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CORPORATE GOVERNANCE IN BANKING SECTOR OF LATIN AMERICA: BASIC RECOMMENDATIONS

1. We have to split down the universe of banks in Latin American countries the following way:
   a) Private domestic banks, many times in the hands of a family.
   b) State-owned banks, by far, the most important institutions,either by deposit or credit portfolios.
   c) Multinational banks branches.
2. In most countries, financial institutions are ruled by a specific Act. In Argentina, for instance, there is a Financial Institutions Act.
3. For regulators, authorized financial institutions are:
   a) Commercial banks,
   b) Investment banks,
   c) Mortgage banks.

   Some countries add to the former list the following institutions:
   a) Saving and Loans Institutions for house building,
   b) Credit Companies,
   c) Financial Companies.
4. As regards ownership structure, corporations are the rule (either public or private) but cooperatives and state-owned enterprises can qualify as financial institution. Few banks make public placement of their stock, and the most cherished form is the closed corporation type.
5. In most Latin-American countries, the Central Bank heavily regulates the banking system albeit not necessarily with efficiency. Here the main issue is the institutional weakness in most countries, and the law enforcement systematic failure in South America, being Chile a clear example of success in overcoming both shortcomings.
6. For the last ten years, some improvement in corporate governance has been carried out, mainly through the influence of three processes:
   a) Systemic crises in the banking systems, that affected Brazil, Uruguay, Argentina, Dominican Republic, Ecuador, Colombia, Peru.
   b) The growing influence of the Bank for International Settlements at Basle, through its pervading action on local Central Banks.
   c) The financial support of Ladb (Latin American Development Bank) to Central Banks and Securities Exchange Commissions for developing corporate governance reforms and good practices enhancement. The most successful programs in progress are Uruguay (I am consultant of its Central Bank), Ecuador (very likely to becoming advisor there in the near future), Chile (by far the best corporate and public governance in Latin America), Colombia (with chances to become advisor there).

d) As regards good practices codes, for the time being they are more rhetoric than operational, and mainly focused in good practices towards customers instead of being focused on good practices in the whole bank.
e) Transparency is a pending issue. It is true that banks provide lots of information to their Central Bank but it does not arrive to the market analysts or the public.

7. Two important remarks
    a) State-owned banks are clear cut examples of what Kornai termed Soft-Budget Constraints. Private failures are bailed out on political grounds. Governments manage their banks by following political agendas and political clientelism. Transparency and accountability in these institutions are poor as a rule, and many times outrageous.
    b) Latin American countries belong to what is called a financial system and governance based in banks, thereby we have weak capital markets, in which public offers are scanty and private offers the rule.