

THE STRUCTURES OF OWNERSHIP AND CONTROL OF THE LEADING BANKS IN BRAZIL

The ownership and control structure of the 50 biggest banks in the Brazilian financial system is rather concentrated, as shown in Table 1. Out of the total of banks studied, 46 (92 %) have more than 50 % of their voting capital in the hands of a single direct controller. On average, this controller holds 85,27 and 79.92 % of the voting and total capital of the banks studied, that is, concentration was not only in relation to the voting capital but also in relation to the total capital.

When the concentration of shares in the hands of the 3 and 5 biggest controllers is evaluated, it is discovered that they hold, on average, 94,85 % and 94,94 % of the voting shares and 90,02 and 90,10 % of the total amount of shares. This means that, although the mean percentile of control goes up when the capital of the 3 and 5 biggest controllers is assessed, such percentile is already high even when the percentile of the biggest controller alone is taken into account.

Table 1

Structure of direct ownership and control of the 50 biggest banks in Brazil

Control and participation		Banks without the majority controller (Voting Capital > 50 %)	Banks without the majority controller (Voting Capital < 50 %)	Total of the sample
Nº of banks		46	4	50
%		92,0	8,0	100,0
Average control of the major controller	Voting Capital	85,27	30,13	80,85
	Total Capital	79,92	22,47	75,32
Average control of the three major controllers	Voting Capital	94,85	68,98	92,78
	Total Capital	90,02	53,70	87,12
Average control of the five major controllers	Voting Capital	94,94	78,49	93,62
	Total Capital	90,10	61,42	87,81

Source: Banco Central do Brasil e CVM.

Obs.: Direct control of the 50 banks in Brazil concerning the Banco Central *ranking* in June 2000.

The bank with a majority controller is that one in which only one person (individual or corporation) owns over 50 % of its voting capital

Table 1 also reveals that, out of the 50 banks studied only 4 (8 %) will not have a single majority controller (with more than 50 % of the voting shares). In these cases, the main controller holds 30,13 and 22,47 %, on average, of the voting and total shares. When the three main controllers are considered, such percentiles jump to 68,98 and 53.70 %, on average, and when the five biggest are analysed,

the percentiles of ownership of voting shares and of total amount of shares reach 78,49 and 61,42 %.

It was noted that, the institutions controlled by one majority shareholder, significant differences emerge in terms of ownership and control when the major controller is considered, the three or five biggest institutions (moreover when the three majority controllers are considered). This fact indicates that concentration is rather high even when one single controller is not dominating the institution, which makes feasible the presupposition of agreements between majority shareholders with a view to controlling these banks. Considering the sample as a whole, on average, the main direct controller holds 80,85 % of the voting capital and 75,32 % of the total capital. The three major partners control, respectively, on average, 92,78 % and 87,12 % of the voting capital and total capitals and the five biggest, 93,62 % and 87,81 % of these capitals.

In all banks studied, when direct ownership and control are evaluated, there can be observed a greater concentration of voting shares than non-voting ones, which exposes the issuing of non-voting shares as a means to reducing the capital invested without losing the control position. However, it can be noted that this resource is not used to its full potential, since, in general, both the voting capital and the total capital are extremely concentrated, when direct control and ownership are evaluated. We concluded that, on average, control can be assured with a far greater participation than the minimum required by law. As it will be shown later in this study, indirect control follows the same trends with regard to the proportion of accumulated shares.

Similarly, when indirect control is analysed (Table 2), a great concentration of ownership and control can be found. In the 46 banks with only one single direct controller, holding over 50 % of the voting capital, in general, the major indirect controller holds 80.99 % and 77.33 % of the voting and total capital. When the three major controllers are taken into account, these percentiles jump to 89,81 and 84,99 % of the voting and total capital. If the five major controllers are considered, this concentration will reach the 92,14 % and 86,87 % of these capitals respectively.

Table 2

Structure of indirect ownership and control of the 50 biggest banks in Brazil

Control and participation		Banks with the majority controller (Voting Capital > 50 %)	Banks without the majority controller (Voting Capital < 50 %)	Total of the sample
N° of banks		46	4	50
%		92,0	8,0	100,0
Average control of the major controller	Voting Capital	80,99	39,91	77,71
	Total Capital	77,33	25,38	73,17
Average control of the three major controllers	Voting Capital	89,81	62,27	87,60
	Total Capital	84,99	46,36	81,90
Average control	Voting Capital	92,14	70,57	90,42

of the five major controllers	Total Capital	86,87	51,47	84,04
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Source: Banco Central e CVM.

Note: A bank with a majority controller is the in which one only person (individual or corporation) holds over 50 % of its 1st level voting capital.

The participation of indirect controllers was calculating through the analysis of the property and control chain down the last level, that is, until one of the following categories of owners were revealed: individual, federal or state government, foreign company, non-financial familiar Brazilian company, foundation or investment fund.

A slight reduction in concentration can be observed when direct and indirect controls are compared. This means that 46 of the banks with a single major controller have their final control and ownership very concentrated in the hands of one or a couple of controllers.

Because of the slight mean reduction in the concentration of direct and indirect control, it can be concluded that these pyramidal structures are not fully used in order to reduce the investment without loss of control. These structures give the major partner the control of the main company, thus reducing the concentration of its investment. This is done by sequencing the companies that it controls by means of portions of the voting capital.

In some banks where concentration of control is reduced when indirect ownership is evaluated, it is possible to observe a structure in which one or two companies detain the direct control of the financial institution. This is the case of the big Brazilian banks such as Bradesco, Itaú and Unibanco. In Bradesco, Cidade de Deus Participações appears as the main direct controllers, with 50,57 % of the voting capital and 25,89 % of the total capital; Fundação Bradesco comes in the second level, with a participation in these capitals of, respectively, 17,28 % and 10,14 %. In Itaú, Itaúsa holding detains 55,49 % and 33,33 % of the voting and total shares and, in a second level, Itaucorp SA, appears respectively, with 20,75 % and 13,4 %. In Unibanco, Unibanco Holdings SA detains 96,88 % and 59,8 % of the voting and total capitals. The function of these recurring structures seems to be the preservation of the banking institution from occasional conflicts between partners, which could be solved elsewhere or in other companies without threatening the continuity or normal routine of the bank.

These preliminary analyses point to a need for a more thorough research into the control and ownership structures of the Brazilian banks and the governance strategies that justify them. However it is reasonable to consider the intention of protecting the banks from conflicts between partners with a significant participation in the enterprise, since such institutions are basically sustained by the image of credibility and stability they enjoy among their account holders.