the region's growth superstar, its banks lagged behind those of its neighbors. According to the World Bank, credit amounts to only 10 percent of GDP in Mexico, compared with 30 percent in Brazil, 20 percent in Argentina and 65 percent in Chile. It is now all but impossible for ordinary Mexicans to get bank credit to buy an appliance, car or house, or to expand a small business. By offering credit in limited forms, and only to a narrow elite, Mexico is failing to build a crucial source of growth for any modern economy. Azteca CEO Carlos Septien says that one way to measure a nation's wealth is to count the ways people can borrow money--just look at the United States, where "everybody owes money."

Hailed by President Vicente Fox as "good for Mexico," Azteca became the first new Mexican bank to win an operating license since the peso crisis. Owned by Grupo Elektra, the new bank extends the credit service Elektra has been offering customers at the three big discount stores in its retail chain for 50 years. Since its November launch, the bank has opened more than 800 outlets by plunking down giant metal safes in Elektra stores. Opening 5,500 new savings accounts a day, with a minimum deposit of just \$2, it began last month to offer personal loans for use outside the Elektra stores. This month, it will expand its offerings to include house and car loans and, eventually, microloans for small entrepreneurs.

Even before the peso crisis, Mexican banks shunned the poor. Of the 40 million working Mexicans, half are in the "informal sector," meaning they don't pay taxes or get pay stubs to prove they are employed. About 20 million earn less than \$5 a day. They would appear to be bad credit risks. Enter the motorcycle loan officers: they play a role that is part debt collector, part social worker to recover loans. Grupo Elektra claims a 97 percent repayment rate on loans at its stores, and despite occasional glitches like the one Monroy ran into, expects the new bank to do at least as well. "They're unafraid of dealing with the poor, which is what has held up traditional banks until now," says Damien von Stauffenberg, director of MicroRate, a microloan rating agency in Arlington, Virginia. "They will make a killing. This is a vast, untapped market."

The peso crisis was an offspring of the privatization of Mexican banks in 1991, which led to a boom in new credit. After the bust, Mexico was reluctant to encourage creditors, and now has (in the World Bank's opinion) the second most-underdeveloped credit-protection system in Latin America after Colombia. It is still illegal, for example, to finalize credit-card transactions over the Internet in Mexico

(unlike Brazil). After 1994, Mexico made one big change: opening to foreign banks, which now own 75 percent of bank assets in the country, up from 4 percent in 1994.

None of the foreign banks had targeted services to the poor until Azteca made its move. Citibank, the biggest foreign player in Mexico, recently purchased a company called The Associates, which has been criticized in the United States for alleged predatory lending practices to the poor. In Mexico, The Associates has made it clear it is moving into low- and middle-income markets, and analysts see that as a sign of Citibank's widening strategy. "They're trying to get away from their elitist image," says Jan Smith, financial director of InfoAmericas, a market-intelligence consulting firm. "It is a turning point for financial services in Mexico. The expansion of banking services to low- to middle-income groups is the next big push."

The authorities are watching closely, wary of the specter of 1994. "You have to be careful, because with a boom in credit you usually get a crisis in the banking sector," says Alejandro Micco, an economist at the Inter-American Development Bank. Azteca is charging a 50 percent flat interest rate on its loans, which can nearly double the price of a \$250 television set to almost \$500 over the 12-month life of the loan. Social critics describe it as highway robbery; financial analysts say it's fair, given the risks. Azteca says its motorcycle agents make sure payments don't exceed 20 percent of a person's disposable income, and visit customers' homes to confirm their ability to pay. Moreover, bank officials says most of its new loans aren't going to stereos and other frills, but for practical investments like cement for home improvements. Like Fox, they believe Azteca will be both good business, and good for Mexico.