

Wal-Mart to Expand Its Financial Services

By KAREN TALLEY

Wal-Mart Stores Inc., years after a failed effort to obtain a bank charter, plans a 50% increase this year in the number of the company's stores offering bank-like services.

The expansion would push the number of Wal-Marts with "Money Centers" to 1,500, or a little less than one for every two Wal-Marts in the U.S., giving the nation's biggest retailer a financial presence that only a handful of banks have. Wal-Mart plans to open its 1,000th money center Tuesday.

The money centers cater to millions of the retailer's lower-income customers who don't have a bank account or significant relationships with a bank. The federal government estimates that the category accounts for one in four U.S. households.

"We think banks are not as interested in this customer and have a lot of other things on their plates," said Jane Thompson, president of Wal-Mart Financial Services. "So we see a lot of...space to service customers' basic financial needs."

Ms. Thompson described the money centers, which do three million to five million transactions a week, as "a very profitable part of our store," although the retailer didn't offer any specific numbers. Ms. Thompson said the centers are "getting way-above-average" comparable-unit growth and return on investment, because the units are cheap to put into stores.

The centers cash work and government checks, offer prepaid Visa debit cards that customers can load money onto for a \$3 fee, and provide money-transfer and bill-payment services. Because it doesn't have a bank charter, Wal-Mart can't lend money and back deposits with a government guarantee, but the retailer has no plans to reapply for such a charter.

"We really do think we are fine without it," Ms. Thompson said. "There are healthy margins in the banking industry," she said, adding that check cashing, which costs between \$3 and \$6 per transaction, is the highest-demand service Wal-Mart performs.

Wal-Mart tried for several years to obtain a bank charter, most recently in 2007, when the retailer withdrew an application in Utah for an industrial-bank charter that would have allowed it to, among other things, lend money and back deposits with a government guarantee. Opponents were concerned that an industrial-bank charter could lead to Wal-Mart becoming a retail banking giant with an inordinate amount of control.

"The fear is the company could force the bank it controls to lend to preferred parties and not to its competitors," said Rajesh Narayanan, a Louisiana State University finance professor, who has followed Wal-Mart's financial-services efforts.

Ms. Thompson said Wal-Mart's past efforts failed because of "banking regulators, limitations and politics."

Wal-Mart does have a banking charter for its stores in Mexico and is seeking approval for a banking charter for its Canadian stores.

With the expansion, Wal-Mart is "upping its game, becoming a financial supercenter," Mr. Narayanan said, adding that Wal-Mart's program is already believed to be the most comprehensive by any U.S. retailer. "What they are doing has tremendous benefits in terms of cross-selling because it brings people into the stores."

Ms. Thompson agreed: "We've created something that is a great strategic fit. It helps us pull people in the store."

As for Wal-Mart expanding its financial-service offerings, "we would like to find a way to add deposits," Ms. Thompson said. However, the deposit side of the business "is more of a service for people than a money maker" so Wal-Mart doesn't have a definite plan in place, she said.

The retailer works in the U.S. with General Electric Co.'s banking unit, which issues the Wal-Mart debit card. Green Dot Corp. processes customers' debit transactions. Ms. Thompson declined to discuss how the three parties split the proceeds. Transactions processed by the money centers total billions of dollars annually.

Wal-Mart began setting up the money centers in 2004, reaching the 1,000 mark over the next six years. The 500 coming this year are the result of remodelings that Wal-Mart is doing to many of its stores, space that has opened up, and demand, Ms. Thompson said.

Stores that don't have money centers are offering the services at customer-service counters. In other stores, Wal-Mart leases space to full-fledged banks.

The retailer—which operates about 3,500 Wal-Mart stores in the U.S.—plans to introduce additional money centers beyond this year. "This won't be the end of it," Ms. Thompson said.

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