

Banks

Are Mexican bank commissions high?

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In the past few days the bill introduced by Senator Ricardo Monreal aimed at prohibiting certain bank commissions has led to intense, and in my view healthy, debate as to whether or not bank commissions are too high and if so what is to be done about it. I have to declare an interest, since I work in a bank, but here are my views.

Firstly let us address the question as to whether commissions in Mexico are very high. This is no simple question. There is no way of knowing in advance whether or not a price is excessive. Whenever the price of a good or service is analysed, we must ask ourselves whether the price is the result of a competitive process and whether gains in efficiency can be made to reduce it. The question should be: high compared with what? It seems to me that there are two pertinent comparisons: in time and with other countries. On a time horizon, the commissions currently charged by the banks are not high. In fact, they have been falling sustainedly in the past few years.

Whereas in 2005 commissions accounted for 45% of the banks' operating revenues, in September of this year the percentage was 17%. This considerable reduction was the result not of chance but of a series of regulatory changes encouraging a greater level of competition (in 2005 there were 29 banks in operation and now there are 52) and of efforts by Banco de México, the institution responsible for regulating this area. What about international comparisons? Commissions in Mexico are not high relative to other countries either. Commissions as a proportion of total revenues are less in Mexico than in advanced countries such as France, Germany and the United States or developing ones such as Chile, Colombia and India. Looking at a broad range of countries, Mexico is half-way down the table.

After the bill in question had been presented, comparisons were released suggesting that Mexican banks that are subsidiaries of global banks obtained more revenues by way of commissions than their parent banks did. This information is incorrect. It was obtained by comparing, in the case of Mexican banks, gross commissions (i.e. commissions charged) with revenues less additions to reserves, whereas in the case of the international parent banks net commissions (i.e. commissions collected less commissions paid) were compared with revenues including additions to reserves. The comparison is not valid.

On a like-for-like basis, commissions as a percentage of total revenues are practically equal in the two cases, in fact even lower in the case of some Mexican banks. Nor do we find commissions in Mexico particularly high when comparing them on an individual basis. For example, the maximum cost to a natural person for making an electronic interbank transfer ("SPEI"), one of the services for which it is proposed to prohibit the charging of commissions, is eight pesos (and less than five for the great majority of banks), and it is charged only to the person making the transfer, whereas in the case of the United States the majority of banks charge US\$20 (more than 400 pesos) to both payer and payee; at least 50 times more expensive.

This does not mean that there is no room for bank commissions to continue coming down, which is, needless to say, desirable. But forbidding the banks to charge them does not seem to me the best way of achieving this. It constitutes a price control, which invariably leads to supply constraints. To ensure that commissions continue to come down, I believe we need to achieve greater efficiency gains. This can be achieved through greater use of digital technologies which involve substantially lower costs.

To this end it would be a good to be able to continue to charge commissions for the use of physical infrastructure so as to incentivise the use of digital infrastructure. Furthermore, we must continue to promote banking competition and improve financial education so that users can take better financial decisions. The bill's objective is a sound one, but it could be attained by means of other mechanisms.

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