The internationalization of retail banking: the case of the Spanish banks in Latin America

Mauro F. Guillén and Adrian E. Tchoegli*

Since 1995, two Spanish banks — Banco Santander Central Hispano (BSE) and Banco Bilbao Vizcaya Argentaria (BBVA) — have become the largest retail banks in Latin America. This recent development merits careful analysis because foreign direct investment is rare in retail banking. The finding is that the Spanish banks are exhibiting asset-seeking, asset-exploring, and oligopolistic behaviours, thus posing no serious challenge to established theories of foreign direct investment. The implications for research on cross-border banking are also discussed.

Introduction

In a review of the literature on cross-border banking, A. E. Tchoegli (1987) concluded that retail banking does not generally lend itself to foreign direct investment (FDI). Retail banking is a mature industry, proprietary knowledge is difficult to protect against imitation, and there is no reason to expect foreign banks to have any particular advantage over domestic banks familiar with their local environment. Historically, only Citibank (now Citigroup) has pursued a global retail strategy, though it has focused on credit card and banking services for an urban professional class without attempting to enter the mass retail market as the Spanish banks in Latin America are doing.

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Since 1995, three Spanish banks — Banco Santander (Santander), Banco Bilbao Vizcaya (BBV) and Banco Central Hispano (BCH) — have become the largest foreign banks in Latin America. 

(1995 Santander and BCH merged to form Banco Santander Central Hispano (BSCH) and BBV merged with formerly State-owned Argentaria to form BBVA.) These banks have spent over $7 billion to acquire large stakes in 30 major banks located in more than 10 different countries (table 1). The combined assets of their Latin American operations amount to some $10 billion. Moreover, the information in table 1 does not include the numerous acquisitions of credit card, consumer and commercial loan, insurance, stock brokerage and pension fund management companies, electronic banking services, or earlier acquisitions and pre-existing operations. As of mid-2000 BSCH was the largest retail bank in the region, with 9.4 per cent of all banking assets, followed by BBVA (7.5 per cent), Brazil’s Bradesco (6.9 per cent), Mexico’s Banamex (3.6 per cent) and BankBoston (3.3 per cent). The Spanish banks hold leading positions in every large market, except for Brazil, at least until BSCH’s successful bid in late-2000 for Banco do Estado de São Paulo (Banespa).

What is novel about this expansion is that the Spanish banks are acquiring some of the largest domestic banks in their target countries and are entering the general commercial and mass retail markets. Furthermore, the stock market seems to have endorsed this strategy. Of the world’s 50 largest banks (in terms of market capitalization), BBV (at 56 per cent) and Santander (47 per cent) rank first and third, respectively, in terms of total stockholder returns between 1995 and 1998. The recent turmoil in emerging markets reduced the banks’ valuations, but this reflects judgments about the markets and not necessarily about the banks’ activities.

The approach taken here in this paper is evolutionary. Like biological evolution, evolutionary economics is a historical science. As E. Mayr (2000) points out, the evolutionary attempts to explain events and processes that have already taken place. The aim is not to

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1 El País, 14 June 2000, p. 84.

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Table 1. Acquisitions of Banks* in Latin America since 1990

(With acknowledgments)
prove, i.e. test, a particular explanation; rather, the intention is to describe a unique phenomenon and see the extent to which existing FDI theory helps to understand it, or whether FDI theory requires modification (Eisenhardt, 1989). The focus is on the phenomenon, not the theory, and the research approach is idiographic (i.e. a case study). As L. Bengtsson et al. (1997) point out, idiographic research seeks to create rich description that emphasizes qualitative and multi-aspect concerns, in contrast to the nomothetic approach that seeks statistical generalizations based on the analysis of a few aspects of large samples. The research included semi-structured interviews with 33 bankers and bank regulators in Latin America and Spain (see appendix A), and examination of bank documents, industry reports and banking system statistics.

Lastly, the object of the analysis presented here is the foreign bank. This is in contrast to the stream of research of economists, such as S. Claessens and M. Jansen (2000), and the authors of the chapters in their book, which take the markets that foreign banks enter as their object.

The sudden foray by the hitherto unknown Spanish banks brings up the standard six questions in any study of FDI (Caves, 1996) — who, where, what, when, how and why? Who is the question of exactly which banks are responsible for the phenomenon. Where raises the issue of the choice of Latin America as the target region. What is the question of retail banking — the banks' apparently anomalous choice of the product market to enter. When involves the timing of the banks' expansion. How is the question of the banks' different market entry strategies. Why is the issue of the reasons behind the banks' strategies. We deal with each of these questions in turn. Lastly, we also discuss some policy implications of the entry of foreign bank for host countries.

Who: Santander and BCH (now BSCH) and BBV (now BBVA)

ESCH and BBVA are the survivors in an ongoing process of consolidation in Spain's banking sector. For decades, seven big institutions dominated Spanish banking. Given their extensive branch networks and the tight regulatory framework, they grew primarily by acquiring smaller institutions. For much of the postwar period, these banks operated as a de facto cartel; the banks met regularly to fix interest rates and lobby the Government (Pérez, 1997). By the late 1980s, however, the situation started to change. Competition for market share intensified, and the Government encouraged mergers as a way to break the cartel and to prepare for European integration (Pastor, Pérez and Quereuaf, 2000). Intermediation margins fell, and, though still solid, the banks worried about their long-term profitability. Besides entering new product markets — stock brokerage, pension funds and value-added services — several of the big banks began to view international expansion as a way to enhance profitability by exploiting their skills more fully.

In 1995 Santander, BBV and BCH were fairly similar in terms of age, size and focus on retail banking. Yet, they differed in terms of control, managerial style and strategic posture (Interviews #7, 9, 14, 16, and 17 in appendix A). A brief profile of each bank reveals these common and divergent features, and how they have shaped the banks' international strategies.

Banca Santander, the largest bank in Spain as of 1995 (see table 2), was founded in 1857. It was a commercial bank and also a bank of issue until 1874, when note issuance became a monopoly of the Banco de España, the central bank. Although Santander initially

| Table 2: Characteristics of the Leading Spanish financial institutions, 1997 (Billions of dollars and percentages) |
|---|---|---|---|
| | Santander | BBV | BCH | Average |
| Assets (Billion dollars) | 771 | 139 | 77 | 77 |
| Net bank (Billion dollars) | 72 | 57 | 30 | 42 |
| Net interest/income/total assets (per cent) | 2.3 | 3.0 | 3.7 | 3.0 |
| Operating expenses/total assets (per cent) | 2.5 | 2.8 | 2.5 | 2.1 |
| Return on assets (per cent) | 0.7 | 1.0 | 0.4 | 0.6 |
| Return on equity (per cent) | 19 | 18 | 11 | 11 |
| Branches (in Spain) | 3,942 | 2,829 | 2,839 | 2,859 |
| Employees (in thousands) | 14,66 | 12,820 | 2,122 | 68 |

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specialized in the Spanish-American trade flowing through the northern port city of Santander, it did not venture abroad until the 1950s, when it opened representative offices in Mexico City and London. In the 1970s and 1980s, it expanded its network of offices in Latin America and elsewhere and made a few small acquisitions. One of these was its 1982 acquisition of the insolvent Banco Español de Chile, which it later renamed Banco Santander Chile.

At home, Santander grew via acquisition, but remained a mid-sized institution until the late 1980s. Between 1989 and 1992, Santander seized the moment to revolutionize Spain’s retail banking by introducing mutual funds, high-yield checking and savings accounts and low-interest mortgages. The market quickly became too competitive for any major bank to gain significant market share in the absence of mergers, so in 1994 Santander bought Banco Español de Crédito (Banesto). This catapulted Santander into the first place among Spanish banks. Santander’s chairperson is Emilio Botín, whose family has controlled the bank since the 1950s.

Santander started its current expansion abroad in the late 1990s with several small acquisitions, including that of Portugal’s Banco de Comércio e Indústria in 1990. Santander’s only foray into the United States commercial banking market took place in 1991, when it acquired 13 per cent of First Fidelity Bancorporation for $650 million. First Fidelity merged with First Union in 1995, and Santander sold its stake in 1997 for $2.2 billion, using the proceeds to amortize the goodwill of its Latin American acquisitions. Santander built its current expansion in Latin America around Santander Investment, its investment-banking arm, and many of its acquisitions are banks with a strong local investment banking franchise. The head of Santander Investment was Ana Patricia Botín, the chairperson’s daughter and his then heir-apparent. (She left the bank after the merger with SCh.)

Banco Bilbao Vizcaya (BBV), the second largest bank in Spain, was the result of a merger in 1988 between Banco de Bilbao and Banco de Vizcaya. Merchants and industrialists started Banco de Bilbao in 1856 to serve their needs and as a bank of issue. In the following decades it became a key financier for the development of steel making in the Basque region. Banco de Bilbao opened its first foreign office in Paris in 1902, but remained focused on the domestic market. Banco de Vizcaya started in 1901, also in Bilbao. Both banks grew via acquisition, but Vizcaya always had a stronger foreign orientation. In the late 1920s, it founded the Banque Français et Espanol (BFES) in Paris. Since the early 1970s, it has opened branches in New York, Amsterdam, London, Paris, and San Francisco and representative offices in Mexico, Frankfurt, Tokyo and Rio de Janeiro.

In the 1990s, BBV followed Santander into Latin America, where BBV originally tended to buy minority stakes, providing the project was large enough and BBV had management control. Over time, the bank gained confidence and knowledge, and when the price would be acceptable, it would increase its stake to a majority position. Recently, BBV has appointed a manager in Madrid to be responsible for BBV America (Interview #16), which includes all its Latin American operations. These accounted for 23 per cent of consolidated assets and 17 per cent of net attributable profits in 1997. BBV has established an organizational structure in which the country manager dominates. Functional managers in each country coordinate with their counterparts in Madrid, but do not report to them.

Banco Central Hispano (BCH), the third largest bank in Spain during the 1990s, is the result of a difficult 1991 merger between Banco Central and financially troubled Banco Hispano-Americano. Its founders started Hispano-Americano at the turn of the century with capital repatriated to Spain and backing from a strong local investment banking franchise. The head of Santander Investment was Ana Patricia Botín, the chairperson’s daughter and his then heir-apparent. (She left the bank after the merger with SCh.)

In 1999 Santander and BCH announced their merger. Banco Santander Central Hispano is now the largest commercial bank on the Continent.
the Iberian peninsula. The Co-Chairpersons of the merged banks are the previous Chairpersons of the merged banks, while Ángel Corcóstegui, the CEO of BCH, is now the CEO of BSCB. The merger is resulting in some consolidation of the banks’ investments, and a partial diversification in Chile mandated by the Government on the grounds of maintaining competition.

Other Spanish banks have played a role in Latin America, but generally a small one. The most notable is Argentina — now merged with BBV into BBVA — which was a government-owned amalgam of several banks. Argentina had a preexisting presence in Latin America through its affiliate, Banco Exterior, once Spain’s official export credit bank. It also maintained retail operations in Panama and Paraguay.

Where: Latin America

Given that the Spanish banks wished to expand internationally in order to overcome the competitive saturation in the home market, the issue of where to go was relatively straightforward. The Western European markets were already mature and offered no particular foothold; they were already well-served by domestic institutions. Also, the Spanish banks had already established themselves in Portugal, where BBV and Santander had acquired local banks and BCH had taken a minority position in BCP-BPA, the largest Portuguese bank.

Still, the Spanish banks had acquired some small banks in Europe, had taken small (generally less than 10 per cent) stakes in larger banks, and had also established strategic alliances. BSCB has cross-shareholdings with Commerzbank (4.8 per cent), Royal Bank of Scotland (9.7 per cent), and Grupo Champlain & Maistres, and holds stakes in Société Générale (5.1 per cent) and San Paolo IMI (6.9 per cent). It also owns 100 per cent of Banco Totta e Açores in Portugal. BBVA, for its part, has stakes in Crédit Lyonnais (3.8 per cent), and Banca

3 Banco Santander, under the chairmanship of Emilio Botín, the grandson of the Chairperson of Santander at the time of the 1999 merger, was in 1999 one of the founding shareholders of Banco Central (Garzón Ruiz, 2000).

This is a continued story of expansion into Latin America.

[Catchy title: 'Transnational Corporations, vol. 9, no. 3 (December 2000)]

[Article continues with detailed analysis of the Spanish banks' operations in Latin America, focusing on their strategic decisions and the impact of these decisions on their competitive positions.]

[Editors' note: The article continues with a detailed analysis of the Spanish banks' operations in Latin America, focusing on their strategic decisions and the impact of these decisions on their competitive positions.]

Nacional del Lavoro (10 per cent). As of June 1999, BSCB was the largest bank in the “Euro zone” in terms of market capitalization (€17 billion), followed by Deutsche Bank (€12 billion), ABN Amro (€10 billion), and BBV (€9 billion). BSCB was the fourth largest in United Kingdom banks are included (Actualidad Económica, 28 June-4 July 1999, pp. 90-91). BBVA is a member of the Trans-European Banking Services Group (established in 1997), which brings together eleven European banks, and Inter-Alfa (established in 1972), which brings together thirteen banks. These alliances represent agreements between the banks to share information and generally not to compete with each other (Marois and Aderenier, 1996).

Intermediation margins in Europe, however, were much higher than in Spain at the time. Greater returns could only be achieved in the emerging markets of Asia, Eastern Europe and Latin America. As A. Demirgüç-Kunt and H. Huizinga (1999) have found, foreign banks have higher margins and profits than domestic banks in developing countries, whereas the opposite holds true in industrial countries.

Before the recent crisis, most Asian countries did not permit foreigners to acquire local commercial banks. Also, the Spanish banks clearly had no particular advantage vis-a-vis other foreign banks in either Eastern Europe or Asia, except in the Philippines, where Santander did establish an affiliate. Lastly, other European banks, many with historical ties to the region, such as the German and Austrian banks, had already established themselves in Eastern Europe.

Latin American countries, by contrast, were privatizing and deregulating their financial markets during (1991; Molano, 1997). Latin America also offered relatively affordable acquisition prices. As the Deputy Chairperson of BBV once pointed out, the $3 billion that BBV had invested in Latin America until the late 1990s would not have bought them even 1 per cent of the market in a major European country, such as Italy. The commerciality of language also made Latin America comfortable for the Spanish banks and permitted easy communication (there was no need to translate memos or manuals), and transfer of managers (Interviews #12 and 19). Among these lines, J. R. Hanson (1999)
showed a correlation between FDI flows to a developing country and the diffusion of western culture, suggesting the importance of cultural ties. Lastly, the Spanish banks already had some familiarity with the region. All of them had already established some offices, branches or small affiliates there since the 1970s and early 1980s. In the late 1980s, Santander Investment re-entered several Latin American countries from which Santander had withdrawn at the start of the debt crisis. This is consistent with J. Johnson and J. E. Vahlne’s (1977) model of internationalization as escalating commitment accompanying increasing knowledge.

The same dynamic can be observed among the Portuguese banks (appendix B). In addition to their investments in Brazil that parallel the Spanish investments is the rest of Latin America, Portugal are also returning to their former colonies, especially in Africa.2

What: retail banking to the mass market

The Spanish banks have bought large stakes in large banks, automatically they have chosen to compete in the mass market, rather than in niche (Interviews #7, 8, 14, 16, 17). They are competing in the lower and middle-income (LMI) segments, in which they come into competition with the largest domestic banks. The only foreign bank that had previously made a foray into Latin America comparable in its geographic scope was Citibank. By contrast to the Spanish banks, Citibank focused traditionally on the upper-income market, frequently referred to as the A, B and C1 segments (Interviews #4 and 12). BankBoston too has focused on the upper-income market, but has such operations only in Argentina and Brazil. Citibank and BankBoston are well-established operations, as their presence in many Latin American countries often dates back to the early twentieth century. In particular, the World War I disrupted trade between United Kingdom and Germany on the one hand and Latin America, especially Argentina, on the other. United States manufacturers rushed in to take advantage of the opening (Eichengreen and Irwin, 1998). Citibank arrived in Argentina in 1914, and BankBoston in 1917.

The Spanish banks have also entered business areas related to retail banking, first in Spain and later in Latin America. They have become the leading providers of pension funds, mutual funds and electronic banking throughout the region. In early 2000, BBVA formed a strategic alliance with Telefónica of Spain to launch electronic banking operations. Telefónica is the majority owner of Terra Networks, the firm that acquired Lycos, the third largest portal in the United States month later, BSCM acquired nanogate.com, Latin America’s largest financial portal.

When: since 1995

The issue of timing emerged from the field research as a key variable in the observed FDI pattern. The scissors had two blades: Latin America opened its doors to FDI, and Governments put banks that they owned on the auction block (for Mexico, see Ural and Navarro, 1999) at the precise time that the Spanish banks were looking for possible foreign acquisitions (Max, 1995; Molano, 1997; Interview #12).

Although the timing and sequence of economic and political opening differs by country, the logical common historical reference point is the Latin American debt and banking crises of 1982. Since then, and as Latin America’s “lost decade” lingered on (Gros and

2 Its purchase of Banco Torre e Aços has given Santander an affiliate in Mozambique.
Goldberg, 1996), democratically elected presidents came to power across the region. These Governments, with the support of broad coalitions of the middle class and business interests, managed to introduce market-oriented reforms, such as liberalization of foreign entry. As R. Grosse (1997) reports, from 1971 to 1987 the Andean Pact countries barred foreign banks from owning more than 20 per cent of local banks. Thus, only recently have these countries' banking sectors become open to FDI. Colombia, an Andean Pact member, for instance, opened in 1991 (Barajas, Steinier and Salazar, 2000).

The Spanish banks were not the only ones to respond to this opportunity. As Table 3 shows, following the start of the Spanish push in 1995, a number of foreign banks also started to buy banks in Latin America. The two with the widest geographic scope are Bank of Nova Scotia (BNS) and Hongkong and Shanghai Banking Corporation (HSBC). More recently ABN-AMRO has joined in. Still, as one can see by comparing tables 1 and 3, the Spanish banks' strategy differs in that it aims at dominating as many national markets as possible in the region.

At the same time as the Spanish and other foreign banks were making their concerted push, a normal cb and flow was also occurring. Thus, Deutsche Bank withdrew from its long-time retail presence in Argentina to concentrate on Europe, selling all but one of its branches to BankBoston. Losses from over-ambitious expansion elsewhere forced Crédit Lyonnais to sell its earlier acquisitions, including one affiliate to long-established Deutsche Südamerikanische Bank. Similarly, Banque Sudameris, which has been in Latin America since its foundation as a Franco-Italian overseas bank in 1910, made an acquisition.\footnote{Banque Sudameris started as the Banque Francaise et Italienne pour l'Amérique du Sud with Banca Commerciale Italiana (BCI) and Banque de Paris et des Pays-Bas as its parent bank. It is now a wholly owned affiliate of BCI, after having been a consortium bank for some years in the 1970s.}

However, in general, there were few other well-capitalized banks in a position to make acquisitions in the region (Interview 21). Since the early 1990s, Japanese banks have been under tremendous strain domestically and have been withdrawing from investments.

\footnote{Banque Sudameris started as the Banque Francaise et Italienne pour l'Amérique du Sud with Banca Commerciale Italiana (BCI) and Banque de Paris et des Pays-Bas as its parent bank. It is now a wholly owned affiliate of BCI, after having been a consortium bank for some years in the 1970s.}

| Year | Bank | Acquirer | Country | Per cent owned | Payout 1999%
|------|------|----------|---------|----------------|-------------
| 1992 | Bank of Nova Scotia | BBVA | Mexico | 14 | 108%
| 1994 | ING | BBVA | Mexico | 15 | 108%
| 1995 | BNP Paribas | BBVA | Mexico | 68 | 49%
| 1996 | HSBC | ING | Mexico | 68 | 49%
| 1997 | Chase Manhattan Bank | ING | Mexico | 10 | 15%
| 1998 | ABN AMRO | ING | Mexico | 30 | 50%
| 1999 | Banque Sudameris | ING | Mexico | 50 | 80%
| 2000 | Banque Sudameris | ING | Mexico | 50 | 80%

Table 3. Acquisitions of banks in Latin America since 1990 by foreign (non-Spanish) banks (Million of dollars and percentage)

Sources: news reports.
\footnote{Year of initial purchase if subsequent purchases followed.}
\footnote{Cumulative to present.}
\footnote{Banca Commerciale Italiana.}
\footnote{Dresdner Bank.}
\footnote{The two banks jointly own Banco InterAmerica (see appendix B) into which they have merged branches. The withholding percentage refers to Banco Español Santo André, whereas the dollar amount is the total price the banks paid.}
\footnote{Reported: also, Crédit Agricole owns 20 per cent of Chile's Banco del Desarrollo, which owns 15 per cent of BCI.
\footnote{The deal includes affiliates in Argentina, Colombia, Paraguay and Uruguay.}
\footnote{Reported: also.}
around the world. Many European banks, including from the Netherlands and Germany, were busy expanding to Eastern Europe. During the early 1990s, United States banks were busy with mergers and acquisitions in their home market, though now Citibank, BankBoston and Chase Manhattan have scarred to make selective acquisitions in Latin America.

How: acquisition of major domestic banks

Entry via acquisitions rather than greenfield operations follows equally from a decision to make what is purely a portfolio investment, or a decision to operate in the mass retail market. Obviously, if one's intent is a portfolio investment, then acquiring a suitably sized operation, or taking a small portion of a large operation, makes more sense than establishing a de novo operation that will, of necessity, be small.

If the entrant wishes to compete in retail banking by introducing new products, it is very important to gain market share in significant chunks, as opposed to growing organically from scratch. The inability to gain innovations means that having an extensive branch network through which products can be delivered matters. Thus, the entry strategy of the Spanish banks is in sharp contrast to the strategies of BankBoston and Citibank, which traditionally have focused on a smaller clientele, and hence have been content to grow more organically.

The Spanish banks have kept even their wholly owned acquisitions as local affiliates rather than as branches of the parent bank. Banks generally use foreign branches for wholesale and corporate banking activities in host countries (Heinkel and Levi, 1992). As M. Sahi (1988) has pointed out, the reason banks most frequently cite for their presence in developing countries is financing international trade and servicing their home country (corporate) customers, both of which banks can do readily via a single branch in the host country’s financial centre. R. L. Heinkel and M. D. Levi (1992) showed that foreign banks respond to different factors when creating foreign affiliates than when creating representative offices, agencies or branches. Unless forced to by local regulation, banks do not use foreign affiliates as a substitute for other organizational forms. Affiliates appear frequently simply to represent financial investments, to be vehicles for specialized activities, such as leasing or commercial credit, or as vehicles for retail banking.

The Spanish banks already had some operations in Latin America since at least the 1970s. These were generally branches and representative offices in the various national financial centres, and a few small retail affiliates. Had the banks simply wished to continue serving their existing Spanish corporate customers, this network of branches would have sufficed. This was Argentina’s original strategy; however, the push into mass-market retail banking did not mean that BSC or BBVA had abandoned their traditional corporate business. As far as retail banking is concerned, Santander at least could have built such an operation on the basis of organic growth. However, it was Santander that set off the rush by buying large, existing local banks, even in countries such as Chile where it already had a small foreign affiliate.

Beyond the issue of greenfield versus acquisition, it is important to explain why the three Spanish banks followed different entry strategies regarding majority versus minority stakes, joint venture partners and the degree to which the head office involves itself in the management of the acquired banks. Santander has been very aggressive in seeking majority stakes with full managerial control and brand-image coordination, whereas BBV initially preferred minority stakes, gradually increasing them over time (Interviews 8, 21 and 16). In sharp contrast to either of these two strategies, BCH has opted for joint ventures with local partners, without promoting its own brand (Interviews 819 and 21).

Santander was the most assertive in its Latin American

*Branches are an integral part of the parent bank; a branch cannot fail unless the parent bank fails. Foreign affiliates are separate legal entities, typically incorporated in the host country. Because they are separate entities, an affiliate may fail even though the parent bank remains solvent. Conversely, an affiliate may remain solvent even though the parent bank has failed. Host country supervisory authorities are responsible for prudential supervision of affiliates, and host country authorities are responsible for the supervision of the branches of the parent bank.*
expansion, primarily because of its strong capital base, prior investment banking experience in the region and the strong personality and leadership of its chairman—who liked to make expediencies and far-reaching decisions. Numerous press reports have contrasted Santander’s then "presidencialista" style with BBV’s professional "team style" of management. Our interviewees singled this out as a key difference between the two banks (Interviews #3, 6, 8, 9, 16-18 and 21).  

Initially, BBV was more cautious than Santander because BBV lacked the exposure to the region that Santander Investment had given Santander. In 1998, BBV inaugurated its "1,000 Days Plan". This was its new international strategy, explicitly aimed at creating shareholder value. The first phase included the acquisition of leading local banks in Latin America. Over the last three or four years, BBV has leveraged its strong capital base and managerial resources to take full control and coordinate its strategy across borders. Currently, the bank is in the second phase of its plan: consolidation to cut costs and increase efficiency throughout the BBV system, including in Latin America. As a bank run by managers rather than a dominant owner, BBV may also have been more tolerant of partners (Interviews #16 and 18).

Lastly, BCH was the weakest in terms of resources on which to build its international expansion. Of the three, it was the least profitable and had the least managerial depth (Interview #21). The difference in behaviour between Santander and BBV on the one hand and BCH on the other is consistent with C. P. Kindleberger’s (1969) argument for FDI as stemming from "surplus managerial resources".

BCH’s decision to enter into joint ventures with local partners also reflected its perception that the risks of entering emerging markets were high. BCH allied itself with the Líssie group, one of the largest family-controlled industrial and service conglomerates in Chile. The investment vehicle was O’Higgins Central Hispano (OCH), an almost 50-50 joint venture (BCH held a few more shares than did the Líssie group). BCH had acquired banks in the Southern Cone through OCH rather than directly, and was looking for a partner in northern South America. In Mexico and elsewhere BCH had taken minority stakes, and in Puerto Rico it had sold its affiliate there to Santander. In the opinion of Ángel Crecosteigui, its chief executive officer at the time, the joint venture arrangement allowed BCH to test the waters, learn and then consider whether or not to escalate its commitment. Also, this strategy hedged against the possible emergence of xenophobia in the host countries. The enthusiasm for foreign owners as rescuers of the banking system could have faded over time, only to be replaced by concern over foreign domination (Interviews #14 and 19). Since the merger with Santander, BSCH has bought out the Líssie group’s share in OCH.

In order to support their on-going ambitions and further acquisitions in Latin America, both BSCH and BBVA have recently (mid-2000) issued shares to raise €3.3 billion each. Since these share issues, BBVA has acquired Banco de Mexico, and BSCH has acquired Banovia in Brazil, Serfin in Mexico and Banco Caracas in Venezuela.

Why: asset seeking and exploiting, and oligopolistic reaction

B. Williams (1997) provides a recent and comprehensive review of the literature on FDI in banking. His assessment is that the internalization approach, which goes back to Stephen H. Hymer (1976) and Kindleberger (1969), provides an adequate general explanation. That said, most of the extant empirical literature uses aggregate and macroeconomic data to examine what in fact is a microeconomic phenomenon. It also tends to focus on FDI in corporate and wholesale banking (Grubel, 1977), precisely because of the relative rarity of FDI in retail banking.

Asset-seeking

The Spanish banks have been seeking to enter markets that permit them faster growth and higher margins than they would have been able to achieve at home, as virtually all of our interviewees explained. As table 4 shows, Latin America differs both from the Asian emerging markets and the advanced markets in terms of the development of the banking sector. The ratio of money supply to GDP (a rough guide to the size of the banking sector relative to that of the economy) is lower than elsewhere. Also, expenses in Latin America and interest margins, even net of expenses, are higher than elsewhere. As discussed below, the Spanish banks believed that they could introduce efficiencies. Even without this, the Spanish banks saw markets that provided the possibility of growth with the development of the banking sector and high margins.

As G. Ragazzi (1973) has pointed out, barriers to the flow of portfolio capital alone may motivate FDI. There is no penalty to acquiring assets when barriers segment capital markets. If it is cheaper for Santander to assemble a portfolio of Latin American banks than for its shareholders to do it by themselves, FDI itself adds value even if the investor does not charge cash flows in the acquisitions (Errunza and Senbet, 1981).

One should also note that the investments in Latin America are both a "poison pill" to some acquirers, and a distinct bargaining chip vis-a-vis others. Spain has been in the European Union since 1986, and is one of the initial entrants into the European Monetary Union. A single financial market and currency in Europe may encourage other European banks to consider the Spanish banks as possible acquisition targets. As Emilio Ybarra, Chairman of BBV, has pointed out, "BBV's global franchise in Latin America represents a substantial interchange value for any future agreement with European banks." El País (9 July, 1998, p. 51) has reported Rolf E. Breuer, President of Deutsche Bank, as saying that Spanish banks "are not big enough" to compete in the new European market. He added that their "aggressive though successful" position in Latin America has turned them into "attractive partners" for future mergers or alliances.

Table 4. Central banking statistics of selected emerging and developed economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Central Bank</th>
<th>Reserves (in billions of dollars)</th>
<th>Foreign Exchange (in billions of dollars)</th>
<th>Money Supply (in billions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Bundesbank</td>
<td>400</td>
<td>120</td>
<td>600</td>
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<tr>
<td>France</td>
<td>Banque de France</td>
<td>500</td>
<td>150</td>
<td>750</td>
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<tr>
<td>Italy</td>
<td>Banca Nazionale</td>
<td>300</td>
<td>100</td>
<td>450</td>
</tr>
<tr>
<td>Spain</td>
<td>Banco de España</td>
<td>200</td>
<td>80</td>
<td>300</td>
</tr>
<tr>
<td>UK</td>
<td>Bank of England</td>
<td>100</td>
<td>30</td>
<td>250</td>
</tr>
</tbody>
</table>

Notes: 1. Central bank is the monetary authority. 2. Reserve data are as of the period 2000-2001. 3. Foreign exchange is in terms of US dollars.

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The Spanish banks have not just been passive acquirers of assets. If they were, there would be no need to insist on management control. Their public statements and the interviews (3, 4, 6, 8, 9, 14, 16-18 and 21) clearly signal that the Spanish banks believed that they had something to offer. That is, they believed that they could improve cash flows in their acquisitions. Having just gone through a transition at home from non-competitive to extremely competitive markets (Peréz, 1997; Pastor, Peréz and Quezada, 2000), they believed that they had relevant skills and experience to bring to the table. The evidence is mixed, but suggests that after some turbulence around the time of deregulation, the Spanish banks overcame their earlier limitations and became efficient (Rodriguez, 1989; Gritel-Taté and Lovell, 1996; Maidsos, Pastor and Quezada, 1997).

The starting point for what Caves (1998) has called asset-exploiting explanations for FDI is Hymen’s (1976) classic proposition: “Given the costs of operating at a distance and in an unfamiliar environment, the foreign firm must have some offsetting advantage if it is to compete against local firms.” Retail banking is a mature industry in which one cannot patent one’s innovations. Hence foreign banks generally have no advantage vis-à-vis the local banks. One common exception is ethnic banking — providing banking services to home-country migrants resident in the host country. Ethnic banking is not what the Spaniards are doing in Latin America, and opportunities for ethnic banking are limited. Especially when the host country and the immigrants share a common language. Thus, Tichogel (1987) argues that one should generally not expect to see foreign banks entering retail markets. G. Dufey and Y. Yeung (1993) make the same point in their progress for the evolution of banking in the European Union. Ethnic banking aside, Tichogel (1987) did suggest two (not mutually exclusive) situations in which FDI in retail banking might be possible for a time. The first case involves markets where the incumbent banks are not very competitive. The second case involves fast growing markets.

Relative to domestic banks in Latin America, the Spanish banks are better managed and have more experience operating in a competitive market (Dietzsch and Lorano Vivas, 1996). Some of the local banks, frequently the largest, are government-owned. As C. Marchal (1997) points out, dominance of banking by government-owned banks, especially in Argentina, Brazil, Chile and Mexico, dates from the nineteenth century. For the six Latin American countries in table 4, the share of banking system assets in government banks averages 30 per cent. Typically, government-owned banks have created price and service standards that have taken little effort to match. Often, this has been an unintended consequence of implicit taxes in the form of policy mandates to maintain employment, uneconomic branches in rural areas and preferential services for designated recipients (Grossen, 1997). Generally, the lack of a vibrant domestic market has made the domestic privately-owned banks backward. The Spanish banks in Latin America therefore provide an interesting example of a situation in which foreign direct investors have no advantage vis-à-vis each other, but have an advantage vis-à-vis their host-country competitors. This is in line with Y-S. Hu’s (1995) warning against blindly inferring an entrant’s advantage abroad from their advantages at home.

The Spanish banks have transferred knowledge from Spain to Latin America. One obvious contribution has been the introduction of an aggressive posture built on the introduction of new products. Generally, wherever local regulations have permitted it, the Spanish banks have introduced the lottery-linked deposit accounts they offer in Spain (Galán and Tichogel, 1998); these have been an innovation everywhere the Spanish banks have introduced them. The banks have also improved the issuing, pricing and terms of mortgages relative to all other banks targeting the local mass market, have introduced mini-branches in supermarkets, gas stations and other non-traditional venues, and have improved generally the assessment of credit risk and other banking processes in the banks they have acquired.

Both Santander and BBV make use of expertise within their affiliates. Both send individual executives and teams on short-term assignments to other affiliates to help with specific projects such as the introduction of new systems or products. BBV also has a program under which 50 lower and middle managers from Latin America will work in BBV Spain for two years in regular jobs (not internships) before returning to their home banks. In some cases the parent banks have brought in senior managers from Spain.
One could argue that, relative to most other foreign banks, the Spanish banks have a linguistic and cultural advantage, though this is not as true relative to the long-established foreign banks, such as Citibank and BankBoston. Citibank and BankBoston have tried to be "embedded"—Citibank’s term—in each host country. However, Citibank and BankBoston have followed a cream-skimming strategy of corporate banking and banking to urban professionals, while not pushing the limits in terms of aggressiveness. Neither Citibank nor BankBoston have targeted the mass marks that the Spanish banks did through their acquisitions. In his survey of 16 United States, Canadian and Netherlands banks in Latin America, Grose (1997) found that these banks had a strong orientation towards wholesale commercial banking and little interest in retail banking. Lastly, the very few other foreign-owned retail banks in Latin America prior to the acquisition wave that followed the Spanish banks (table 3) were indistinguishable in their behaviour from the domestic banks. Thus, to a great degree, the Spanish banks’ chief competitors have been each other. Citibank and BankBoston’s recent acquisitions of local banks or branches suggest that they may be amending their strategies in response to the entry of the Spanish and other banks.

The second situation that Tseboegi (1987) suggested would be one in which FDI in retail banking might be possible for a time when markets are growing rapidly. These tend to be forgiving markets. If most of the participants are fully occupied with simply managing the problems of average growth, they will have neither the time nor the resources to devote to taking market share away from each other. The countries in Latin America are underbanked, and the density of bank branches is low. Now that these countries are recovering from the "lost decade", the situation is one in which the opportunities for growth may not depend solely on taking market share away from others.

Oligopolistic reaction

In addition to the asset-seeking and asset-exploiting motives, the whole expansion of the Spanish banks represents a case of oligopolistic moves and countermoves. In the "oligopolistic reaction" pattern that Knickerbocker (1973) and E. B. Flowers (1976) first identified, a firm matches the location choices of a rival in a pattern of move-countermove or action-reaction. The pattern may begin with one firm (e.g. Santander) making the first move and others (e.g. BBV and BCH) following the leader, but as in the case of the Spanish banks, a leapfrogging of leadership occurs, so that at some point one can no longer unambiguously describe one firm or the other as the overall leader.

Oligopolistic reaction is a form of rivalrous behaviour that stands in contrast to the "mutual forbearance" pattern, in which a firm avoids markets where a rival has already established itself and the rival reciprocates. C-M. Yu and K. Ito (1988) and K. Ito and E. L. Rose (1994) found evidence of oligopolistic reaction among manufacturing firms. Empirical studies of banks offer mixed results. While S.R. Choi et al. (1988 and 1996) found support for forbearance among large, international banks, C. A. Ball and A. E. Tseboegi (1982) found evidence consistent with oligopolistic reaction for foreign banks establishing themselves in Tokyo and California. Engwall and Wallsenstrål (1988) argued that Swedish banks, in their internationalization, copied each other. S. F. Jacobsen and A. E. Tseboegi (1999) argued that the Nordic consortium banks may have exhibited both oligopolistic reaction and some mutual avoidance depending on the characteristics of the players involved. That is, they clustered in major international financial centres, such as London and New York, and avoided each other elsewhere. By contrast, the Spanish banks were engaged in oligopolistic matching in Latin America, not mutual forbearance, something that the researchers that were interviewed fully acknowledged (Interviews #4, 5, 10 and 21).

In oligopolistic reaction, the reference set starts parochial and in time may become, in H. Perlmutter’s (1969) terms, geo-centric. The Spanish banks started by reacting primarily to each other’s moves, but now have, by-and-large, established their Latin American networks. This has brought them into contact with competitors, such as Citibank and HSBC, both of which have built worldwide networks that include Latin America. The Spanish banks are also now in contact with Bank of Nova Scotia and other Canadian banks that have started to expand beyond the Caribbean (Baum, 1974) into Latin America. Before that, the Spanish banks met Citicorp only in a few financial centres.
around the world, and HSBC and Bank of Nova Scotia in even fewer locations, and probably competed little if at all with any of them. Now, they are all competing intensively with each other throughout Latin America.

Policy implications

The entry of foreign banks has policy implications for the regulatory authorities both in the host and home countries. As one of our respondents summarized (Interview #20), the Banco de Espana was taking notice of the fact that an increasing part of the largest banks' operations was taking place outside its jurisdiction and beyond its purview. Because the Spanish banks' acquisitions in Latin America have remained as foreign affiliates, according to the Basle Accords of 1975, supervisory responsibility for the local operations rests with the host country authorities. However, the same legal separation that complicates supervision in extreme cases insulates the solvency of the home country operation from developments in the host country.

As far as the economic impact on host countries of foreign bank entry is concerned, S. Claessens, A. Demirguc-Kunt and H. Huizinga (2000) found that the entry of foreign banks significantly reduces host-country banks' profitability, non-interest income and overall expenses. These benefits correlate with the number of foreign banks rather than their market share. The decrease in non-interest income suggests that the foreign banks may have superior know-how in fee-based services; this reflects primarily corporate services and not retail banking. The overall increase in efficiency that resulted from the presence of foreign banks would have been more broad-based.

Claessens et al.'s (2000) findings are for a cross-section of countries that includes some Latin American countries, but others as well. Some studies of individual markets, though not singling out the Spanish banks, come to similar conclusions. G. Clarke, R. Cull, L. D'Amato and A. Molinari (2000) examined the case of Argentina before the Spanish banks made their major acquisitions there. They found increased competition in terms of lower profits and margins in markets where foreign banks had entered, e.g. in lending to manufacturers. Consumer lending, at the time not subject to much foreign entry, showed higher returns. By contrast, A. Barajas, R. Steinier and N. Salazar (2000) found a more limited impact of foreign banks in Colombia. This, they argued, was due to two factors. First, the Government owned more than half of the banking system's assets. Second, the foreign banks originally could only enter via minority participations in domestic banks. Lastly, F. J. Carden de Carvalho (2000) points out that Brazil, where the foreign banks only started to enter in force in the mid-1990s, has not yet felt the impact of foreign competition.

This evidence, and that of our interviews, suggests that foreign banks bring benefits to the host countries as increased competition yields new products and lower prices. The foreign banks improve the functioning of the host country banks, both those they acquire, and those that they cause to renovate themselves to meet the competition. The foreign banks also contribute to the consolidation process by sweeping up those domestic banks that cannot adjust, and by recapitalizing their acquisitions. In a number of cases, Mexico in particular comes to mind, the foreign banks are the only possible acquirers in privatization that can both recapitalise the banks they acquire and add to competition. The result is a banking system of fewer, more competitive, nationwide banks, and a banking system that is more robust because its banks are well capitalized, more efficient, and their fortunes are not tied to those of small regions.

However, there is another important policy issue. The entry of the foreign banks may undermine certain social policies, and the ability of the central bank to regulate by moral suasion. In Argentina, Brazil, Chile and Mexico, government-owned banks have dominated banking since the nineteenth century (Marchal 1997). The Government favored these banks with its business and with other concessions, but at the same time assigned these banks a development or policy role. Today, this may take a variety of forms, including the maintenance of bank branches in rural areas, a small business would not normally justify a bank branch, lending for agriculture or other favored sectors on better-than-market terms, and sometimes, simply the provision of jobs. What has made this possible is an implicit cross-subsidy scheme. These government-owned banks
have implicitly taxed the urban and corporate sectors while subsidizing the policy targets. The tax has taken the form of wider than otherwise necessary spreads between deposit and lending rates.

The entry of foreign banks undermines this system of cross-subsidization. The foreign banks offer better deposit rates to urban middle and upper class customers, and better lending rates to the same customers on credit cards and mortgages, and better lending rates to profitable corporations. This leaves the government-owned banks with the burden of the policy branches and loans, but with a reduced ability to fund them. The result then is that the government-owned banks appear unprofitable and insensitive relative to the foreign-owned banks. The government-owned banks may be less well run, but this is often in part a mandated inefficiency. Ultimately, the Government faces the problem that if it privatizes these apparently unprofitable banks, the result will be that the new owners will close uneconomic rural branches, call-in unprofitable loans, and initiate mass redundancies among bank employees.

A possible positive outcome of the whole process may be an increased transparency of the costs of the government’s policies. The problem is that the benefits of the subsidies may be less quantifiable and some socially worthwhile policies such as the integration of rural areas into the modern economy may suffer. In principle, the government can initiate a system of explicit subsidies to banks, for instance, to maintain rural branches, or programs for short to act as administering agents for loan programs. However, such policies are easier to post in the abstract than to establish in the face of political and practical difficulties.

Such cross-subsidy schemes do not depend on government-ownership of banks for their existence. In an insightful paper, A. Breston and R. Vissero (1978) analyze the practice of “moral suasion.” They theorize that moral suasion is an exchange between the authorities and the commercial banks. The authorities provide information and other services that facilitate collusion. In return, the commercial banks comply with the goals of the authorities. The entry of foreign banks can undermine the system for at least two reasons. First, the increase in the number and variety of participants complicates the task of establishing agreement among the banks vis-à-vis the regulators. For the foreign banks the operations in say, Trans-Amazonia, are only a small part of their total operations whereas operations there represent almost all of the activities of Trans-Amazonian banks. The foreign banks are also likely to have a different mix of activities than are local banks. Foreign banks are, therefore, likely to react in different ways to the authorities’ strictures than will Trans-Amazonian banks.

Conclusion

The three strategic behaviours observed here — asset seeking, asset exploiting and oligopolistic reaction — provide the basis for formulating the following explanation for the massive presence of Spanish banks in retail banking markets throughout Latin America. By the late 1980s, the Spanish banking market was becoming saturated and rivalrous. Consequently, Spanish banks sought other growth opportunities. For a variety of reasons, Western and Eastern Europe and Asia held limited attraction. However, during the early 1990s, banking markets in Latin America were experiencing the kind of deregulation and liberalization that Spanish banks had experienced in their home market a few years back. Once the first bank, Santander, started to invest in Latin America, oligopolistic reaction set in. The other two leading Spanish banks quickly matched Santander, as all three raced to acquire banks across the region. Here, in environments that were linguistically and culturally comfortable, the Spanish banks started to transfer their technology and knowledge about probity, differentiation to their acquisitions, and hence to the host countries.

Spain’s FDI in banking in Latin America requires understanding the shifting competitive environment of banking over the last decade. Financial deregulation and privatization in Europe and Latin America have opened up new horizons, and have enhanced competition via product differentiation and effective leverage of new information and telecommunications technologies. The Spanish banks have been uniquely exposed to these kinds of change because of
their sudden exposure to European financial liberalization and Latin American opportunities for growth.

Although the Spanish banks’ expansion is a breakthrough in retail banking, it does not pose a serious problem to existing theories of FDI. Asset-seeking, asset-exploiting and oligopolistic behaviours explain for the expansion of the Spanish banks in Latin America. Scholars initially formalized the bulk of FDI theory with manufacturing activities in mind: still, extensions to service industries, such as banking, are indeed appropriate and useful. However, more research is needed to understand better and to measure the intangible assets that transnational banks bring to bear and to grasp better what leads banks to use different entry strategies.

Finally, the issue of the entry of the Spanish and other foreign banks has provided cases for fruitful research into the politics and policy implications of this development. The foreign banks bring new products and lower prices, but they also frequently undermine some pre-existing implicit or explicit social policies.

References


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Appendix A. Interviews

In the interviews, confidentiality was promised to the respondents. Therefore, the institutional affiliation of the interviewees, as well as the place and date of the interviews, are noted in the table below, but not their names or titles. Interviews are listed chronologically. Interviews lasted between 30 and 90 minutes, with an average of about 45 minutes. The 33 interviewees included presidents, chief executive officers, vice-presidents or directors of 21 different banks, bankers’ associations and regulatory agencies in Argentina, Chile, Mexico and Spain. In some cases, more than one interviewee was present at the interview.

Appendix table. List of interviews

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Date</th>
<th>Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Santiago</td>
<td>4 May 1986</td>
<td>Superintendencia para Banca y Seguros</td>
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<td>Banco Central de Chile</td>
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<td>Banco Central de Chile</td>
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<td>3.</td>
<td>Banco Santander Chile</td>
<td>6 May 1986</td>
<td>Research Department, Supervis of Banking</td>
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<td>4.</td>
<td>CitiBank, Chile</td>
<td>7 May 1986</td>
<td>and Financial Institutions</td>
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<td>5.</td>
<td>Banco de Chile</td>
<td>8 May 1986</td>
<td>Banco Santander Chile</td>
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<td>6.</td>
<td>Banco de la Plata</td>
<td>9 May 1986</td>
<td>Banco Santander Chile</td>
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<td>7.</td>
<td>Banamex</td>
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</tr>
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<td>8.</td>
<td>BSN Banesto</td>
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<td>12 May 1986</td>
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<td>Banco de la Plata</td>
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<td>16 May 1986</td>
<td>Banco de la Plata</td>
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<td>18 May 1986</td>
<td>Banco Santander Chile</td>
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<td>16.</td>
<td>Banco de la Plata</td>
<td>19 May 1986</td>
<td>Banco Santander Chile</td>
</tr>
</tbody>
</table>


References

Appendix B. The Portuguese banks in Brazil and Latin America

Portuguese banks, too, have recently started to acquire retail-oriented commercial banks in Brazil, but little elsewhere in Latin America. While significant, the Latin American operations of Portuguese banks, do not compare nearly to those of the Spanish banks especially in terms of their geographic scope.

Like Spain, Portugal has undergone substantial deregulation. The nationalizations of 1975 led to a banking system that was 95 percent government-owned, though the three foreign-owned banks (including Banco do Brasil, which had entered in 1975) were unaffected. A gradual process of deregulation began in 1984, with reprivatization starting in 1989 (Barros, 1995). In 1991, the Espírito Santo family reclaimed Banco Espírito Santo e Comercial. Since 1994, a wave of mergers swept Portugal, and the banking market is now one of the freest in Europe.

Banco Financiara Portugues (BFP) has been in Brazil since 1887, but in a very limited capacity. Apparently, for much of its history, it existed to support the financial affairs of the Portuguese consulates there. Other Portuguese banks that entered between 1900 and World War I included Banco Aliança (1906; head office in Opporro), and Banco Nacional Ultramarino (1912; head office in Lisbon). M. B. Levy (1991, p.369) points out that the foreign banks in Brazil were "above all, tuned to international trade".

Caixa Geral de Depsitos (CGD), the largest bank in Portugal, still government-owned, has been in Brazil since 1924. In 1972 it bought BFP. It also bought 8 percent of Banco Itau, Brazil's second largest private bank. In 1997, CGD bought 79 percent of Banco Bandeirantes; the acquisition added 575 branches to the 3 that it owned through BFP. In 2000, CGD and Uniao de Bancos Brasileiros (Unibanco) announced an alliance in Brazil based on a swap of assets for shares. CGD will give up its Brazilian assets (valued at $5.3 billion in return for new shares representing a 15 percent stake in Unibanco, including 10 percent of the voting rights. Unibanco now hopes CGD will sell its stake in Banco Itau, Brazil's biggest bank and one of Unibanco's principal rivals. Elsewhere, CGD also has representative offices in Mexico and Venezuela.

Banco Espírito Santo (BES) entered Brazil in 1975, just before the bank's nationalization. In 1976 it established Banco Interamantico, a merchant bank consortium that it co-owned with Credit Agricole of France, and the Brazilian industrial group Monteiro Aranha. In 1998, Interamantico acquired Banco Boavista, the fourteenth largest Brazilian bank, from the Paula Machado family; the owners have merged the two banks into Banco Boavista Interamantico, which is now the ninth largest bank. BES also has a representative office in Venezuela. BES is a member of the Interalpha banking club, as is BBV from whom it bought 17 branches in Spain.

In 1991, Banco Comercial Portugues (BCP) established a cross-shareholding agreement with BCH. BCP acquired 6 percent of BCH and BCH acquired 14 percent of BCP. In 1992, the two each took 8 percent of Banco Bital in Mexico.

In 1993, Banco Portugal de Atlantico (BPA) established an affiliate in Brazil. BCP took control of BPA in 1995, and in 1994 it sold the Brazilian operation to Wachovia Bank (United States), which changed the name to Banco Wachovia. In 1999, BCP and BSCB dissolved their alliance. BCP then took back BSCB's shares in BCP in exchange for some of its shares in BSCB.

In 1998, Banco Portugal do Investimento (BPI) announced that it would open a representative office in Brazil and expand into securities. Banco Itau owns 10 percent of BPI, which has said that it does not intend to enter retail activities.