

## **Mexico's Elektra To Open Banks In Six New Markets In 2007**

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**By Ken Parks**

MEXICO CITY (Dow Jones)--Mexican financial services and retail firm Grupo Elektra (ELEKTRA.MX) plans to open its banking franchise in six new countries this year as it looks to replicate in other Latin American markets its success in offering loans and savings accounts to Mexico's working poor.

"We are catering to middle to low-income people who aren't being served by traditional banks. That was the experience we had in Mexico, 80% of the clients in Elektra didn't have a banking relationship. It's the same all over Latin America," said Luis Nino de Rivera, vice chairman of Banco Azteca who is in charge of international expansion, in a recent interview.

Elektra, which operates several retail chains in Mexico, opened Banco Azteca in October 2002 to sell financial services to its mainly low-income clients.

With just over four years of operations under its belt, Banco Azteca reported net profit of 216 million pesos (\$19.4 million) last year and net deposits of MXN36.6 billion at the end of December.

In order to keep bad loans at acceptable levels, Banco Azteca sends an agent to a prospective borrower's home in order to judge his or her credit worthiness before a loan is granted, followed by a personal visit in the event of a missed payment.

The bank's labor-intensive authorization and collection process has paid off, so far. Banco Azteca had a non-performing loan ratio of 6% at the end of last year, which is at the upper end of the 4%-6% range that is considered acceptable for consumer and personal loans.

"The collection system is the basis for our granting loans. We use exactly the same method (in all markets)," Nino de Rivera said. "It's more expensive to have bad loans so we spend the time and money before we grant the loan."

Now, with Banco Azteca firmly established in Mexico, Elektra is exporting its banking model based on simple consumer and personal loans, savings accounts and time deposits to the rest of Latin America through greenfield ventures.

Elektra launched Banco Azteca in Panama two years ago, and recently obtained banking licenses in Guatemala and Honduras. Elektra has also filed for licenses in El Salvador, Peru, Argentina and Brazil, which Nino de Rivera expects to receive later this year.

Altogether, Elektra will probably commit between \$50 million and \$60 million in capital to open banks in six markets this year, he said.

The Mexican retailer plans to leverage its existing retail and consumer finance operations in Guatemala, Honduras, and Peru to grow Banco Azteca, while Elektra's consumer finance unit in El Salvador will become a bank.

Argentina and Brazil, however, present a bigger challenge given Elektra will be entering those markets as a new player in both financial services and retail.

Nino de Rivera said Banco Azteca is comfortable entering those countries since the targeted market segment is similar to Mexico in terms of income and opportunity. "The traditional banks don't go after these families in Argentina or Brazil," he said.

In Argentina, Elektra plans to open retail outlets and a consumer finance business first, followed by Banco Azteca as soon as it obtains a banking license, he said.

"Brazil is a different world. There you have very powerful local banks. In addition to that they have a very tight relationship with retailers," Nino de Rivera said. "The top retailers are already doing business with the top banks and that is a very powerful credit retail machine."

Elektra plans to launch retail and banking operations in Brazil later in the year, focusing initially on northeastern Brazil where competition from big local banks and retailers is less pronounced than in the more prosperous south and southeast.

Nino de Rivera said Elektra expects operations in its new markets to break even within two years, while acknowledging that the group will have its hands full this year dealing with the cultural, regulatory, and competitive idiosyncrasies of seven foreign countries.

As for how big Elektra's international banking operations could become, the executive said much will depend on how fast the company grows in Argentina and Brazil.

"If we pick up speed in those markets it could become as big as or bigger than what we have today in Mexico," he said.

Rival banks are unlikely to stand still while Banco Azteca signs up low-income households across the region. Already in Mexico, retailers such as Grupo Famsa (GFAMSA.MX) and Wal-Mart de Mexico (WALMEX.MX) have received banking licenses, while Chilean retailers Ripley Corp. (RIPLEY.SN) and Falabella (FALABELLA.SN) have exported their in-store banking model to Peru.

Global financial giants HSBC Holdings PLC (HBC) and Spain's Banco Bilbao Vizcaya Argentaria (BBV) have also made no secret of their desire to bank the unbanked.

"Local players are going to react and competition is going to get tougher. They are not going to wait and see if we are going to be successful or not," Nino de Rivera said.

"It's now a worldwide fad to go after the bottom of the (economic) pyramid so there are more people coming in," he added.