THE DETERMINANTS OF THE RECENT ENTRY OF FOREIGN BANKS IN BRAZIL[*]

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Abstract: This paper aims at analysing the determinants of the recent entry of foreign banks into banking retail market and the strategies of the major European banks in Brazil. Firstly, it shows that the recent wave of banking internationalisation is characterised not only for financial institutions pursuing their existing relationships, but also by a greater integration into the local market. Secondly that the recent wave of European banks entering Latin America and Brazil is determined by a set of different factors, that includes the process of bank restructuring in Europe; the dynamics of the internationalisation of the Spanish banks; and the process of market deregulation in the region The paper also stresses some common and specific features of the major European banks in Brazil. One of the common features of the major European banks is they are big universal banks that choose to expand abroad as a strategy to expand their activities.

Key words: multinational banks; banking internationalisation; European banks; Brazilian economy

Introduction

During the 1970s and 1980s the entry of foreign financial institutions into Brazil was restricted to minority stakes in investment banks and leasing companies, although no restrictions were established against the installation of representative offices. Later, the Constitution of 1988 prohibited foreign financial institutions from setting up new agencies for foreign financial institutions and the increase of the share in the capital of financial institutions based in the country. However, Article 52 of the Transitory Dispositions Act established that such restrictions does not apply to the authorisations resulting from international agreements, reciprocity, or decisions made in the Brazilian government's interest. In 1995, due to the banking crisis caused by contagion from the Mexican crisis, Brazilian government allowed the entry of some foreign banks in order to permit the acquisition of some problematic banks and also to strengthen national banking sector. Consequently, foreign banks increased their stake in Brazil from 8.4% in 1995 to 27.4% in 2000 of the total of the assets of banking sector. Interestingly, European banks – BSCH, HSBC and ABN Amro, among others have headed the main operations involving foreign banks during the 1990s in Brazil.

This paper aims at analysing the determinants of the recent entry of foreign banks to Brazil and the strategies of the major European banks in Latin America and Brazil[1]. The paper

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in divided into five sections. Section 1 focuses on the determinants of the banking internationalization process, while section 2 examines the determinants of the foreign banks entry in Brazil. Section 3 examines the recent penetration of European banks in Brazil. Section 4 analyses the expansion strategies of the major European banks in Latin America: BSCH, BBVA, HSBC and ABN Amro. Finally, section 5 summarises the main arguments developed in the paper.

1 Banking Internationalisation: the rationale of the expansion strategy

The pace of cross-border consolidation of financial institutions has increased over the last few years, and has recently reached the retail banking market. For the purpose of this section, the relevant question is: *Why do banks headquartered in particular countries set up branches or subsidiaries in foreign countries?*

The literature of the 1970s and 1980s (Grubel, 1977; Aliber, 1984), generally speaking, built a theory of international banking heavily based on the theory of direct foreign investment in manufacturing, as advanced by Kindleberger (1969), Vernon (1966) and Caves (1971). According to this explanation, multinational banks have some comparative advantages. Banks go abroad to serve their domestic customers who have gone abroad, which is sometimes called the 'gravitational pull effect'. Multinational banking grows in parallel with the direct foreign investment as banks try to meet the demand for banking services of multinational firms abroad. This bank behaviour of moving abroad is seen as a defensive attitude necessary to assure the continued business with the domestic parents of foreign subsidiaries so that the existing flow of information resulting from the bank-client relationship will not be pre-empted by a competitor bank. Secondarily, multinational service banks also do some business with local and wealthy individuals by offering them specialised services and information required for trade and capital market dealings with their native countries.

The explanation of the motives as to why a bank expands abroad can be interpreted in price-theoretic terms: "The continuous commercial contacts between the bank and manufacturing firm permit the bank to have access to information about the firm's financial conditions at such a low cost and high speed that it is in a better position than any other

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[1] Therefore, it aims only at analysing the *determinants* of the recent entry of foreign banks into banking retail market in Brazil, but not the *impacts* of this process. The effects of the foreign banks entry in Brazil are analysed by Carvalho (2002) and Paula (2002b).

competitor to evaluate and respond to the firm's demand for loans". Thus, "the ability to draw on the information and personal contacts between the bank's and manufacturing firm's parents in a [foreign country] at very low marginal cost represents the main source of comparative advantage that the bank's foreign branch has in dealing with the firm's subsidiary abroad in competition with the local banks" (Grubel, 1977, pp. 352-3). From this point of view, the internalisation of information is considered the principal advantage of the multinational bank. Indeed, this is the case of the large US banks that are involved in wholesale and business banking. The connection with other US businesses and with the local customers of these businesses creates the opportunity to internalise information at a low cost.

Historically, as stressed by Focarelli and Pozzolo (2000, p.1, italics added), "the pattern of bank international shareholdings followed that of the economic integration between countries: banks extended their activities abroad in order to provide services to their home-country clients in international transactions; afterwards, with a growing understanding of the foreign market (in particular of regulatory and institutional aspects) and a developed network of relationships with local financial institutions, some banks were induced to increase the range of their operations and provide services to the local population too. Although this account is likely to be accurate in general (…) *today the actual pattern of bank international shareholdings depends on a wider range of factors than just the overall degree of economic integration between countries*". In particular, Gruble's theory of internalisation cannot be applied to the retail banking market, since the majority of the retail customers of foreign banks, in this case, have no previous connection with the banks in their native countries.

The recent wave of banking internationalisation is characterised not only by financial institutions following their existing relationships, but also (and increasingly) by global banks seeking to widen their activities in the financial markets of the host-country mainly through the acquisition of majority, controlling stakes, or the acquisition of minority, non-controlling stakes. Thus, the present strategy of global, universal banks is aimed at diversifying their activities into some domestic financial markets through a network of branches and greater integration into the local market, while in the past multinational bank strategies were geared mainly to serving their home-country (corporate) customers, and also to giving some support to domestic firms to access the international financial market. Such a new strategy has been, to a larger extent, stimulated by the gradual flexibility or even in some cases the abolition of legal restrictions concerning the presence of multinational banks in local markets, both in developed and developing countries (Freitas, 1999).

There are few recent works that try to establish a pattern of expansion for the recent wave of banking internationalisation[2]. One of the most common explanations is related to the effects of the increase in the banking competition caused by financial deregulation. As margins and fees are tightened in domestic financial services area, financial firms seek to expand overseas to generate higher returns. Thus, with banks' net interest margins under downward pressure due to the increase of banking competition, and as the big financial institutions are in general based in mature economies, that is with low potential for growth, some banks are seeking to diversify geographically their activities for markets with potential of growth and/or with greater net interest margins. Generally speaking, banking internationalisation results from the tendency towards an increase in the minimum scale necessary for a bank to remain competitive in order to enhance its ability to generate profits. Another explanation is that there are potential risk-reduction gains from the diversification of income from multiple products, client groups and geographies in multi-activity financial services organisations, and these gains increase with the number of activities undertaken.

Overall, the empirical evidence in the literature (Deminguc-Kunt and Huizinga, 1998; Claessens et al, 1998) shows that foreign financial institutions are *less* efficient than domestic institutions, unless in developed countries. To analyse this statement Berger et al (2000b) examined two hypotheses:

(a) *home field advantage hypothesis*, under which domestic institutions are generally more efficient than institutions from foreign nations; the advantage is in part due to organizational diseconomies in operating (for instance, turf battles between staff in different nations) or monitoring an institution from a distance (it can be difficult to evaluate the behaviour and effort of managers in a distant market), or in part because of other barriers, including differences in language, culture, currency, regulatory/supervisory structures or explicit, or implicit barriers against foreign institutions;

(b) *global advantage hypothesis*, under which some efficiently managed foreign institutions are able to overcome the cross-border disadvantages and operate more efficiently than the domestic institutions in other nations, as they have higher efficiency when operating in other nations by spreading their superior managerial skills or best-practice policies and procedures over more resources, lowering operational costs, or obtaining diversification of risks that allows them to undertake higher expected return investments.

[2] There are some few exceptions. See, for instance, Berger et al (2000), and Focarelli and Pozzolo (2000).

Testing these hypothesis in five countries (France, Germany, Spain, the UK, and the US) during the 1990s, Berger et al (2000) shows evidence in favour of *a limited form of global advantage hypothesis* in which only efficient institutions in one or a limited number of nations with specific favourable market or regulatory/supervisory conditions in their home countries can operate more efficiently than domestic institutions in other nations. This finding also suggest that some banking organisations can operate in foreign countries at or above the efficiency levels of domestic banks, paving the way for some additional global consolidation. A study made by Focarelli and Pozzolo (2000) shows in the same connection that banks with cross-border shareholdings are larger and have headquarters in countries with a more developed and efficient market. *Banks operating in countries where the banking sector is larger and more profitable should be able to export a superior skill and are therefore more likely to expand their activities abroad*. In particular, local markets opportunities - that combines a higher expected rate of economic growth, the more stable economic conditions and the banks' inefficiency in the destination country are the main determinants of a banks' decision to expand abroad. Banks prefer to invest in countries where expected profits are larger, owing to higher expected economic growth and the prospect of reducing local banks' inefficiency. Profit opportunities in host market have become a key factor in determining the pattern of foreign bank shareholdings, that includes more varied forms of foreign bank participation, such as full acquisition, target purchases of specific activities, joint ventures or alliances with local banks.

2 Determinants of the foreign banks entry in Latin America and Brazil

From the former section one can ascertain that, both from a historical-empirical and a theoretical-analytical point of view there are strong reasons to believe that the process of consolidation in banking industry is an international phenomenon, as a result of financial deregulation and technological changes. The new phase of banking internationalisation is a consequence of this process, with financial institutions seeking to diversify their activities – in terms of products and services, and/or geographically – and to increase their minimum scale of operations to remain competitive and to enhance their ability to generate profits.

Banking crises, deregulation and globalisation of financial services have led to a significant increase in the presence of foreign banks in emerging economies in the second half of the 1990s[3]. Banking consolidation has accelerated in the banking industry in emerging market economies recently, changing a traditionally highly protected industry. In this connection, Hawkins and Mihaljek (2001, p. 3) states that "global market and technology developments, macroeconomic pressures and banking crises in the 1990s have forced the banking industry and the regulators to change the old way of doing business, and to deregulate the banking industry at the national level and open up financial markets to foreign competition. (…) These changes have significantly increased competitive pressures on banks in the emerging economies and have led to deep changes in the structure of the banking industry".

Latin America – including Brazil received one of the biggest influxes of foreign direct investment (FDI) in the banking sector during the 1990s. However, one cannot understand the wave of bank FDI apart from the general movement of FDI to Latin America during the nineties. Indeed, the Latin America and Caribbean region received record levels of FDI in the nineties, with inflows totalling US$ 76.7 billion only in 1998, an amount that corresponds to around 41% of total FDI flows to developing countries. On the other hand, 42% of these inflows were concentrated in a single country, Brazil - the biggest country of the region and since 1996 the leading Latin American FDI recipient and the second-largest destination for FDI among developing countries (ECLAC, 2000, p.35-6).

Some of the main determinants of the expansion of European banks in Latin America can be summarised as follows:

- *The process of restructuring of the banking sector under European economic and monetary union*. For some European banks, expanding abroad is not only a source of earnings diversification, but also a way of strengthening their position in the European banking market considering the increasing market competition of banking in the European Economic Area. The European bank's strategy for Latin America may be interpreted as a response to this more competitive environment, in which several factors had been eroding income from traditional banking business. Further, due to political and regulatory constraints, there are some impediments to M&As within EU

[3] According to Hawkins and Mihaljek (2000, p. 24), in Central Europe, the share of foreign banks in terms of both total of assets and capital is now around two thirds or higher, making these countries' banking systems among the most open in the world, while in Latin America, the market share of foreign banks rose from an average of 7 % in the beginning of the 1990s to 40% in 2000.

countries, but incentives to such activity outside the bloc[4]. The preference for Latin America, and to a lesser degree Central and Eastern Europe, is partially because during the second-half of nineties Southeast Asia was in a crisis, and Indian and Chinese financial system have been closed to foreign banks, leaving Argentina, Brazil and Mexico as the main big emerging markets open to FDI in the banking sector.

- *In particular, the dynamics of the internationalisation of the Spanish banks* since they have been the main protagonists in the recent wave of foreign banks entering Latin America. These banks had pursued growth strategies based on M&As in their natural market before they launched their international growth strategy. Thus, they already were 'mature' banks when they decided to expand overseas. Indeed, with the implementation of the EMU and the perspective of introduction of the euro, the larger Spanish banks – in particular, Banco Bilbao Vizcaya (BBV), Banco Santander and Banco Central Hispanico (BCH) had to look beyond their natural borders in search of global markets, in order to maintain their competitive position and to defend themselves from the threat of hostile bids by either local or foreign competitors. In the initial stages of this process there was a proliferation of alliances and cooperation agreements with other financial institutions, chiefly within the European Union, while the second phase has involved a fast-paced, aggressive expansion strategy aimed at the main Latin American markets (ECLAC, 2000, p.159).

- *The deregulation process in Latin America, in the broader context of economic and political reforms, since the early 1990s,* made room for the entry of foreign companies into key economic sectors, such as banking, telecommunications and utilities. Bank privatisation programmes, in general, formed part of longer-term public sector reforms, which also involved privatisation of major public enterprises with the aim of consolidating the public finances and cutting borrowing requirements (Hawkins and Mihaljek, 2001, p. 13).

[4] One of these incentives is the absence of a single regulatory agency in the European Union (EU). This has limited the benefits of expanding areas of activity across borders and, at the same time, prevented European banks from engaging in the diversification of earnings and reduction in the regulatory capital, practised in the US. Although the Single Market Act and the various European commission financial directives should have created some uniformity, difficulties have arisen and hampered cross-border operations. There are multiple supervisory agencies within European countries and no co-ordinating agency or single bank regulatory body for the entire euro area. As a result, M&As remain to a greater extent confined within national borders. See more in Kregel (2002).

- *The valuations of Latin American companies, including banks, are much lower than those of European companies,* making it easier to attain a large market share with a lower cost. According to Sebastian and Hernansanz, (2000, p.19), 1% share of the German deposit market in 1999 cost US$ 2,285 million, if attained by purchasing shares in the major listed banks. The same share would have represented an outlay of US$ 196 million in Argentina and US$ 205 million in Mexico.

- *The Latin American banking sector offers much better prospects for increasing returns to financial institutions*, since the intermediation margins with which banks operate in these countries are considerably higher than in the developed world. While the domestic banks' average margin on assets (net interest income over total assets) in Latin America was 5.76% for the period 1988-95 (in Brazil it was 6.6% and Argentina 9.9%), in OECD's countries it was 2.80% for the same period (Claessens et al, 1998, p.26). On the other hand, Latin American banks steadily improved their already high profitability during the 1990s, although net interest revenue has been stable. Their profitability is high both compared to G3's countries and other emerging countries (Table 1).

TABLE 1
Banking sector performance, 1992-1999
(as a percentage of total assets)

	East Asia*			Latin America**			Central Europe***			G3****		
	1992-97	1998	1999	1992-97	1998	1999	1992-97	1998	1999	1992-97	1998	1999
Net interest Revenue	2.6	1.8	2.2	5.2	5.3	5.4	3.1	2.8	2.5	2.0	1.8	2.0
Other income	0.7	1.2	0.8	2.3	2.0	1.8	2.3	2.1	2.0	0.7	0.8	1.0
Operating costs	1.6	2.4	2.3	5.5	5.5	5.7	4.1	3.5	3.1	1.7	1.6	1.8
Loan losses	0.6	6.3	1.8	1.2	1.1	1.7	0.6	0.6	0.4	0.2	0.4	0.3
Pre-tax profits	0.8	-5.5	-0.7	1.4	1.3	2.4	0.5	0.7	1.0	0.7	0.6	0.8

Source: Hawkins and Mihaljek (2001, p. 6).
(*) Simple average of Indonesia, Korea, Malaysia, the Philippines and Thailand.
(**) Simple average of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
(***) Simple average of the Czech Republic, Hungary and Poland.
(****) Simple average of Germany, Japan and United States.

- *The potential gains in efficiency are high in Latin America*, since the degree of banking efficiency is in general lower than that in developed countries. The domestic banks' ratio of operating costs to assets in Latin America was on average 5.5% in 1992-1997, while it was 1.7% in G3's countries (US, Japan and Germany), 1.6% in

East Asia and 4.1% in Central Europe, in the same period (Table 1). The high operating costs (as well as high interest rate spreads) of domestic banks in Latin America are in large part the legacy of the high-inflation period of the 1980s and the early 1990s, when inflationary revenues generated easy profits for the banks and, consequently, there was little pressure to cut costs.

The former section stressed that the main determinant of the decision of a bank to expand abroad is local market opportunities, concerning higher expected rates of economic growth, more stable economic conditions, and bank inefficiency in the host-country. Accordingly, in the case of Brazil, internal determinants of the recent penetration of foreign banks are mainly related to the more stable economic conditions, due to price stabilisation since 1994 which changed the long-term business landscape in Brazil, the higher expected rates of economic growth, and the growth potential of the banking market. Besides, since the early 1990s, the Brazilian economy has been undergoing a wide-ranging liberalisation process, which has opened up previously restricted activities to foreign investors. In this context, the recent entry of foreign banks is related to the gradual flexibility of the legal restrictions concerning the presence of foreign banks in the Brazilian banking sector. Article 52 of the Transitory Dispositions Act of the Constitution of 1988 prohibits, until regulated by complementary law, the installation of new agencies for foreign financial institutions and the increase of shares in the capital of financial institutions based in the country. However, the Constitution of 1988 keeps open the possibility of foreign institutions having access to the domestic market, since article 52 also established that such restrictions do not apply to the authorisations resulting from international agreements, reciprocity, or decisions made in the Brazilian government's interest (Puga, 1999).

A particularly important change occurred in 1995, when a banking crisis resulted from a tightening monetary policy and rising interest rates in response to the effects of the Mexican crisis of 1994-95. According to Carvalho (2000, p. 148), "the banking crisis of 1995 opened a window of opportunity for foreign banks to set foot in the country. The crisis devalued the existing banks, putting a larger number of them under the control of the central bank, without compromising, it seemed, long-term possibilities for the industry. In a report dated December 1998, the central bank of Brazil identified 104 financial institutions as going through some kind of 'adjustment' between the launching of the Real Plan and that date". The recent process of banking consolidation in Brazil is in some ways similar to the Mexican experience in the sense that in both countries the authorities responded to the banking crisis with an array of support programmes for financial institutions and their borrowers. These programmes intended to bolster the health of the financial sector and, at the same time, open the sector to foreign banks, in the hope that the presence of these banks would help strengthen the banking sector[5]. Besides, the entry of foreign banks was used as a policy to weaken the effect of local monopolies that had been established under the previous regulatory structure.

In this context, the Brazilian government allowed the entry of some foreign banks to acquire some problematic banks – such as Excel-Economico and Bamerindus - and also to strengthen the national banking sector. The Legislative Intent ('Exposicao de Motivos') no. 311, of 23/8/95, allowed the President to authorise on a case-by-case basis the entrance of foreign banks into Brazil. On that occasion, the Brazilian government announced that foreign banks would not be allowed to open new branches or acquire smaller banks unless they purchased one of the troubled banks. The norm establishes that the entrance of foreign banks interests the country, and emphasises the following favourable aspects: (i) improvement in operational efficiency of the banking sector with positive effects on bank intermediation; (ii) increase in banking competition would cause a reduction in the spreads and banking fees, with positive impacts on the loans rate of interest; (iii) diversification and improvement of the supply of financial services with lowest costs; (iv) introduction of new management technologies and innovations in products and services.

Thus, as a result of the greater flexibility in the regulatory framework concerning the entry of foreign banks, the Brazilian government permitted the entrance of a great number of foreign banks, going in the direction of the international tendency of expanding financial conglomerates that are looking for new markets for their businesses. Another factor that attracted foreign banks to Brazil was the programme of privatisation of state-owned banks, known as PROES. The programme of incentives for the restructuring of the state public financial system (PROES) was laid down in August 1996 by the Provisional Measure 1,514. It forms part of a comprehensive process of state fiscal adjustment and debt restructuring. Under PROES arrangements, the federal government finances the restructuring of state banks.

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[5] See Dages et al (2000) for an analysis on the recent foreign bank penetration in Mexico and Argentina. In Brazilian case, the federal government launched, in November 1995, a programme to finance the absorption of problem banks by healthy ones, PROER, that financed the acquisitions of seven banks, according to a report on Brazilian banks (Gazeta Mercantil, 16/9/1999): Nacional by Unibanco (Brazilian bank); Economico by Excel (Brazilian); Mercantil de Pernambuco by Banco Rural (Brazilian); Banco Antonio de Queiroz by Banco United (Brazilian); Banorte by Bandeirantes (Brazilian); Banco Martinelli by Pontual (Brazilian); Bamerindus by HSBC (British).

The changes in the regulatory framework concerning foreign banks, the programme of privatisation of state-owned banks, the price stabilisation since 1994, the growing potential of the Brazilian retail banking market, the development – still infant – of pension funds and a securities market in Brazil, the increasing integration of the Brazilian economy into commercial and financial flows, taken together, have attracted foreign capital to the Brazilian banking sector.

3 The Recent European Banks Wave in Brazil: a portrait

The recent wave of mergers and acquisitions (M&As) in the banking sector in Brazil involved, first, the purchase of failing banks by prosperous ones, typified by the acquisition of Nacional by Unibanco, Economico by Excel, and Bamerindus by HSBC. Furthermore, and increasingly, bank take-overs embraced a strong bidder and sometimes a weak, but not yet insolvent, target, such as in the acquisitions of BCN by Bradesco, Noroeste by Santander, Real by ABN Amro, and BBA by Itau.

The M&As wave in Brazil involved different movements: four large domestic private banks, Bamerindus, Economico, Real and Noroeste were acquired by foreign institutions, HSBC, BBVA, ABN Amro and BSCH, respectively. In an opposite direction, some foreign banks sold their local operations to domestic banks: BNP Paribas sold Banco Frances e Brasileiro to Itau, Caixa Geral de Depositos sold Banco Bandeirantes to Unibanco, while Credit Agricole and Espirito Santo sold Boavista to Bradesco, and Fiat Group sold Banco Fiat to Itau. One big state bank, Banespa, was acquired by BSCH, while a lot of middle-size state banks were purchased by the two major domestic private banks, Bradesco (Credireal, Mercantil de Sao Paulo) and Itau (Banerj, BEMGE, BEG, Banestado and BBA Creditanstalt).

Table 2 lists M&As in the Brazilian banking sector during the period 1995-2000. The table shows that:

a) Foreign banks dominated the major acquisitions until 2000, with an obvious predominance of European banks, followed step-by-step by the major domestic private banks. Unlike in neighbouring Argentina, where foreign bank acquisitions included two of the largest three private banks, foreign acquisitions in Brazil mainly involved medium-sized banks. This partly reflects the fact that market capitalisation of the very largest banks proved prohibitive.

TABLE 2
Main M&As in the Brazilian banking sector, 1995-2002

Year	Acquirer	Origin of acquirer	Institution acquired
	Itaú	Brazil	BBA Creditanstalt
	Itaú	Brazil	Banco Fiat
2002	Bradesco	Brazil	Banco do Estado do Amazonas
	Bradesco	Brazil	Mercantil de São Paulo
	Bradesco	Brazil	Banco Ford
2001	Itaú	Brazil	BEG
	BSCH	Spain	Banespa
	Itaú	Brazil	Banestado
2000	Bradesco	Brazil	Boavista
	Unibanco	Brazil	Bandeirantes/Credibanco
	BSCH	Spain	Meridional/Bozano Simonsen
1999	Bradesco	Brazil	Banco do Estado da Bahia (Baneb)
	Bradesco/BCN	Brazil	Pontual
1998	ABN-Amro	Netherlands	Banco Real
	ABN-Amro	Netherlands	Banco do Estado de Pernambuco
	Itaú	Brazil	Bemge
	Sudameris (Intesa/Crédit Agricole)	Italy/France/ Brazil	América do Sul
	Chase Manhattan	United States	Patrimônio
	Bradesco	Brazil	Pontual
	CSFB	Switzerland	Banco Garantia
	BBVA	Spain	Excel-Econômico
	Caixa Geral de Depósitos	Portugal	Bandeirantes
1997	Santander	Spain	Banco Noroeste
	Banco Interatlântico	Portugal/France	Boavista
	Santander	Spain	Banco Geral de Comércio
	Itaú	Brazil	Banerj
	Bradesco	Brazil	BCN/Credireal
	HSBC	United Kingdom	Bamerindus
	Bozano Simonsen	Brazil	Meridional
	American Express	United States	SRL
	Banco de Crédito Nacional (BCN)	Brazil	Credireal
	Llyods	United Kingdom	Multiplic/Losango
	Unibanco	Brazil	Fininvest (50%)
	Icatú	Brazil	Fininvest (50%)
	HSBC	United Kingdom	Bamerindus
1996	Banco de Crédito Nacional	Brazil	Itamarati
	Cindam	Brazil	Fonte
	Itaú	Brazil	Banco Francês e Brasileiro
	Itamarati	Brazil	Crefisul
	Excel	Brazil	Econômico
1995	Unibanco	Brazil	Nacional

Source: Author's elaboration with information from Chase Manhattan (2000) and Central Bank of Brazil.

b) The principal foreign acquisitions, in terms of size, were the purchase of Bamerindus by HSBC (which was paradigmatic since it embraced for the first time a big domestic retail bank), Excel/Economico by BBVA, America do Sul by Sudameris, Banco Noroeste by Santander, Banco Real by ABN Amro, and Banespa by BSCH. The last case was the biggest acquisition of recent years in Brazil, since it involved the purchase of a bank with assets worth around US$ 15 billion. This acquisition allowed Banco Santander do Brasil to jump in the ranking of banks to become the third largest private bank in Brazil and the fifth major bank in the global ranking, including state-owned banks. Banespa has a strong retail network, mainly in the State of São Paulo, the richest Brazilian state, but at the same time has high overhead costs. Its acquisition was a sort of 'turning point' in the history of BSCH in Brazil, since prior to the Banespa acquisition in November 2000, Santander do Brasil's relatively modest investments in Meridional and the prestigious investment bank Bozano, Simonsen left the group still locked out of the market elite at number 7 in the banking industry[6].

c) The big American banks already established in Brazil - Citibank and Bank Boston –, did not participate of the wave of M&As, and opted to grow organically in the Brazilian banking market, where they traditionally have focused their activities on a smaller and more selective clientele[7]. The recent strategy of these banks in Brazil has been to increase their customer base, including segments of the middle class and medium-sized firms. BankBoston has sought to perform in a more selected segment of the retail market, with a required monthly client income over R$ 4,000.00, while Citibank has sought to augment its customer base to include lower segments of the middle class, with monthly income over R$ 1,000.00, as well as firms with annual revenues over R$ 5 million. The timid presence of American banks in the recent wave of M&As in Brazil can be partly explained by the fact that they have obtained good profitability with the offer of new products in their own domestic market (US), where could expand geographically within the country due to the deregulation of the financial system. Consequently, the overseas

[6] The Meridional Group (Banco Meridional and Bozano, Simonsen) was bought by BSCH for close to US$ 1 billion, while Banespa was bought for US$ 3.7 billion, a sum five times higher than its book value.

[7] BankBoston and mainly Citibank's recent acquisitions of local banks or branches in Latin America suggest that banks' strategies may be changing.

geographic diversification strategy, in particular in Latin America, became secondary for the overall strategy of American banks, with the possible exception of Mexico, which has strong linkages with the American economy via NAFTA, and where Citibank recently bought the Grupo Financiero Banamex-Accival (Banacci) and became one of the leaders of the Mexican banking sector.

d) The three major domestic private banks – Bradesco, Itau and Unibanco – have reacted to the penetration of foreign banks, participating actively in the process of mergers and acquisitions, with some important purchases, such as Nacional and Bandeirantes by Unibanco, BCN/Credireal and Mercantil de Sao Paulo by Bradesco, Banerj and BBA Creditanstalt by Itau. This latter bank has particularly had an important participation in the purchase of state banks, such as Banestado (Parana), Banerj (Rio) Bemge (Minas Gerais) and BEG (Goias). In the case of Unibanco and Itau – both smaller than Bradesco, the largest private bank - their behaviour took partly the form of a defensive reaction, since they tried to maintain their market share and leadership in the banking market, using M&As in order to avoid take-overs[8]. It is worth noting that since end-2001 Bradesco and Itau have been more aggressive in their acquisitions, taking advantage of the interruption of the foreign investments in banking sector in Latin America due to the Argentina's crisis. Bradesco purchased part of Banco Ford (leasing and consumer credit) by R$ 1 billion and Mercantil de São Paulo, a middle-size bank strongly rooted in Sao Paulo State, by 1.4 billion, while Itau acquired Banco do Estado de Goias (BEG), by R$ 665 million, and later BBA. These last acquisitions were particularly important since they involved two private banks that took part of the raking of 20 biggest banks in Brazil that are BBA and Mercantil de Sao Paulo.

The growing presence of foreign banks in Brazil is confirmed by the available data. In terms of market share, banks controlled by foreign financial groups have raised their stake from 7.2% in 1994 and 12.8% in 1997 to 27.4% in 2000 of the total of the assets in the banking sector in just six years, while the participation of all other segments (with the exception of the credit co-operatives, whose market share is negligible), specially state-owned banks, declined (Table 3). The increase of foreign banks in Brazil occurred, to a greater

[8] See more on the reaction of domestic private banks in Brazil in Paula (2002b).

extent, in domestic private banks and, to a lesser extent, in state and federally-owned banks[9]. Although there is a declining trend in the relative share in the segment of the public banks (both state and federal ones), including the two ‘giants’, Caixa Economica Federal and Banco do Brasil, their relative share was still highest with 36.6% of total assets by end-2000, followed step-by-step by the domestic private banks (35.2%). On the other hand, the major domestic private banks in Brazil have increased their market share in the banking sector via M&As of state and private-banks and, to some extent, by organic growth. Consequently, the market share in the banking sector (total of assets of both public and private banks) of the top 4 domestic private banks – Bradesco, Itau, Unibanco and Safra - increased from 23.7% in 1999 to 27.6% in 2000, a significant increase of 3.9 percentage points in their market share in just one year (Table 4). The market share of these banks surely increased further after the recent acquisition of BBA and Mercantil de São Paulo by Itau and Bradesco, respectively.

TABLE 3
Market share of the banking sector in Brazil (total assets), 1993-1999 (%)

Institution	1993	1994	1995	1996	1997	1998	1999	2000
Banks with foreign control	8.35	7.16	8.39	9.79	12.82	18.38	23.19	27.4
Private domestic Banks	40.67	41.21	39.16	39	36.76	35.29	33.11	35.2
Public banks (+Caixa estadual)*	13.41	18.17	21.9	21.92	19.06	11.37	10.23	5.6
Caixa Economica Federal	14.51	14.98	16.4	16.47	16.57	17.02	17.06	15.4
Banco do Brasil	22.93	18.28	13.91	12.52	14.42	17.44	15.7	15.6
Credit co-operatives	0.13	0.2	0.24	0.3	0.37	0.5	0.7	0.8
Banking Sector	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Brazil
(*) Excluding the two big federal banks: Caixa Economica Federal and Banco do Brasil.

Indeed, the four biggest banks are also Brazilian (two public banks and two private banks). Table 4 also shows that among the twelve biggest private banks in Brazil, seven banks are foreign owned, including five top European banks – HSBC, ABN Amro, Santander (BSCH), Sudameris, and BBV Banco (BBVA) – and two are American banks – Citibank and BankBoston, from the groups Citicorp and FleetBoston, respectively. The top 12 private

9 We are considering in this section ‘state banks’ as banks whose main owners are the government of Brazilian states, and ‘federal banks’, the banks whose main owner is the federal government.

banks constituted around 40% of total banking assets (including federal and state-owned banks) and 78.3% of the total of assets of the private banking sector by end-2000. In December 2000, the five big domestic private banks together (Bradesco, Itau, Unibanco, Safra and BBA) had 28.8% of total assets, while the seven big foreign banks had 21.1%. Therefore, domestic private banks are still hegemonic in Brazil compared to foreign banks, although the relative share of foreign banks has increased a great deal in recent years. If one compares the percentage share of foreign banks among the big Latin American countries, he/she can see that this percentage in Brazil is much lesser compared to Argentina and Mexico[10].

TABLE 4

Market share of the 20 major banks' conglomerates in Brazil (total assets), 1999/2000*

Bank conglomerate	Ownership	2000 RS$ million	2000 (% total assets)	1999 (% total assets)
Banco do Brasil	FE	128,486	15.99	17.78
CEF	FE	126,080	15.69	17.01
Bradesco+BCN+Credireal+Baneb+Boavista	DP	87,503	10.89	10.10
Itau+Bemge+Banestado+Banerj	DP	67,757	8.43	6.74
Santander+Banespa	FO	53,103	6.61	2.95
Unibanco+Bandeirantes+Credibanco+Dibens	DP	43,605	5.43	4.41
ABN Amro Real + Bandepe	FO	29,809	3.71	3.31
Safra	DP	22,632	2.82	2.45
BankBoston	FO	22,425	2.79	2.60
HSBC	FO	20,942	2.61	2.55
Citibank	FO	20,184	2.51	1.94
Nossa Caixa	ST	18,475	2.30	2.15
Sudameris+América do Sul	FO	15,332	1.91	1.95
BBA Creditanstalt	DP	10,451	1.30	1.26
BBV	FO	8,122	1.01	0.96
Banrisul	ST	7,723	0.96	0.88
Votorantim	DP	7,483	0.93	n.a.
Mercantil de São Paulo	DP	6,935	0.86	0,77
Lloyds TSB	FO	6,917	0.86	n.a.
Chase Manhattan	FO	5,329	0.66	n.a.

Source: Author's elaboration with data from Central Bank of Brazil.
(*) The table includes only depository institutions in Brazil (commercial banks, multiple banks and caixas).
Notes: FE: federal banks; DP: domestic private banks (more than 50% shares in domestic hands);
FO: foreign bank; ST: state-owned bank

[10] According to Correa (2002, p. 11), the percentage share of foreign banks in the total assets of banking sector in Argentina was 48.6% in 1999, 80.0% in Mexico in 2001, while it was 22.4% in Brazil in 2000 (see Table 3).

4 Expansion Strategies of the Major European Banks: BSCH, BBVA, HSBC and ABN Amro

As we have seen in Section 2, Grubel's theory of internalisation does not apply to the recent wave of multinational banks expansion into retail banking market in emerging countries. Indeed, this is the case of the European banks – BSCH, BBVA, HSBC and ABN Amro – that expanded to Brazil during the nineties by buying local retail banks, since most of their customers are Brazilian ones, that is, they do not have any previous connection with parents firms from the same native country of the banking group.

According to Focarelli and Pozzolo (2000), banks operating in countries where the banking sector is larger and more profitable should be able to export a superior skill and, therefore, be more likely to expand their activities abroad. Indeed, all the biggest European banks in Latin America – BSCH, BBVA, HSBC and ABN Amro – have recently increased their market shares in their domestic markets via mergers and acquisitions, attaining top (or important) positions in these markets[11]. Expanding abroad is not only a source of earnings diversification for these banks, but also a way to strengthen their position in the European banking market under the competitive pressure of economic and monetary union.

There are some common and some distinct features in the strategies of the biggest European banks in Latin America. One obvious common feature is that all of the top 4 are big universal banks that choose to invest abroad as a strategy to expand their activities. In 1997, overseas income represented more than 35.0% of the total revenues of these banks (Nellis et al, 2000, p.57), and this relative share has increased in the case of the Spanish banks, because of their recent acquisitions in Latin America.

All these financial groups are seeking to expand their activities in Europe, as is the case of HSBC in France[12], and ABN Amro in Italy. They are also present in other Latin American countries, but this presence is uneven, as one can see in Table 5. The total assets of

[11] To mention only the more recent and important M&As involving these banks, HSBC bought Midland in 1992, lifting the group's total assets from £ 86 billion in 1991 to over £ 170 billion in 1992, creating one of the largest financial organisations of its kind in the world; ABN mergered with AMRO in 1991 and got the leadership in the banking market in the Netherlands; Santander mergered with Banco Central Hispanico (a former merger between Banco Central and Hispanico) in 1999, becoming the largest Spanish financial group; afterwards, BBV (a former merger between Bilbao and Vizcaya) mergered with Argentaria, forming the second largest Spanish financial group. Thus, the Spanish banking sector became one of the most highly concentrated in Europe, forming a sort of duopoly, with the market share of the two major institutions growing from 33% in 1987 to 50% in 1996 (ECLAC, 2000, p.158), increasing even more recently.

[12] According to HSBC's Annual Review 2000, the acquisition of the French bank, CCF (Credit Commercial de France) "was a major step forward for our wealth management strategy and gives us a substantial platform in the euro zone" (p.3). Indeed, with 692 branches, CCF is one of the largest banks in France.

the 20 largest foreign banks in the region are highly concentrated in just three banks - BSCH, Citibank and BBVA – which accounted for 44.8% of total assets of foreign banks in Latin America in 1998 (ECLAC, 2000, p. 61). Interestingly, these are among the few banks in the world to have achieved top positions outside their natural markets. Their market share has increased further, since they purchased some of the big domestic banks after 1998, such as Bancomer by BBVA (June 2000), Serfin (May 2000) and Banespa (November 2000) by BSCH, and Banacci (May 2001) by Citigroup[13]. Furthermore, they are the only banks with an extensive network of branches in the six biggest countries of the region. Although ABN Amro has investments in various Latin American countries, it is only in Brazil that it has a relatively important presence, in particular due to the purchase of the Banco Real in Brazil in 1998. HSBC assets are concentrated in the three main countries of Latin America: Mexico, Brazil and Argentina.

TABLE 5

Biggest foreign banks in Latin America by assets, Sept. 2000 (USD million)

Bank	Origin	Argentina	Brazil	Mexico	Chile	Colombia	Venezuela	TOTAL	%
BSCH*	Spain	26,130	28,682	20,100	30,200	1,376	2,556	109,044	33.99
Citibank**	USA	10,429	8,798	42,590	6,350	1,137	686	69,990	21.81
BBVA	Spain	9,174	5,004	37,300	4,900	2,811	3,700	62,889	19.60
BankBoston	USA	11,350	9,315	358	6,800	108		27,931	8.71
HSBC	UK	5,016	9,126	15,202				29,344	9.15
ABN Amro	Netherlands	2,801	15,581	154	2,900	110	95	21,641	6.75
TOTAL		64,900	76,506	115,704	51,150	5,542	7,037	320,839	100.00

Source: Own elaboration with data from Sebastian and Hernansanz (2000, p.37); Banco Santander (Banespa-Brazil); and Gazeta Mecantil (Banacci-Mexico)

(*) Including Banespa, with data from November 2000

(**) Including Banacci, with data from December 2000

One should also notice in Table 5 that Citibank – part of the Citigroup - became the second biggest foreign bank in Latin America after the purchase of Mexico's top financial institution, Banacci. Although Citibank has been present in all important Latin American countries for a long time, only in Mexico does it have market leadership. Historically, only Citibank – and more recently HSBC – pursued a global strategy in the retail banking with a presence in different countries and continents, although this bank has tended to focus their businesses on credit card and banking services for an urban professional class without, at least until the recent acquisition of Banacci group, attempting to enter the mass retail market as the

[13] Mexico saw a sweeping reorganization of foreign banking operations in 2000-2001, that changed sharply its financial system, with BSCH acquiring Grupo Serfin for US$ 1.56 billion, BBVA putting up US$ 1.85 billion to

Spanish banks have been doing. Therefore, the focus of their businesses in Latin America are quite different, compared to the Spanish banks, as stressed by Guillén and Tschoegl (2000, p.10): "The Spaniards are competing in the lower and middle-income (LMI) markets where they come into competition with the largest domestic banks. The only foreign banks that had previously made forays into Latin America comparable in its geographic scope was Citibank. By contrast to the Spanish banks, Citibank traditionally focused on the upper-income market, frequently referred to as the A, B, and C1 segments".

The really big European investors in Latin America are the two big Spanish banks, which have recently developed an aggressive strategy of expansion in the region. BSCH and BBVA together have more than US$ 170,000 million of assets in Latin America and around 55.8% of the total assets of the Top 6 foreign banks in the region (Table 5). BSCH, after the purchase of Banco Serfin in Mexico and Banespa in Brazil, became the biggest private bank of the region, with more than US$ 100,000 million in assets. BSCH is the leader among foreign banks in Argentina, Brazil and Chile, while BBVA is the leader in Colombia and Venezuela, and the second major bank in Mexico. The difference in terms of total assets between BSCH and BBVA in Latin America is due mainly to Brazil, where recently BSCH bought Banespa and BBVA has only a small market share.

ABN Amro, in the Dutch market, and BSCH and BBVA, in the Spanish market, grew substantially in their domestic market-pursuing growth strategies based on M&As in order to obtain a leadership position in their national markets. This policy allowed them to increase their competitiveness and to reach the necessary size to develop their international expansion. After they consolidated their positions in their domestic markets (and sometimes at the same time), they expanded abroad, probably preparing themselves for an increase in the European competition under the context of the economic and monetary union. ABN Amro, BSCH and BBVA are big banks in small or medium highly concentrated systems that are increasingly expanding their operations to other geographical markets, since domestic alternatives are limited.

Although the structural constraints were (and are) in some way similar for all European banks, and these constraints were determinant for the international expansion of some financial groups, each group has its own distinct business philosophy and a distinct strategy of internationalisation.

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merger its Mexican operations with Grupo Bancomer, and, finally, Citibank acquiring Grupo Banacci, the Mexico's top financial institution, in a transaction that involved a total value of US$ 12.5 billion.

Hong Kong Shanghai Bank - **HSBC** is one of the largest banking and financial services organisations in the world. Like Citigroup, HSBC Group is a global universal bank with around 6,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. The group moved its domicile from Hong Kong to London only recently, in 1992, after the Mindland acquisition. HSBC is still a bank strongly rooted in Asia, in spite of its worldwide presence. However, this feature has changed over the last decade. Its strategy of 'managing for value' emphasises the group's balance of business and earnings between the older, mature and faster-growing emerging markets[14]. According to the Annual Review 2000, the group made 48.2% of its profits in Asia, 39.0% in Europe, 9.6% in North America, and 3.2% in Latin America in 2000. The motivation of the recent expansion to Latin America, as well as other investments in different regions, seems to be related to the strategy of risk diversification, through geographic diversification of their activities, so that the bank is no longer so Asia-dependent. It is interesting to note that HSBC itself significantly toned down its plan to challenge local market leaders, bombastically announced at the time of the purchase of Bamerindus in Brazil. From the aggressive early discourse about occupying all markets niches and reducing the prices of bank services across the board, HSBC officials changed to a more cautious view that price wars would damage everyone (Carvalho, 2000, p.160).

ABN Amro's two most important markets are outside the Netherlands, the US Midwest and Brazil, although the group has a presence in a number of countries around the world. According to its Annual Report 2000, North America contributed with 44.0% of the profits of the group outside the Netherlands, while Latin America and the Caribbean with 24.1%. These data are evidence of the importance of North and Latin America for the group's earnings outside the Netherlands. In 2000, the board of directors of ABN Amro decided that the bank would operate in the retail market only in the Netherlands, the US and Brazil, under a strategy to finish their operations in countries where the group does not have enough size to compete. The Dutch bank sold its retail commercial bank units in nine countries, such as Argentina, Ecuador, Morocco and Sri Lanka. Recently, it announced that it is going to sell its subsidiaries of commercial bank in Chile (to BankBoston), Kenya (to Citigroup), and Venezuela (Banco del Caribe). ABN Amro has traditionally been a universal bank, combining commercial, corporate, private and investment banking. In Brazil, before the purchase of

[14] The acquisition in 1999 of Republic New York Corporation and Safra Republic Holdings reinforced HSBC's presence in highly developed countries – the United States, Switzerland and Luxembourg.

Banco Real, which was the Dutch group's largest acquisition to date and the largest ever in Brazil[15], ABN Amro concentrated its operations on private and corporate banking and to a lesser degree on retail banking, although its greatest source of earnings was automobile financing. Thus, with the purchase of Banco Real, a big retail bank, ABN Amro became truly a universal bank in Brazil, with different lines of businesses and capability to compete with the big local retail banks. The operation allowed ABN Amro to consolidate its strategy of specialising in Latin American pension fund management and personal insurance, areas where Banco Real was strong. The bank is pursuing a relatively aggressive expansion strategy, via organic growth, to counter competition from local foreign banks, with an extension of its branch network and acquisition of small, healthy, banking franchises.

Spanish banks **– BSCH** and **BBVA** - have the advantage of knowing how to deal with instability as in Spain's recent history, having more cultural affinities with Latin America, and some familiarity with the region, as most of the big Spanish banks had offices, branches or small subsidiaries in Latin America since the 1970s and early 1980s. Both groups are mainly concentrated in Spain and Latin America[16], where since 1995 Santander, Banco Bilbao Vizcaya and Banco Central Hispanico became, alongside Citibank, the largest foreign banks in Latin America. Interestingly, while BSCH is the largest among foreign banks in Brazil, with 6.61% of the market share (total assets criteria) in 2000, BBVA has only a modest presence in the most important market of Latin America, with around 1.00% of market share. One possible explanation for the fact that BBVA is adopting a more cautious approach, after expanding overseas, is that the group is consolidating their activities, seeking to cut costs and increasing efficiency throughout the BBVA system, including Latin America.

The long-term horizon of Spanish banks has not prevented them from expanding their presence in Latin America, in spite of the 1997-99 financial turbulence, in contrast with the behaviour of other foreign financial institutions that chose to pull out of the region. Spanish banks have been very active in the commercialisation of new products to deposits, such as lottery-linked accounts, sometimes even before they were fully regulated, which testifies to their high capacity for innovation. This permits them to respond more dynamically to the challenges of the Latin American banking market, transferring their banking skills, that have

[15] In July 1998, ABN Amro purchased 40% the Banco Real's share for US$ 2.2 billion. Banco Real was the fourth biggest domestic private bank in Brazil. Furthermore, it also acquired two state banks: Banco do Estado de Pernambuco (1998) and Paraiban (2001) with important presence in the Northeast region of Brazil.

been primarily useful in their native mass retail market, to new markets. Latin America became an important and strategic market for the Spanish banks, since they sought to offset the decrease recorded in net interest income in Spain caused by the decline of interest rates related to the EMU convergence process. In this sense, the Spanish banks, to maintain and to support their competitive position, which permits them to defend against hostile acquisitions of competitors, sought to go beyond their borders in search of new markets (Calderon and Casilda, 2000, p. 76).

Both Spanish banks concentrated their business not only in commercial banking, but also diversified into other financial activities, including investment banking, insurance and especially pension fund management, where they together had the control of 45% of the private pension fund market in Latin America in 1999. The novelty in this recent penetration of Spanish banks in Latin America is that "rather than playing the traditional role of working alongside non-financial firms as they further their internationalisation process (providing financing and financial services to such firms)", they "have aggressively expanded their core activity – commercial banking – with a view to building a presence in as many markets as possible" (ECLAC, 2000, p. 164). The other novelty is that they "are acquiring some of the largest domestic banks in their target countries and entering the general commercial and mass retail market" (Guillen and Tschoegl, 1999, p. 3).

Overall, the two major Spanish banks, although they are similar in terms of age, size and focus on retail banking, differed in terms of control, managerial style, and strategic posture. Consequently, they followed slightly different strategies in Latin America, although they have had a common regional strategy aimed at dominating as many national markets as possible. Indeed, Santander (and later, BSCH) has sought to have a homogenous and strong presence in Latin America. The emphasis of the group in Latin America has been placed on banks with a greater share in investment banking and on the acquisition of large shareholdings from the outset that guaranteed it both ownership and full management control, generally putting its brand name on the purchased banks[17]. According to Guillen and Tschoegl (1999, p. 14-5), "Santander has been most assertive about its Latin American expansion primarily because of its strong capital base, prior investment banking experience in

[16] In 2000, BSCH obtained 34% of its total net income from Latin America that contributed for 37% of the group's asset (Banker, April 2001, p. 69), while BBVA in the same year, according to data from its 2000 Annual Report, had 32.6% of its assets in Latin America.

the region, and the strong personality and leadership of its chairman—who likes to make expeditious and far-reaching decisions. Numerous press reports confirm the contrast between Santander's 'presidencialista' style and BBV's 'team style' of management, which our interviewees singled out as a key difference between the two banks".

As for the BBV (and later, BBVA), its expansion initially was based on small shareholdings, minority stakes (providing the project was large enough), forming partnerships with local banks, which were then gradually built-up over time. Although this approach has not always ensured ownership, the bank progressively gained a greater degree of management control over companies in the group. More recently, BBVA seems to be following a strategy of consolidation of M&As already done, seeking to cut costs and to improve efficiency in whole group.

5 Conclusions

The main conclusions to be drawn from the analyses of this paper are:

a) The recent wave of banking internationalisation is characterised not only by financial institutions following their existing relationships – serving mainly home country customers –, but also by a greater integration into the local market. Therefore, although historically the pattern of bank international shareholdings has followed that of the economic integration between countries, today the actual pattern of expansion depends on a wider range of factors than just the overall degree of economic integration between countries. In this connection, Grubel's theory of internalisation – that states that the ability to draw on the information and personal contacts between banks and a manufacturing firm's parent in a foreign country at very low cost is the main source of the comparative advantage of the multinational banks – does not apply to the recent wave of foreign banks expansion in the emerging countries' retail banking market. This was typically the case of the Latin American and Brazilian experiences during the nineties, where some European banks – BSCH, BBVA, HSBC and ABN Amro - had mostly local customers with no previous connection with parents firms from the bank's home countries.

b) The recent process of banking internationalisation has to be understood in the broader context of deregulation in Latin America during the nineties, which made room for

[17] Banco Central Hispanico, before its merger with Banco Santander, focused its strategy in Latin America with the acquisition of majority stakes in association with a strategic partner, which, in most cases, was left with the management of the businesses.

the entry of foreign companies into key economic sectors, such as banking, telecommunications and utilities. This process resulted from both the privatisation of state-owned companies, including state-owned banks, and the greater flexibility of legal restrictions concerning the presence of foreign banks in domestic banking sectors.

c) According to Focarelli and Pozzolo (2000), banks operating in countries where the banking sector is larger and more profitable should be able to export a superior skill and, therefore, be more likely to expand their activities abroad. Indeed, all the biggest European banks in Latin America – BSCH, BBVA, HSBC and ABN Amro – have recently increased their market share in their domestic markets via mergers and acquisitions, attaining top (or important) positions in these markets. Expanding abroad is not only a source of earnings diversification for these banks, but also a way to strengthen their position in the European banking market under the competitive pressure of economic and monetary union.

d) There are some common features in the strategies of the biggest European banks in Latin America. ABN Amro, in the Dutch market, and BSCH and BBVA, in the Spanish market, grew substantially in their domestic market-pursuing growth strategies based on M&As in order to obtain a leadership position in their national markets. This policy allowed them to increase their competitiveness and to reach the necessary size to develop their international expansion. After they consolidated their positions in their domestic market, they expanded abroad, probably preparing themselves for an increase in European competition under the context of the economic and monetary union. ABN Amro, BSCH and BBVA are big banks in small or medium highly concentrated systems that are increasingly expanding their operations to other geographical markets, since domestic alternatives are limited. On the other hand, HSBC, one of the largest banking and financial services organisations in the world, has a more global internationalisation strategy.

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