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## FEATURED Q&A

### Will Correspondent Banking Increase Financial Access in Mexico?

**Q** Mexico recently approved legislation to allow financial services companies greater leeway to do business through so-called 'bank correspondents,' which enable banks to create alliances with commercial businesses to handle banking transactions at retail locations around the country. While the law aims to increase financial access for Mexico's unbanked population, estimated at 70 percent, it faced some opposition during the legislative process from traditional banks that feared correspondent banking might put them at a disadvantage in comparison to outfits like Banco Wal-Mart that already have a strong presence at commercial establishments. Can correspondent banking significantly expand financial access for Mexico's unbanked population? Which companies stand to lose or gain from the new regulations?

**A** **Guest Comment: Vicente Corta:** "Correspondent banking is certainly an expeditious and cost-efficient model to significantly expand financial access for Mexico's unbanked population. This model will allow both traditional and correspondent-oriented banks to increase their financial services offerings without incurring infrastructure and labor costs associated with the establishment of traditional bank offices, while also taking advantage of the existing client base of commercial correspondents. The new set of correspondent

regulations tends to enhance effective competition conditions in the banking market and could lead to better quality services and could cut down transaction costs and commissions for the clients. However, the new regulations set forth limitations and restrictions with respect to the number of transactions that banks may perform through the correspondent model. Such restrictions and limitations seem to create entry barriers for new participants in the banking business and reduce access by unbanked population to the industry.

*Continued on page 3*



### Honduras Talks Falter Amid Proposal for Zelaya's Return

Carlos Lopez, the secretary of foreign relations for Honduras' *de facto* government, told reporters Sunday that his side would not accept a proposal to allow ousted President Manuel Zelaya to finish his term. See story on page 2.

*Photo: Costa Rican government.*

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## NEWS BRIEFS

**Ten Mexican Police Officers Detained In Probe of Killings**

Mexican authorities have detained 10 local police officers in connection with the killings of 12 federal agents whose bodies were discovered July 13 near a highway in Michoacan state, the Associated Press reported Sunday. A judge ordered the detentions of the officers from the Michoacan town of Arteaga. On Saturday, the Mexican attorney general's office said the slain agents had been killed as an act of revenge after the arrest of an alleged leader of the La Familia drug cartel.

**Argentina Will Seek to Retire Bonds Linked to Inflation**

Argentina's new economy minister said Sunday the country will aim to retire a large portion of its sovereign debt and will meet all of its financial obligations, reported local daily *Pagina 12*. Amadou Badou, who previously served as head of social security agency Anses, said the government should buy back inflation-linked bonds, which make up 40 percent of the country's debt and are valued at \$56 billion, reported Reuters.

**Redecard Shares Fall on Government's Antitrust Ruling**

Brazilian payment processor **Redecard** saw its shares fall 2.8 percent on Friday after government antitrust regulators started a probe of changes the company made to contracts, Bloomberg News reported. An arm of Brazil's Justice Ministry said July 16 it was banning the changes, which include requiring online payments services like **Paypal** to provide Redecard with lists of clients and use its Komerchi software platform. Redecard says the changes were necessary to protect the security of cardholders.

## Political News

**Honduras Talks Break Down Over Proposal for Zelaya's Return**

Talks aimed at ending Honduras' political crisis broke down Sunday as the country's *de facto* government rejected a compromise that included ousted President Manuel Zelaya's return to power, the Associated Press reported. The lead mediator, Costa Rican President Oscar Arias, on Saturday proposed an arrangement to allow Zelaya to finish his term, advance elections by a month to October, provide

“Dear mediator ...  
I'm very sorry, but your  
proposals are unacceptable.”

— *Carlos Lopez*

for a general amnesty and also allow members of the leading political parties positions in government. The government of *de facto* Honduran President Roberto Micheletti agreed to several parts of the plan Sunday, but Carlos Lopez, Micheletti's secretary of foreign relations, turned down the overall package because of the provision for Zelaya's return to power. "Dear mediator ... I'm very sorry, but your proposals are unacceptable," Lopez said after the talks. The compromise Arias proposed "interferes with Honduran internal affairs," Lopez added. The *de facto* government that has ruled Honduras since the June 28 *coup* against Zelaya instead proposed creating a truth commission that would "let the Honduran people and the international community see all the acts that led to the current situation," according to a letter Lopez signed. The government maintained its insistence that Zelaya would be prosecuted if he returns to Honduras. Zelaya previously said he would return to Honduras in order to establish a parallel government, but later told an AP reporter he would leave "the door open for diplomacy and dialogue." On Sunday, Zelaya aide Allan Fajardo said the ousted presi-

dent intended to return to Honduras before Friday, the date Arias had proposed for Zelaya's return to power. "The president is preparing his return to Honduras, with or without an agreement," Fajardo said on Sunday. Lopez said a delegation from the *de facto* government would return to San Jose "to continue our conversations" on Wednesday. However, Enrique Flores, a Zelaya negotiator, said Arias may press on with "personal efforts" to end the stalemate. Arias said he would continue his efforts for 72 hours. Flores, however, said formal negotiations are over.

## Economic News

**Mexican Central Bank Cuts Key Interest Rate Quarter Point**

Mexico's Central Bank on Friday lowered its benchmark interest rate a quarter percentage point to 4.5 percent, Bloomberg News reported. The cut was a smaller reduction than last month's half-point cut and the bank, headed by Guillermo Ortiz, said Friday that it will "pause its current monetary easing cycle." This year, the bank has slashed its key interest rate 3.75



Ortiz

File Photo: Banco de Mexico.

percentage points. The bank's announcement led to a strengthening of the peso Friday. In the first quarter of 2009, Mexico's economy, the second-largest in Latin America after Brazil's, contracted at its sharpest rate since the Tequila Crisis of the mid-1990s. Unemployment in Mexico has grown this year amid the recession in the United States, which buys approximately 80 percent of Mexico's exports. The outbreak of swine flu earlier this year shook the country's economy as tourists stayed away and the government shut down restaurants, theaters and schools. The outbreak may shave 0.5 percent off of Mexico's gross domestic product this year, Ortiz has said. [Editor's note: see related Q&A in the July 17 [issue](#) of the *Advisor*.]

**Featured Q&A***Continued from page 1*

Restrictions and limitations should be oriented to the business and moral qualifications of correspondents rather than to the number or volume of the transactions to be conducted by banks through this business model. To the extent that the new regulations can effectively create adequate competition conditions and reduce entry barriers to the market, correspondent-oriented banks will be able to exploit their business model and bring new clients to the financial services sector, traditional banks will have an opportunity to offer their more sophisticated products to the population that will now have a banking culture, and the currently unattended population will have access to competitive and cost-efficient financial services."

**A Guest Comment: Tapen Sinha:** "The law relating to 'bank correspondents' is supposed to inject more competition into the oligopolistic banking industry in Mexico. In Mexico, less than 30 percent of households have bank accounts. In comparison, the figure is more than 60 percent in Brazil. Unlike the Banco Popular do Brasil, the bank specifically targeting the low-income cash transacting public in Brazil, there is no such banking facility in Mexico. Four large banks in Mexico dominate the industry: BBVA Bancomer has 1,862 branches, Banamex 1,598, HSBC 1,251 and Santander 1,026 branches. The correspondent business comes with strings attached: 65 percent of a bank's operations for the first 18 months—and 50 percent thereafter can be of this nature. The law caps transaction amounts: cash withdrawals or checks cashed cannot exceed 1,500 'unidades de inversion' (UDIs), approximately 6,000 pesos (US\$ 468), and deposits have a limit of 4,000 UDIs, 16,000 pesos (US\$ 1,250). There are three large entities with great interest in this opportunity: Banco Wal-Mart, Banco Coppel and Banco Compartamos. These companies already have large retail outlets. For example, WalMex owns department stores (Suburbia), supermarkets (Wal-Mart and

Superama) and warehouse chains (Bodega Aurrera and Sam's Club). It also owns Vips restaurants. In all, it has over 1,200 outlets. Thus, in one fell swoop, WalMex can become one large competitor in the banking sector. WalMex and others like it have a big advantage: they operate longer hours. And unlike bank ATMs that are out in the open, they have the advantage for being secure—a point very important in Mexico."

**A Guest Comment: Antonio Ocaranza:** "Wal-Mart de Mexico has more than 3 million customers per day. More than 50 percent lack banking services. Part of our vision to improve the quality of life of Mexican families also involves having access to credit and banking services at an affordable cost. It's also convenient: customers of Banco Wal-Mart can go to the cashiers at Wal-Mart de Mexico stores to receive deposits, make withdrawals and pay services. Already, there are many financial services provided at our cashiers, from the cash-back option on payment of purchases, to tax collection or making payments for different services, such as utilities. As in the case of other countries where this mechanism has been implemented, this ready access to banking services through our in-store cashiers can have a positive effect on the unbanked population, since it provides a more convenient and easier way to access banking services and reduces the cost of money services by using existing infrastructure more efficiently."

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**Latin America Advisor**

is published every business day by the  
Inter-American Dialogue, Copyright © 2009

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**Latin America Advisor** is published every business day, except for major US holidays, by the Inter-American Dialogue  
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